

**FOREIGN OPERATIONS, EXPORT FINANCING, AND  
RELATED PROGRAMS APPROPRIATIONS FOR 1991**

**HEARINGS**

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING, AND  
RELATED PROGRAMS

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TERRY R. PEEL, WILLIAM E. SCHUERCH, MARK M. MURRAY, *Staff Assistants,*  
and LORI MAES, *Administrative Aide*

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NOTE.—The Honorable Silvio O. Conte was Ranking Minority Member of the Committee until his death on February 8, 1991.

# FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR 1992

TUESDAY, FEBRUARY 26, 1991

## MIDDLE EAST PANEL: HOW WE GOT THERE

### WITNESSES

JUDITH KIPPER, GUEST SCHOLAR, BROOKINGS INSTITUTION

MICHAEL KLARE, ASSOCIATE PROFESSOR OF PEACE AND WORLD SECURITY STUDIES, HAMPSHIRE COLLEGE

WILLIAM QUANDT, SENIOR FELLOW, FOREIGN POLICY STUDIES PROGRAM, BROOKINGS INSTITUTION

### CHAIRMAN'S OPENING STATEMENT

Mr. OBEY. Good morning. This is the first hearing on the Administration's foreign aid request for the coming fiscal year. Secretary Baker will kick off the Administration's witness list this coming Thursday when he makes his presentation on behalf of the Administration's budget for the coming fiscal year.

Before hearing from Secretary Baker, we wanted to hear from two panels with respect to the situation in the Middle East, both the region's past history and the region's future problems.

Just a year ago, when we began these hearings, the major focus was on Eastern Europe and Central America. The major question being asked around this town was how much in the foreign aid budget could be diverted from the Middle East to move to different areas of the world. Obviously, times have changed and the question which we are going to face this year is how much more of the foreign aid budget is going to be focused on the Middle East.

I think that we have seen one thing in the past few weeks. Americans are very reluctant to go to war in almost any instance, but once they do, they fight hard. The American public wants to see the war pursued with vigor. In World War II, Americans made tremendous sacrifices and they then were willing to make sacrifices for 40 years thereafter because they wanted to see things done correctly after the war was over, so that it did not happen again.

We have had numerous wars since then which have not had such a definite outcome. I think that situation applies in this instance. The American people want this one done in the right way. They want to know when the war is over that the chances are that there will not have to be a repeat performance.

The question has never been whether America could win this war militarily. The question really is will America have the

wisdom, the subtlety, the persistence, the insight and the tenacity to do what is needed after the war to see to it that the region is in fact stabilized to a significant degree.

As I indicated, to help us understand what our future policy ought to be with respect to this region we will hear from two panels of acknowledged experts on the Middle East. The panel today will focus largely on the history of the region, so that we can gain a better understanding of what our advantages are, what our opportunities are, what our impediments are as we move into the postwar period in the Middle East.

The panel tomorrow will focus on what people believe to be the policy imperatives after that war is over. I expect that we will see both panels slip into each other's territory, which is certainly understandable and perfectly acceptable as far as I am concerned.

We have with us this morning: William Quandt, Senior Fellow, Foreign Policy Studies Program, Brookings Institution; Judith Kipper, Guest Scholar, Brookings Institution; and Michael Klare, Associate Professor of Peace and World Security Studies, School of Social Science at Hampshire College.

Before I ask our witnesses to proceed, I would ask Mr. Lewis if he has any comments he wants to make.

Mr. LEWIS. I bring greetings from Mr. Edwards.

Mr. OBEY. All right. In that case, Mr. Quandt, why do you not begin and take whatever time you think is appropriate.

#### MR. QUANDT'S OPENING STATEMENT

Mr. QUANDT. Thank you, Mr. Chairman. It is a real privilege to have the chance to discuss these issues with your committee today.

#### THE U.S. POSITION

The United States is now on the verge of a clear military victory in the Gulf war. Iraqi President Saddam Hussein has been humiliated and defeated. Even if he survives politically, it seems unlikely that he will present much of a threat to the Middle East region. That is the good news.

The bad news is that the defeat of Saddam Hussein will not usher in an era of peace and stability in the Middle East. In fact, we may well find that the post-crisis agenda will be more challenging than the conduct of the war itself. As we face the diplomatic and strategic challenges of the post-crisis Middle East, we should recognize that there will be a moment of heightened expectations about how a victorious United States will seek to shape the future. Both our friends and our adversaries will be waiting to see what, if anything, Pax Americana can bring to the troubled Middle East region.

As we seek to promote stability and to resolve conflicts, we need to recognize that no one in the region looks at us in neutral terms. History, or, perhaps better, historical memories, fashion the prism through which we are perceived.

Some of the baggage that we carry as a player in the Middle East game cannot be shed. We are the leading power at this moment in history, and thus we are bound to evoke mixed feelings

of fear and anticipation. What we do can affect the lives of millions of people in the Middle East, for better or worse.

We must also recognize that in the eyes of many in the region we are simply one more in a string of western powers that has intervened in the Arab and Muslim world, defeating a local upstart, and then hoping to impose our designs on a region that has proved itself to be remarkably resistant to such outside efforts.

In addition to these unavoidable perceptions from the people in the region, we also approach this part of the world with a number of self-inflicted wounds. Some stem from past mistakes in our own policies; some result from our own short memories, compared to the much longer perspectives on our policies from those in the region; and some reflect the relative shallow understanding that we have of the history and culture of the region; and finally, some of the perceptions are rooted in the belief in the Middle East that there is a great gap between the stated principles of the United States and our actual behavior in the region.

Let me review some of the specific issues that will undoubtedly color our relations with the Middle East in the post-crisis era.

#### IRAN

Iran is certainly going to emerge as one of the winners from this crisis. Perhaps that is something of an irony in light of our past relations with Iran. And we almost certainly will find ourselves seeking to improve relations with the new big power of the Gulf once Iraq is fully defeated.

In the short term, however, we will still feel the legacy of our former policies toward Iran. The leaders of Iran today have still not forgotten our role in keeping the Shah in power in 1953, for example. Nor is the present Iranian leadership likely to forget that we seemed to close our eyes when Iraq invaded Iran in 1980. Not even a statement was made for the record about the need to respect the territorial integrity of each state in the region, nor did we remind anyone that borders in the region should be respected.

Likewise, our near silence when Iraq used poison gas against Iran will be remembered by the leaders in Tehran. In short, many in Iran will be skeptical that our opposition to Saddam Hussein today has really been based on principle.

On the Arab side of the Gulf, we might expect a more generous view of our intentions, but even there we should recognize that memories will temper today's enthusiasm for American policy. For example, many Arabs will remember that the Iran-contra affair was not so far in the past and they will see any sign of improved U.S.-Iranian relations as a shift from our present policy of support for the small Gulf states and a move toward the new power in the region.

More broadly, the whole Iran-contra episode raised serious questions in the minds of many about how reliable the United States really could be as a security partner in the region. After all, at one point in 1988 we were apparently supplying military and intelligence support to both sides of the Iran-Iraq War.

## ARAB-ISREALI PEACE PROCESS

Let me turn briefly to the other great challenge that will confront us in the very near future, and that is the challenge of reviving the now-dormant Arab-Israeli peace process. Here we are going to face a very acute dilemma. Almost certainly, we must make a serious effort to promote peace between Israel and its Arab neighbors, but the prospects for success in this venture are very dim, and in part the fault is our own.

Over the years we have maintained that the only basis for Arab-Israeli peace is a negotiation based on the principles of U.N. Resolution 242. The essence of that approach is the exchange of territory for peace. If you wish to see an example of what U.N. Resolution 242 means in practice, look at the Egyptian-Israeli peace treaty. For all its shortcomings, it has produced a peaceful relationship between Egypt and Israel for more than ten years. Think how much more troubling the Gulf crisis would have been if Egypt and Israel had not been at peace.

The problem today is that the Egyptian-Israeli model does not seem very relevant to the next phase of peace-making. In part, of course, that is because there is no Anwar Sadat on the Arab side. But even if there were, does anyone today believe that a 242-style negotiation is possible? If not, what happened?

In short, the answer, at least in part, is that our Government, against its better judgment, allowed the Likud government of Menachem Begin to empty 242 of its meaning with respect to the West Bank, Gaza, and Golan, to say nothing of East Jerusalem. In striking contrast to previously stated Israeli policy, which had maintained that the "territory for peace" equation applied to each front of the conflict, Begin in 1977 brazenly reinterpreted 242 to mean that Israel was only obliged to withdraw from Sinai and could then indefinitely keep all the other occupied territories.

From time to time we have noted our disagreement with this interpretation, but when Israel proceeded to extend Israeli law to Golan and to annex de facto large portions of the West Bank, we did little more than raise faint protests. Should we then be surprised that today the bulk of Israeli opinion believes that Golan and the West Bank should remain indefinitely under Israeli control?

And should we be surprised that Palestinians find our enthusiasm for Kuwait's territorial integrity a bit hard to appreciate in light of our lack of enthusiasm for preserving at least a portion of their historic homeland for Palestinian self-determination?

Of course, we can all point to the events that brought us to this impasse, and I am not seeking to apportion blame. But I do want to underscore how constrained our options are today in the Arab-Israeli arena because of the past 10 to 15 years of encouraging, on the one hand, the Israelis to believe that their security requires some, and perhaps substantial, territorial aggrandizement beyond the '67 lines, and our inability to demonstrate to Jordan, to Syria, or to the Palestinians that they have as much to gain from peace with Israel as Egypt did.

In conclusion, let me say that diplomats should not be overly influenced by the kind of pessimistic assessment that I have just

made. The art of diplomacy does not involve making lots of safe bets. We will have to aim high even when history tells us to have modest expectations.

But as we chart an ambitious plan for peace and security in the post-crisis Middle East or for a new world order, we should remember that the legacy of past mistakes weighs heavily on us and, at a minimum, we should try not to add to that list unnecessarily. We do have some opportunities in these new circumstances, but we will need all our skill and determination to exploit them successfully.

Thank you.

Mr. OBEY. Thank you very much.

[The prepared statement of Mr. Quandt follows:]

**'Confronting the Post-Gulf War Challenges:**

**The Legacy of History'**

Testimony prepared by

William B. Quandt  
Senior Fellow  
The Brookings Institution

for presentation before

The Foreign Operations Subcommittee  
Committee on Appropriations  
U. S. House of Representatives

February 26, 1991

The United States is now on the verge of a clear military victory in the Gulf war. Iraqi President Saddam Hussein has been humiliated and defeated. Even if he survives politically, it seems unlikely that he will present much of a threat to the Middle East region. That is the good news. The bad news is that the defeat of Saddam Hussein will not usher in an era of peace and stability in the Middle East. In fact, we may well find that the post-crisis agenda will be more challenging than the conduct of the war itself.

As we face the diplomatic and strategic challenges of the post-crisis Middle East, we should recognize that there will be a moment of heightened expectation about how a victorious United States will seek to shape the future. Both our friends and our adversaries, our allies and our enemies, will be waiting to see what, if anything, Pax Americana can bring to the troubled Middle East region.

As we seek to promote stability and resolve conflicts, we must recognize that we are not seen in neutral terms by anyone in the region. History, or rather historical memories, fashion the prism through which we are perceived.

Some of the baggage we carry as a player in the Middle East game cannot be shed. We are the leading power at this moment in history, and thus we

are bound to evoke mixed feelings of fear and anticipation. What we do do affect the lives of millions in the Middle East, for better or worse. We must also recognize that, in the eyes of many in the region, we are one more in a string of Western powers that have intervened in the Arab and Muslim world, defeating a local upstart and then hoping to impose our designs on a region that is remarkably resistant to such efforts.

In addition to these unavoidable perceptions, we also approach the region with a number of self-inflicted wounds. Some stem from past mistakes in our policies; some result from our own short memories, compared to much longer perspectives on our policies from those in the region; some reflect the shallowness of our understanding of the history and culture of the Middle East; and, finally, some are rooted in a perception in the Middle East that there is a great gap between our stated principles and our actual behavior.

Let me review some of the specific issues that will undoubtedly color our relations with the Middle East in the post-crisis era.

Iran is sure to emerge as one of the winners from this crisis, and we will almost certainly be seeking to improve our relations with the new big power of the Gulf. In the short term, however, we will still feel the legacy of our former policies. The leaders of Iran today have still not forgotten our role in keeping the Shah in power in 1953. (As a footnote, the father of General Schwartzkopf played an instrumental role in the coup against Mossadegh). Nor is the present Iranian leadership likely to forget that we seemed to close our eyes when Iraq invaded Iran in 1980 -- not even a statement for the record on the need to respect the territorial integrity of each state in the region or a reminder that borders should be respected. Likewise, our near-silence when Iraq used poison gas against Iran will be remembered. And where were our voices when Iraq's missiles rained down on Tehran. In short, many in Iran will be skeptical that our opposition to Saddam Hussein is based on principle.

On the Arab side of the Gulf we might expect a more generous view of our intentions, but even there we should recognize that memories will temper today's enthusiasm for U.S. policy. For example, many Arabs will remember the Iran-Contra affair and will see any sign of improved U.S.-Iranian relations as a possible shift from our present support of the small Gulf states to the new power of the region. More broadly, the whole Iran-Contra episode raised serious questions about how reliable the United States could ever be as a security partner. After all, at one point in 1988 we were apparently supplying military and intelligence support to both sides of the Iran-Iraq war.

In our attempt to prove that Iran-Contra was an aberration, we may have shifted too abruptly to the pro-Iraqi camps in 1987-88. At the time, of course, it was important to prevent an Iranian victory, and our support for Iraq then made strategic sense. But what about after 1988? Was it really necessary to be so accommodating to the regime in Baghdad that was relentlessly building its arsenals even after the end of the war with Iran?

In early 1990, when the Voice of America broadcast an editorial critical of Saddam Hussein, was it really necessary to apologize officially to him? And as we drifted closer to the momentous date of August 2, 1990, could we not have found some way of signalling our concern with Iraq's repeated threats to Kuwait?

As the dust of this war settles, perhaps few will reflect on the period that preceded the crisis. But those who do will wonder how well-equipped the United States is to conduct a sophisticated, nuanced, complex policy in a region where shifting alliances and varying degrees of dictatorial rule are par for the course. How can we be so eager to embrace a dictator one day who months later we label a Hitler-like figure? Did Saddam Hussein really change all that much from July to September 1990? Did not our own State Department and CIA tell us of the multiple abuses of human rights, the use of poison gas on his own people, the ambitious biological, chemical and nuclear programs that were under way?

Let me turn for a moment to the other great challenge that will confront us in the very near future -- the challenge of revising the dormant Arab-Israeli peace process. Here we face an acute dilemma -- almost certainly we must make a serious effort to promote peace between Israel and its Arab neighbors, but the prospects for success are very dim. In part, the fault is our own.

Over the years, we have maintained that the only basis for Arab-Israeli peace is a negotiation based on the principles of UN Resolution 242. The essence of such an approach is the exchange of "territory for peace." If you wish to see an example of what U.N. resolution 242 means in practice, look at the Egyptian-Israeli peace treaty. For all its shortcomings, it has produced a peaceful relationship between Egypt and Israel for more than ten years. Think how much more troubling the Gulf crisis would have been if Egypt and Israel had not been at peace.

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should remain indefinitely under Israeli control? And should we be surprised that Palestinians find our enthusiasm for Kuwait's territorial integrity a bit hard to appreciate in light of our lack of enthusiasm for preserving at least a portion of their historic homeland for Palestinian self-determination? Of course, we can all point to the events that brought us to this impasse, and I am not seeking to apportion blame. But I do want to underscore how constrained our options are today in Arab-Israeli peacemaking because of the past 10-15 years of encouraging the Israelis to believe that their security requires some territorial aggrandizement beyond the 1967 lines and our inability to demonstrate to Jordan, Syria or the Palestinians that they have as much to gain from peace with Israel as Egypt did.

In conclusion, let me say that diplomats should not be overly influenced by the pessimistic assessments of policy analysts. The art of diplomacy does not involve making lots of safe bets. We will have to aim high even when history tells us to have modest expectations. But as we chart an ambitious plan for "peace and security" in the post-crisis Middle East, we should remember the weight of past mistakes and, at a minimum, try not to add to the list unnecessarily. We do have opportunities in the new circumstances, but we will need all our skill and determination to exploit them successfully.

**Mr. OBEY. Dr. Kipper.**

**Ms. KIPPER'S OPENING STATEMENT**

**Ms. KIPPER.** Thank you, Mr. Chairman, Members of the committee. It is an honor to be before you this morning to discuss some of these issues.

I apologize for not submitting a written statement. With the crush of events, I was not able to. But I agree with virtually everything that my colleague Bill Quandt has said. I would like to talk a little bit about some other issues, not to repeat.

**U.S. POLICY**

I think after this war is over there is going to be a healing process that is going to take some time, and American diplomacy during that period of healing is going to have a very key impact on the region. In the past, American diplomacy has tended to look through distinct and separate prisms at the various conflicts in the region. Either we looked through the prism of our special relationship with Israel at the Arab-Israeli conflict, the Mediterranean questions, or we looked through the prism of our other special relationship in the region, Saudi Arabia, at Gulf and oil issues.

I think those days are over. I think the United States now needs to have a policy that takes into consideration the regional problems that existed before August 2nd and that are simply more complicated and perhaps even more intractable after this war comes to a conclusion.

**MIDDLE EASTERN REGIME LEGITIMACY**

In my view, the sources of legitimacy used by virtually all Arab regimes, pan-Arabism and the Palestinian issue, are no longer adequate as sources of legitimacy. These regimes in the Arab world, most of which do not represent their people, are going to now need to find internal sources of legitimacy.

With a population of 60 percent of the people in the Middle East being under the age of 20, in Iraq for example 70 percent are under the age of 30, Iraq has a 4 percent birth rate, Iraq's population will double in less than 20 years from now, and the picture is more or less the same throughout the region, in some places even a little bit worse, in Jordan and even in Egypt, the demographic question.

So with this 60 percent under the age of 20 as an overall figure, we have to look at who these people are. These are the children of petrodollars, money without work, that did not produce institutions, democracy, or economic opportunities as these young people come into the job market. They are also the children of Palestine, that generation of Arabs most affected by the 1967 Arab-Israeli War.

When the Palestinian question became a more specific problem with a clearly defined solution that began to focus on the issue of the West Bank and the Gaza Strip, there was something that these young Arabs could aspire to in terms of a resolution of the Palestinian problem. So legitimacy of regimes is going to be a very important question. It is not that it was not there before the crisis, but it is now raised and it is on the table in a very public way be-

cause the Iraqi takeover of Kuwait obviously severely damaged or perhaps even destroyed the notion of pan-Arabism and now nation state-building and sovereignty are going to be key issues for Arab states.

#### EQUITY

I think we also need to take a look at the question of equity. In the past the United States has found it possible to deal with regimes, meaning with a single man. Part of our problem in the area in our special relationship with Israel is that with Israel, regardless of which government is in power in Israel, we are nevertheless dealing with an elected system.

With Arab regimes, in every case we are dealing with a single man, none of which have been properly elected as we understand elections. So this question of equity it seems to me is going to be the first and foremost on the agenda. It has been there for a long time, but it has not erupted, so we have been able to maintain a policy that largely ignored it.

When I say "equity," I mean a fair stake in the system between elites and masses, between rich and poor, between Israelis and Palestinians, between Arabs and the West, specifically the United States. I think this question of equity has to come even before the process of democratization, which is in an infant stage in many places in the Middle East, and that equity, social, economic questions, and security questions can begin to build an atmosphere by which we can move toward or we will see some of the countries in the Middle East move toward democratization.

The political culture and civil society in the Middle East, it seems to me at this stage, is seeking equity rather than full democratization at this moment, and it is very, very pressing because of the economic problems in the region. Before this crisis, the Middle East was already in a recession, not because this is an area of the world that should be particularly down and out economically. It should not. It has very rich human resources, real agricultural possibilities in many places, industrial capability can be developed, and there is of course oil and cash available.

The economic problems have to do with spending too much money on the arms race, on corruption, and bad management of economies, and this is something that we can no longer afford to overlook.

#### REGIONAL SECURITY

I would say that in the post-crisis period there are two very important elements that we have tended to overlook in the region in our policy, and those are regional security, which in my view has two different parts. I myself see this healing process taking some time, and I do not think that anybody will be ready for signed agreements or formal peace treaties once the war is over, but I think some other things will be possible.

So my view of regional security is that the first thing that we have to do is to work to make arrangements between countries and parties that are not yet prepared to make peace with each other. I think a good example is the Israeli-Syrian arrangements, which do

not apply to what happens between them in Lebanon, but there are clear red lines, green lines, deterrence, and there is no public rhetoric virtually from either side for the past 15 years.

Another example of arrangements would be the U.S.-mediated ceasefire prior to 1982, Israel's invasion of Lebanon, between the PLO and Israel: informal, unacknowledged arrangements that in fact are very, very effective. And I think a hands-on approach through the international system, probably the U.N. Security Council, will be necessary.

Between Israel and Syria it has worked for these 15 years because it was backed by the U.S. and the Soviet Union, it was part of the Cold War. I do not think that that is possible any more because the influence of the U.S. and the Soviet Union is not going to work in the same way in the post-Cold War period.

#### ARMS RACE

The second part of regional security that it seems to me is absolutely urgent is that the United States has a real obligation to interrupt the arms race that has been going on in the Middle East for many, many years. We know that after wars armies get bigger and better and more high tech. The arms race in the Middle East has been a very competitive one and, if allowed to, the countries in the Middle East will certainly spend most of their resources, not on development and economic improvements, but rather on the arms race.

So it seems to me that, because we are the largest arms supplier to the region, we were the leader of this coalition, and we basically waged the war, that it is up to the United States to begin a process of arms control on the side of suppliers, the main suppliers being the United States, the Soviet Union, France, China, Brazil, Argentina, and some others.

We need an informal process of consultation among suppliers to perhaps embargo all arms sales for three to six months before we figure out a regional security regime and the limits on the kinds and types and numbers of weapons that should go into the area.

Of course, for the United States, as for the other countries, it has very important domestic considerations. It is an important arm of our foreign policy, arms sales. It is also an important economic question for the United States.

But we have to start someplace and we, the United States, having waged this war, should be the ones that initiate this kind of a process. In the past, in the name of the Cold War, chasing communists, we armed many countries in the region and we overarmed them. The Soviets did the same thing, as did others, and I think that we now see that this region is so overarmed with conventional and nonconventional weapons that that arms race absolutely has to be interrupted.

I would say also, as Bill Quandt did, this question of expectations. I will just address two that I see looming before us where I think we are going to be severely disappointed.

## REGIONAL ALLIANCES

The first is the idea that somehow the alliance that exists at this moment between Saudi Arabia, Egypt, and Syria can become in the post-war period an instrument for stabilization and regional security. I think that these countries will remain friendly and will be able to cooperate in some ways, but I think here in the United States we should not take the simplistic view that this triangular alliance can become an instrument for the American view of peace-making and regional security in the region.

These three countries, all of which have their own agendas, have traditional rivalries, and competition, a degree of mistrust. All of that will be there after the war is over, when this coalition breaks down, as the traditional rivalries between many countries that are in the coalition will reemerge when it is over.

This coalition was formed with a specific purpose. It will break down when that purpose is no longer the main item that pulls everybody together.

## ARAB-ISRAELI RELATIONS

The second expectation I think that exists in the United States and in Israel is that suddenly the shape of relations between Israel and the Arab countries is going to change dramatically, that when the dust settles Arab countries will be prepared all of a sudden to sit down with Israel and negotiate a common future.

I myself do not think that is the case. I think over time the relationship between Israel and Arab states is certainly going to change and improve. It will go in the right direction. But without doing something for the Palestinian, I cannot see any Arab state actually entering into formal negotiations with the State of Israel.

On the Palestinians, let me just say one word. I think we may be back to the problem that some people would call who is there to talk to. The PLO remains for the Palestinians the organization to whom they look for leadership, but it would be foolish not to recognize that the PLO and its leadership, what is left of its leadership, have been severely diminished and discredited in the eyes of key players—Saudis, the Egyptians, Syrians, and certainly the United States.

I do not think we can expect people in the West Bank and Gaza to stand up any time soon. They will continue to look to the PLO, and if in fact Arab parties and the United States, and certainly not Israel, are not willing to deal with the PLO in its current form and we have to wait for some kind of transmutation in that organization, nevertheless the Palestinian question must be addressed. We cannot wait for that to happen.

Even in the absence of a Palestinian partner, I think we are going to need to work with Israel to take some unilateral steps on the West Bank and the Gaza Strip, particularly to improve the economic situation of the people there, and hopefully that will lead to an atmosphere by which elections and an interim agreement will eventually be able to be made.

I would also say that we need to commit ourselves publicly and loudly to the territorial integrity of all states in the region, including Iraq. I think that there is some question about that. We have only stated it, as I recall, once in the U.S.-Soviet statement, which was then criticized.

So I think that this is a very important issue as well. While these states were cut up by the French and the British and they are having a lot of problems adjusting to their borders, nevertheless in the modern world we should not be in the business of remaking borders, particularly the United States.

The principle involved with Kuwait, of course, that sovereignty is non-negotiable and indivisible, has to be true of other countries in the region, too, if in fact American diplomacy is going to be effective in the coming months and years.

Thank you, Mr. Chairman.

Mr. OBEY. Thank you very much. Mr. Klare.

#### MR. KLARE'S OPENING STATEMENT

Mr. KLARE. Thank you very much, Mr. Chairman, for this opportunity to address the subcommittee on the origins of the conflict in the Persian Gulf.

#### ORIGINS OF THE GULF WAR

Historians have a natural tendency to look deeper and deeper into the past for the origins of modern events, but I would like to suggest that the critical turning point in this case was the decision by Great Britain in December 1967 to terminate its military role in the Gulf area after 1971. Prior to this point, the U.S. had relied on the British to act as a guardian of the region and, with the British gone, the United States faced a dilemma of how to proceed in that area.

Because the British announcement came at the end of the Johnson period, it was left to the Nixon Administration to craft a policy for the region, and soon after taking office in 1969 the President asked Henry Kissinger, then the National Security Advisor, to conduct a study of the region.

In response, Mr. Kissinger and his staff submitted a National Security Study Memorandum, NSSM-66, in July 1969, and that became the basis for an NSC Decision Memorandum, No. 92, which governed U.S. policy in the Gulf for many years thereafter.

To my knowledge, the texts of these documents have not been made public, but we know from public statements the essence of what they contained. What they said in essence is that, with the British withdrawal, the United States had to assume some responsibility for protecting western interests in the region, but because of the Vietnam conflict then underway it would not be possible for the United States to replace the British as a gendarme in the region.

The answer then of the NSC was to select regional powers to act as surrogates of the United States and to be converted into regional gendarmes under U.S. tutelage. As noted by Assistant Secretary

of Defense James Noyes in his 1973 testimony: "A major conclusion of the study was that the United States would not assume the former British role of protector in the Gulf area, but primary responsibility for peace and stability would henceforth fall on the states of the region."

#### SURROGATE STRATEGY

From this decision came what you might call the surrogate strategy, a strategy that has governed U.S. policy in the Gulf ever since and, I would argue, has led in many ways to the present crisis. The essence of this strategy was that the United States would provide military assistance, intelligence data, and technical assistance to regional powers on the basis that they would then act as a regional gendarme and protect western interests.

In order to make this policy work, moreover, the U.S. policy called for providing these regimes not merely with the weapons and capabilities to defend themselves internally or externally, but an excess military capacity that would allow them to play a power projection role throughout the area.

On the face of it, this seems like a sensible solution. But I would argue that the strategy contained three fundamental and interconnected flaws:

First, it assumed a basic congruence between U.S. and surrogate objectives that did not always exist in practice;

Second, it provided these surrogates with the wherewithal to pursue territorial and hegemonic ambitions which they would not otherwise possess;

And third, it so thoroughly linked U.S. strategy to the survival of the surrogate's national leadership that it often proved impossible to take decisive action to curb the adventurist impulses of the regime involved.

#### IRAN

For the ten years following the adoption of the strategy, the main instrument of U.S. policy, of course, was Iran under the Shah. Under the terms of NSDM-92, the Nixon Administration sharply upgraded U.S. military links with the Shah and provided a vast increase in military assistance through the Foreign Military Sales program.

Ostensibly, these arms transfers were designed to enable Iran to protect itself and to perform a regionwide police role, and to some extent this strategy succeeded, as in the 1973 Iranian intervention in the Dhofar rebellion in Oman.

But the Shah always viewed his role in more grandiose terms than that of a junior partner in the U.S. strategic scheme, and he set out to restore Persian hegemony over the entire region. Thus the Shah started aggressively building up his forces, acquiring bases, seizing some islands in the Gulf, and, most ominously, sponsoring a Kurdish insurgency inside of Iraq.

These moves naturally aroused great alarm in neighboring countries, including Saudi Arabia and especially in Iraq, and from this period on we see an arms race developing between Iran and Iraq as the two countries moved closer to outbreak of hostilities.

The U.S. alliance with Iran also had an impact on internal developments in Iran, arousing the hostility of Islamic masses against the Shah, who was seen as being too closely aligned with the West, and leading ultimately to the revolution in 1978-1979 that overthrew the Shah.

#### THE CARTER DOCTRINE

The fall of the Shah led to a full-scale reassessment of U.S. policy in the region, conducted by the Carter Administration in June 1979, which led to the Carter Doctrine of January 1980, in which the U.S. pledged to use force in the region to protect oil supplies if needed.

But while there was an emphasis on force, the Carter Administration never abandoned the surrogate doctrine, but rather made a significant effort to prop it up. With Iran no longer able to serve as a gendarme, Carter officials sought to enhance the role of Saudi Arabia and Israel in regional peacekeeping operations and also prepared the groundwork for Egypt to play such a role.

As before, arms sales were the principal instrument of U.S. policy in the area, and over the next six years, 1980 to 1985, U.S. arms transfers to those three nations reached \$28 billion.

#### INDIRECT MILITARY ASSISTANCE TO IRAQ

At this point U.S. officials had no intention of forming such a relationship with Iraq, but events soon moved quickly in that direction. With the fall of the Shah and the rise of the Khomeini regime, Iraq saw an opportunity to settle the disputes that had arisen over the past ten years with the Shah and, motivated by the breakdown in the Iranian army, President Hussein of Iraq launched an invasion in September 1980.

At the same time, the hostage crisis of 1979-1980 made the United States view Iran no longer as an ally, but rather as an adversary and a threat, as the fear of Islamic fundamentalism spread throughout the region. As a result, there was a congruence of the two nations, Iraq and the United States, on the age-old premise that the enemy of my enemy is my friend.

The new quasi-alliance between Baghdad and Washington began to take place in the early 1980's under the Reagan Administration, and was finalized in a secret NSC study in October 1983 which called for an overt policy of neutrality, but an indirect policy of assisting Iraq through military transfers engineered through third countries and technical assistance through Commerce Department channels.

That document has not been made public, but again there have been many public statements to this effect. For instance, in 1987 Under Secretary of State Michael Armacost said that: "Our friends in the region view Iraq as a buffer that must not be allowed to collapse." And I think this was the premise on which the Reagan Administration proceeded during the Iran-Iraq War.

So a new variant of the surrogate strategy was born. Viewing Iraq as a buffer against Iranian expansionism, the U.S. moved to beef up Iraq's military capabilities through a number of indirect channels. Four indirect channels I will briefly mention.

First, the sale of civilian helicopters, aircraft, and vehicles with military applications, such as the 1982 sale of 60 Hughes Model-50 helicopters and a 1984 sale of 45 Bell-214 helicopters. Although the State Department insisted that these would be used for civilian purposes, there have been many reports since then that they have been used for military purposes.

Second, the sale of dual-use technology with potential military applications. Since 1984, the Commerce Department has approved the sale of some \$1.5 billion worth of dual-use technology to Iraq including supplies and equipment going to the Saad-16 military research complex north of Baghdad.

Again, as with the case of the helicopters, the State Department said these sales were justified on the grounds that they were for civilian purposes, but members of the staff of the Defense Department have testified that they issued warnings that this technology would be used for military purposes.

A third channel is the transfer of intelligence data, particularly satellite intelligence data, to Iraq.

And the fourth channel is the encouragement to third parties, particularly our allies in Europe, to supply arms directly to Iraq, while simultaneously following Operation Staunch, the embargo against Iran. As a result of this selective policy of encouraging sales to Iraq while stopping sales to Iran, Iraq was able to obtain \$46.5 billion worth of imported arms between 1981 and 1988, while Iran received only \$14 billion worth—a very significant difference.

Together, these four vehicles for indirect military assistance had a considerable outcome on the effect of the war. However, as in the case of U.S. aid to the Shah, the application of the strategy had unintended consequences that were not so benign and lead us to the present crisis.

In particular, the U.S. tilt toward Iraq helped fuel the hegemonic ambitions of Saddam Hussein and instructed him in ways of acquiring military aid and technology from the West. By the end of the war, we had helped create a self-confident despot who entertained grandiose visions of regional domination.

American aid to Hussein did not cease, moreover, with the end of the Iran-Iraq War. Indeed, the logic of the surrogate strategy now took on a life of its own as Washington sought to preserve its quasi-alliance with Saddam Hussein. No longer viewed merely as a buffer, Iraq was seen as a former Soviet ally that could be persuaded to abandon its anti-western policies and engage in a more collaborative relationship with Washington.

On this basis, the Bush Administration continued its policy of supplying Saddam Hussein with sensitive military technology and of permitting major arms transfers by Western European suppliers. It is important to note that this policy of aiding Iraq continued even after it was revealed that Iraqi forces had used lethal chemical weapons against Kurdish civilians.

#### OUTCOME OF U.S. ASSISTANCE TO IRAQ

I think the continuation of this policy did more than build up Iraqi capabilities. I think it led Saddam Hussein to believe that the United States had no objections to his quest for regional hegemony,

and I think it is in this context that we should view the fateful interview in July 1990 between Ambassador Glaspie and Saddam Hussein, in which she implied that the United States did not have strong objections to his territorial ambitions.

Whether this influenced his decision to seize Kuwait, we do not know. But I have no doubt that it allayed any anxiety he might have had about a hostile American response.

In concluding, what can we learn from all this for U.S. policy towards the Gulf? It seems to me that the policy of relying on surrogates to carry out American policy objectives is inherently flawed because always, as the previous witness testified, these regional surrogates have their own agenda and are going to pursue them and use American military assistance for that purpose sooner or later.

Despite this record, I fear that the United States will return to the surrogate doctrine as its response to the aftermath of the present crisis. We have heard talk of a new security arrangement based on Arab states of the area, and I am sure this is going to lead to requests to Congress to provide a great deal of additional military aid and arms transfers to these countries.

Before Congress proceeds in this direction, I hope that there will be a thorough review of the consequences of this kind of assistance, and I support the call by Representative Lee Hamilton for a moratorium on arms sales to the Middle East while Congress can conduct this survey and develop a long-term strategy that does not rely on the use of surrogates.

Thank you very much.

[The prepared statement of Michael T. Klare follows:]

TESTIMONY OF MICHAEL T. KLARE  
 ASSOCIATE PROFESSOR OF PEACE & WORLD SECURITY STUDIES  
 HAMPSHIRE COLLEGE, AMHERST, MASS.

BEFORE THE  
 SUBCOMMITTEE ON FOREIGN OPERATIONS  
 HOUSE APPROPRIATIONS COMMITTEE  
 FEBRUARY 26, 1991

Mr. Chairman and Members of the Subcommittee:

It is a distinct honor to appear before the Subcommittee on Foreign Operations today and to have this opportunity to discuss the origins of the present crisis in the Persian Gulf. I cannot think of a more important subject for serious investigation by the U.S. Congress, and I hope that these hearings will help to shed some light on this vital concern.

Historians have a natural tendency to look deeper and deeper into the past for the cause of contemporary events, but in this case I would like to suggest that the critical turning-point was the December 1967 announcement by Great Britain that it would terminate its military presence in the Persian Gulf area by the end of 1971. Prior to this point, the United States had always relied on Britain to serve as the principal guardian of Western interests in the oil-rich Gulf area--a role that it had played since the end of World War II. With Britain no longer willing to perform this custodial role, Washington was faced with the critical dilemma of how to guarantee the continued safety of vital Western interests. In resolving this dilemma, U.S. officials adopted certain policies and practices that in my view ultimately set the stage for the present crisis in the Gulf.

Because the British announcement came during the final year of the Johnson Administration, it was left to the incoming Nixon Administration to craft a new U.S. strategy for the Persian Gulf area. Soon after taking office, President Nixon asked his National Security Adviser, Henry A. Kissinger, to conduct a thorough review of U.S. strategy toward the Gulf. In response, the National Security Council (NSC) staff submitted National Security Study Memorandum No. 66 (NSSM-66) on July 12, 1969. On the basis of recommendations contained in this report, Mr. Nixon then signed National Security Decision Memorandum No. 92 (NSDM-92), which thus became the operative document governing U.S. policy in the Persian Gulf area.

To my knowledge, the texts of NSSM-66 and NSDM-92 have never been made public. However, the rough outlines of these documents can be deduced from the testimony and public statements of key figures involved in the preparation and implementation of the documents, including Under Secretary of State Joseph J. Sisco and

Deputy Assistant Secretary of Defense James H. Noyes.<sup>1</sup> What they said, in effect, was that the Gulf area was too important strategically to be left to its own devices in the wake of the British withdrawal, but that, in light of the massive U.S. involvement in Vietnam, the United States could not be expected to assume the British role as regional overlord. How to resolve this conundrum? The answer, according to the NSC, was to adopt one or more regional states as surrogates of the United States, and to convert them into regional gendarmes under U.S. tutelage. As noted by Mr. Noyes in his 1973 testimony before the House Foreign Affairs Committee, "A major conclusion of that study [i.e., NSSM-66]...was that the United States would not assume the former British role of protector in the Gulf area, but that primary responsibility for peace and stability should henceforth fall on the states of the region.... We especially look to the leading states of the area, Iran and Saudi Arabia, to cooperate for this purpose."<sup>2</sup>

From this decision arose what might best be called the "Surrogate Strategy," the approach which was to govern U.S. policy toward the Persian Gulf for the ensuing twenty years. In essence, the Surrogate Strategy held that the United States would rely on friendly regional powers to advance and protect U.S. interests in the Gulf, and that, to enable them to perform this function, the United States would provide them with military aid, arms transfers, and other forms of security assistance. Also, the U.S. Government would work closely with officials of the nations involved to insure a close alignment between their policies and those of the United States. What was intended, in sum, was a form of "junior partner" arrangement, wherein the United States would make the major strategy decisions for the Gulf and the surrogate powers would be given the job of implementing them on the ground.<sup>3</sup>

Although developed specifically in response to developments in the Gulf, the Surrogate Strategy was in full conformity with the so-called "Guam Doctrine" or "Nixon Doctrine," which applied

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1. See the testimony by Sisco and Noyes before the Subcommittee on the Near East and South Asia of the House Committee on Foreign Affairs in New Perspectives on the Persian Gulf (Hearings, 93rd Cong., 1st Sess., 1973) and The Persian Gulf 1974 (Hearings, 93rd Cong., 2d Sess., 1974). See also: James H. Noyes, The Clouded Lens (Stanford: Hoover Institution Press, 1979), esp. pp. 53-54.

2. New Perspectives on the Persian Gulf, p. 39.

3. I first addressed the "Surrogate Strategy" in American Arms Supermarket (Austin: University of Texas Press, 1984), pp. 108-126.

this "junior partner" system to a wide array of U.S. allies in the Third World. In a revealing description of this basic strategem, then Secretary of Defense Melvin Laird told this Subcommittee in 1970 that: "The challenging objectives of our new policy can therefore best be achieved when each partner does its share and contributes what it best can to the common effort. In the majority of cases, this means indigenous manpower organized into properly equipped and well-trained armed forces with the help of materiel, training, technology, and specialized military skills furnished by the United States."<sup>4</sup>

At the core of the Surrogate Strategy (or Nixon Doctrine), then, was an informal "contract" whereby the United States agreed to furnish arms and other forms of military assistance to the nations involved in return for a pledge by the recipient that it would carry out certain types of military functions on behalf of and at the behest of the U.S. Government. Moreover, given the requirement that these surrogates be able to maintain stability across the region at large, it was assumed that U.S. arms transfers and military aid would transcend that needed merely for internal security and territorial defense by providing a significant capacity for power projection.

On the face of it, this seems like a sensible solution to the dilemma faced by Washington in the wake of Britain's 1967 decision to withdraw from the Gulf. But the strategy contained three fundamental and interconnected flaws: first, it assumed a basic congruence between U.S. and surrogate objectives that did not always exist in practice; second, it provided these surrogates with the wherewithall to pursue territorial and hegemonic ambitions that they would not otherwise possess; and third, it so thoroughly linked U.S. security interests to the continued predominance of the surrogate's national leadership that it often proved impossible to take decisive action to curb the adventuristic impulses of the regime involved. As I shall try to demonstrate, these three flaws lie at the heart of the present crisis in the Persian Gulf.

For the ten years following its adoption, the Surrogate Strategy was applied principally to Iran, then ruled by Shah Mohammed Reza Pahlavi. No other state in the region was both friendly to the United States and sufficiently powerful to serve as a regional gendarme. Hence, in consonance with NSDM-92, the Nixon Administration upgraded American ties with the Iranian government and began to increase U.S. arms supplies and technical assistance to the Iranian military. The fact that Shah Pahlavi

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4. U.S. Congress, House, Committee on Appropriations, Subcommittee on Foreign Assistance, Foreign Assistance and Related Agencies Appropriations for 1971, Hearings, 91st Cong., 2d Sess., 1970, p. 307.

had an insatiable appetite for modern arms (and also had sufficient oil revenues to pay for them) also contributed to the rise in U.S. arms sales to Iran. In May 1972, President Nixon and Mr. Kissinger flew to Tehran and signed a secret agreement with the Shah whereby the United States agreed to provide Iran with (in the words of a Senate investigative report) "virtually any weapons systems which it wanted."<sup>5</sup>

Ostensibly, these weapons were intended to enable Iran to protect itself against aggression and also to perform police-type operations throughout the Gulf area. To some extent, this strategy succeeded: in 1973, for instance, Iranian forces were deployed in Oman to help suppress a separatist rebellion in Dhofar province. But the Shah always viewed his role in more grandiose terms than that envisioned by U.S. strategists. Not content to serve merely as a junior partner in the U.S. strategic scheme, he set out to restore Persian hegemony over the entire Gulf region. "Not only do we have national and regional responsibilities," he boasted to Arnaud de Borchgrave in 1973, "but also a world role as guardian and protector of 60 percent of the world's oil reserves."<sup>6</sup> (Bear in mind that significant portions of that 60 percent were claimed by Saudi Arabia, Kuwait, Iraq, and the smaller Persian Gulf sheikdoms.) Consistent with these hegemonic visions, he seized several islands in the Gulf belonging to the United Arab Emirates, built a large naval base at Bandar Abbas on the Gulf coast, and sponsored a Kurdish insurgency inside Iraq.

These moves naturally caused great alarm in neighboring countries, and prompted several of them--especially Iraq and Saudi Arabia--to build up their own military capabilities and to prepare for a possible confrontation with Iran. Indeed, Iranian support for the Kurds proved so destabilizing to Iraq that Saddam Hussein was forced to make boundary concessions to the Iranians (under the Algiers Accord of March 6, 1975, ceding the eastern half of the vital Shatt-al-Arab waterway to Iran) in return for a cessation of such support; this humiliation, in turn, led Saddam Hussein to commence the military buildup that was to culminate in Iraq's September 1980 invasion of Iran.<sup>7</sup>

The U.S. alliance with the Shah also had a significant

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5. U.S. Congress, Senate, Committee on Foreign Relations, U.S. Military Sales to Iran, Staff Report, 94th Cong., 1st Sess., 1976, p. 4.

6. Interview, Newsweek, May 21, 1973, p. 44.

7. For discussion, see Anthony H. Cordesman and Abraham R. Wagner, The Iran-Iraq War, Vol II of The Lessons of Modern War (Boulder: Westview, 1990), pp. 15-23.

impact on the domestic political environment within Iraq. Although supported by some elements of Iranian society, Shah Pahlavi alienated many Iranians who felt that he was spending too much money on arms and the military (instead of on domestic development projects) and that, by aligning so closely with the West, he was straying too far from the Islamic roots of his own society. The presence of some 10,000 American military technicians--most of whom lived a conspicuous Western life-style considered objectionable by devout Moslems--also contributed to domestic unease. Ultimately, this unease resulted in an outright revolt against the Pahlavi regime, accompanied by a fierce outbreak of anti-Americanism.

The fall of the Shah in January 1979 led to a full-scale reassessment of America's Persian Gulf strategy by the Carter Administration. In June, following a series of high-level NSC meetings, President Carter adopted a number of policy initiatives which later came to constitute what became known as the "Carter Doctrine."<sup>8</sup> Specifically, the new policy called for the creation of a "rapid deployment force" (RDF) to allow for direct U.S. military intervention in the Gulf should that prove necessary to protect key oil assets. Also mandated was the establishment of "basing arrangements" with a number of countries in the area, so as to facilitate deployment of the RDF in the event that U.S. intervention was called for. A permanent U.S. naval presence in the Indian Ocean was another outcome of this review.<sup>9</sup>

But while the June 1979 NSC review led to preparations for a direct U.S. military presence in the Gulf, the Carter Administration never abandoned the Surrogate Strategy but rather made a significant effort to prop it up. With Iran no longer able to serve as regional gendarme, Carter officials sought to enhance the role of Saudi Arabia in regional peacekeeping operations. Israel was also invited to play a more significant role in U.S. military planning for the larger area. And, following the Camp David accords, Egypt was invited to serve in a surrogate capacity (although focused more on North Africa and the Red Sea area than on the Gulf). As before, arms transfers constituted the principal means by which the United States encouraged and assisted these countries to perform a surrogate role. Following a February 1979 visit to Saudi Arabia, Israel, and Egypt by then Secretary of Defense Harold Brown (this being the first visit to Saudi Arabia by a U.S. Secretary of Defense), the Administration announced major sales of advanced aircraft and

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8. For discussion of the June 1979 NSC review, see The New York Times, June 28, 1979.

9. These initiatives were formally unveiled in President Carter's State of the Union Address of January 23, 1980.

missiles to the three countries.<sup>10</sup> In the six years that followed (Fiscal 1980-85), the United States sold these countries a total of \$27.9 billion worth of arms, ammunition, and military services under the Foreign Military Sales (FMS) program.<sup>11</sup>

At this point, U.S. officials had no intention of forging such ties with Iraq, then seen as a close ally of the Soviet Union. But events were to proceed in such a fashion as to promote a quasi-alliance between Washington and Baghdad. The most significant of these events, of course, were the ascension in February 1979 of the Ayatollah Khomeini as the supreme ruler of Iran, and the outbreak of the Iranian hostage crisis eight months later.

The rise of Khomeini clearly led the Iraqi leadership to fear further pressure from Iran--motivated this time not by so much by hegemonic ambitions as by a desire to install a fundamentalist Shi'ite regime in Baghdad--while the disarray in the Iranian military caused by purges of pro-Shah officers led Saddam Hussein to consider the time ripe for a decisive move against Iran. Following a series of border skirmishes and other incidents, Hussein launched a full-scale invasion in September, 1980. The hostage crisis, for its part, completed the transformation of Iran from an ally to an adversary, and led U.S. officials to consider various means for limiting the expansion of Iranian power. These two developments inevitably led Washington and Baghdad to view each other as potential allies, on the age-old premise that the enemy of my enemy is my friend.

The quasi-alliance between Washington and Baghdad did not form immediately, but began to take shape in 1982 when Iran assumed the initiative on the battlefield and laid siege to Basra, Iraq's second-largest city. Fearing that Iran would conquer Iraq and then extend its power throughout the Middle East, the Reagan Administration began secretly to consider ways of helping Baghdad to resist Khomeini's forces. "We were terrified Iraq was going to lose the war," explains Geoffrey Kemp, who in 1982 was head of the NSC's Middle East section. "Our policy was never that we wanted Iraq to win the war; it's just that we didn't want Iran to win."<sup>12</sup> This premise was

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10. For discussion of Brown's trip, see: The New York Times, February 11, 12, and 17, 1979; The Wall Street Journal, February 14 and 16, 1979; and James Cannon, "Pentagon's New Plan for Mideast Defense," Business Week, February 19, 1979, p. 19.

11. U.S. Defense Security Assistance Agency, Foreign Military Sales, Foreign Military Construction Sales, and Military Assistance Facts, As of Sept. 30, 1989.

12. Quoted in The Washington Post, September 16, 1990.

subsequently incorporated into a secret NSC study on the Gulf, approved by the White House in October 1983. According to Richard M. Preece, a Middle East expert at the Congressional Research Service (CRS), the 1983 NSC study called on Washington to provide Iraq with indirect forms of assistance and to encourage other states in the region to provide more visible forms of support.<sup>13</sup>

Like earlier NSC documents on the Gulf, the 1973 NSC study has not been made public. It is possible, however, to glean the essentials of the study from the statements of key Administration officials. Thus, in a July 1987 study of U.S. policy in the Gulf commissioned by the Department of State, Jeffrey Schloesser, a Political-Military Officer in the Department's Bureau of Near East and South Asian Affairs, wrote that "Iran's current policy of expansionism is a special danger. Iran seeks to eliminate superpower presence in the area and to create instability in the moderate Arab nations of the gulf. The effects of...Iranian hegemony in the gulf would be catastrophic to our interests." Although noting that "Iraq began the war" in the Gulf, Schloesser argued that Iran alone represented a continuing threat to U.S. interests and that therefore "the challenge to the international community is to pursue efforts that will have the cumulative effect of bringing Iran to the bargaining table."<sup>14</sup>

In another key statement, cited by Schloesser as a major expression of U.S. policy, Under Secretary of State for Political Affairs Michael H. Armacost told the Senate Foreign Relations Committee on June 16, 1987 that "It is to frustrate Iranian hegemonic aspirations that the Arab gulf states continue to support Iraq. It is for similar reasons that other close friends, such as Egypt and Jordan, also assist Iraq--despite their previous difficulties with Baghdad. Iranian hegemony over the gulf and the spread of Iranian radical fundamentalism beyond Lebanon worry them greatly. They and the gulf states view Iraq as a buffer that must not be allowed to collapse."<sup>15</sup> (Emphasis added.) Armacost did not specifically say that Washington viewed Iraq in this fashion, but that, I believe, was the clear implication of his remarks.

And so, a new variant of the Surrogate Strategy was born.

13. Preece's comments are cited by Judith Miller and Laurie Mylroie in Saddam Hussein and the Crisis in the Gulf (New York: Times Books, 1990), p. 145. The NSC study is also discussed in The New York Times for December 16, 1986.

14. U.S. Department of State, U.S. Policy in the Persian Gulf, Special Report No. 166, July 1987, pp. 1, 3.

15. Ibid., pp. 10-11.

Viewing Iraq as a "buffer" against Iranian expansionism--and thus, in effect, an unintended agent of U.S. policy--the United State sought to equip Iraq to perform its buffer role more effectively. The first step in this process was to remove Iraq from the State Department's list of nations that support international terrorism, a designation that made it ineligible for any form of U.S. economic or trade assistance. This step was taken in March 1982, and Baghdad quickly took advantage of the fact to apply for hundreds of millions of dollars in loan guaranties from the U.S. Agriculture Department's Commodity Credit Corp. (CCC), in order to finance purchases of U.S. foodstuffs. (Iraq subsequently took out over \$1 billion worth of CCC-backed loans.) The Reagan Administration also gave its approval to U.S. corporate participation in a number of major petrochemical and industrial projects in Iraq--projects that would help boost the Iraqi economy and thus enhance its capacity to sustain the war against Iran.<sup>16</sup>

It is in the military area, however, that the Reagan Administration's so-called "tilt" toward Iraq most clearly resembled the Surrogate Strategy of the Nixon era. Although the official U.S. policy of neutrality barred any direct sales of weaponry to Iraq, the Administration allowed several indirect forms of military assistance to develop. These included:

(1) Sales of civilian helicopters, aircraft, and vehicles that could be used for military applications. Since 1982, the Commerce Department has repeatedly approved the sale to Iraq of helicopters, trucks, and other vehicles with a potential military use on the grounds that Washington had received assurances from Baghdad that they would be used for civilian purposes only. Among these transactions was a 1982 sale of 60 Hughes Model-500 helicopters and a 1984 sale of 45 Bell Model-214ST helicopters.<sup>17</sup>

Although both the Hughes-500 and the Bell-214ST are produced in military configurations, the State Department brushed off warnings from Members of Congress that Baghdad's assurances could not be trusted to refrain from using these helicopters in a military mode. Since then, there have been numerous reports that U.S.-made helicopters have indeed been used by the Iraqi military<sup>18</sup>, and both the 500s and 214STs are listed by the highly-respected Jaffee Center for Strategic Studies of Tel Aviv

16. See The Washington Post, September 16, 1990.

17. See The Los Angeles Times, February 13, 1991.

18. Ibid.

University as being in the inventory of the Iraqi Air Force.<sup>19</sup>

(2) Sales of "dual-use" technology with potential military applications. Since 1984, the U.S. Commerce Department--with State Department approval--has approved the sale of some \$1.5 billion worth of "dual-use" technology (that is, technology which can be used for both civilian and military applications) to Iraqi government agencies and installations, including military-related installations like the giant Saad-16 research complex north of Baghdad. According to several newspaper reports, a total of 486 licenses were granted by Commerce between 1985 and 1990 for sales of sensitive technology to Iraq, including computers and other scientific devices that can be used in the development of ballistic missiles and other modern weapons.<sup>20</sup>

As was the case with the helicopter sales described above, U.S. officials insisted that they had only approved these sales after receiving assurances from Baghdad that they would be used for non-military purposes only. However, several former government employees, including former Under Secretary of Defense Stephen D. Bryen, have testified that senior Reagan Administration officials were warned by the Department of Defense that Iraq was likely to use this technology for military purposes.<sup>21</sup> Describing a 1986 sale to Iraq of sophisticated U.S. computers, for instance, Bryen observed that "We believed at the time that the computers were going to be used to help refine the accuracy of [Saddam] Hussein's missiles." Despite such warnings, the computer sale was ultimately approved. Commerce officials "didn't dispute" the Defense Department's warnings, Bryen noted, "they simply ignored them."<sup>22</sup>

(3) Transfers of intelligence data. Beginning in 1984, the United States provided Baghdad with intelligence data on Iranian troop positions gleaned from satellite photographs. Reportedly, a special Central Intelligence Agency (CIA) office was set up in

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19. Shlomo Gazit, et. al., The Middle East Military Balance 1988-1989 (Jerusalem: Jerusalem Post, and Boulder: Westview Press, 1989), p. 182.

20. See: The Washington Post, November 16 and 17, 1990; The Los Angeles Times, February 13, 1991; and The Wall Street Journal, December 7, 1990.

21. See The Los Angeles Times, September 28, 1990, regarding the testimony by Bryen and former Assistant Secretary of Defense Richard N. Perle on September 27 before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Government Operations Committee.

22. Quoted in The Los Angeles Times, February 13, 1991.

Baghdad to effect the transfer of intelligence, and Iraqi officials met in Washington with CIA Director William Casey to be briefed the significance of the satellite data.<sup>23</sup> These intelligence transfers are believed to have aided Iraqi forces in repelling attacks by Iran during the mid-1980s.<sup>24</sup>

(4) Encouragement to France and other European suppliers to sell arms to Iraq. Although the United States claimed neutrality in the Iran-Iraq conflict, it imposed a strict embargo on arms sales to Iran ("Operation Staunch") while inviting France and other U.S. allies to sell a wide array of modern weapons to Iraq. To what extent Washington communicated its approval to Paris and other European capitals is not known, but the Reagan Administration went out of its way to emphasize the selective nature of Operation Staunch. The embargo, Under Secretary Armacost testified in 1987, "is aimed specifically at Iran because that country, unlike Iraq, has rejected all calls for negotiations."<sup>25</sup> The impact of this selective embargo on Iraqi and Iranian arms acquisitions was considerable: according to the CRS, Iraq received \$46.7 billion worth of imported arms in 1981-88, while Iran received only \$13.8 billion worth.<sup>26</sup> The effects of this were clearly seen in the later stages of the war, when Iraq regained the initiative on the battlefield and Iran was unable to resist effectively.

Together, these four vehicles for indirect military assistance had a considerable impact on the outcome of the war: while many factors undoubtedly contributed to the Iranian collapse, there is no doubt that Iraq's superior arms, technology, and intelligence data contributed significantly to the Iraqi advantage.<sup>27</sup> In this sense, the U.S. strategy of using Iraq as a buffer against Iranian expansionism can be said to have been relatively successful. However, as in the case of U.S. aid to Iran under the Shah, the application of this strategy to Iraq had unintended consequences that were not so benign. In particular, the U.S. "tilt" toward Iraq helped fuel the hegemonic

23. See The Washington Post, December 15, 1986, and The New York Times, December 16, 1986.

24. See Miller and Mylroie, Saddam Hussein, p. 145.

25. U.S. Policy in the Persian Gulf, p. 12.

26. Richard F. Grimmitt, Trends in Conventional Arms Transfers to the Third World by Major Supplier, 1981-1988, Congressional Research Service, Washington, D.C., August 4, 1989, pp. 50-51.

27. For discussion, see Cordesman and Wagner, The Iran-Iraq War, pp. 591-94.

ambitions of Saddam Hussein and instructed him in ways of acquiring military aid and technology from the West. By the end of the war, we had helped to create a self-confident despot who entertained grandiose visions of regional domination.<sup>28</sup>

American assistance to Hussein did not cease, moreover, with the end of the Iran-Iraq war. Indeed, the logic of the Surrogate Strategy now took on a life of its own as Washington sought to preserve its quasi-alliance with Saddam Hussein. No longer viewed merely as a "buffer" against Iranian expansionism, Iraq was seen as a former Soviet ally that could be persuaded to abandon its militant anti-Western policies and to engage in a more collaborative relationship with Washington. In explaining U.S. policy to Iraq in 1988-90, Deputy Assistant Secretary of State Edward W. Gnehm noted that "As a powerful nation with a global outlook, we are obliged to develop as close relationships as possible with countries in these positions, especially where we have strategic interests." In the State Department's view, "there was a reasonable expectation that Mr. Hussein might well want to develop closer ties to the West." Through our trade and diplomatic efforts, he noted, "we hoped to be able to weave him into the fabric of Western nations."<sup>29</sup>

On this basis, the Bush Administration continued its policy of supplying Iraq with sensitive military technology and of allowing major arms transfers by Western European suppliers. It is important to note, moreover, that this policy of aiding Iraq was sustained even after it was revealed that Iraqi forces had used lethal chemical weapons (CW) in attacks on Kurdish civilians, and had forcibly relocated hundreds of thousands of Kurds from strategic border areas to interior settlements. Although the State Department issued a number of protests in response to the CW incidents, no effort was made to cut off the flow of U.S. agricultural credits or technology transfers, or to discourage our allies from selling arms to Baghdad. Efforts by members of Congress to impose trade sanctions against Baghdad were resisted by the Bush Administration, and internal protests by senior Pentagon officials regarding the flow of sensitive technology were often overruled by the Department of State.<sup>30</sup> Only after it was revealed that Iraq was seeking materials for the manufacture of nuclear weapons, in March 1990, did the Bush Administration begin to tighten up procedures for the transfer of

28. For a portrait of this despot, see Miller and Mylroie, Saddam Hussein.

29. Quoted in The New York Times, August 13, 1990.

30. See: The New York Times, August 13, 1990; The Washington Post, September 13, 1990; and The Wall Street Journal, December 7, 1990.

sophisticated technology.

The continued application of the Surrogate Strategy to Iraq did more than assist in the development of Iraqi military capabilities. It is my belief that these expressions of U.S. support for Iraq led Saddam Hussein to believe that the United States Government was in full sympathy with his quest for regional hegemony. Why else, he must have reasoned, was Washington so muted in its response to his use of poison gas against Kurdish civilians, and why else would Washington assist in his acquisition of advanced military technologies? Possessed of a devious mind himself, Hussein must have concluded that the only plausible explanation for this behavior was an implicit U.S. policy of aiding Baghdad in converting Iraq into a regional hegemon. Certainly the message given to Hussein by Ambassador April Glaspie in her fateful July 25, 1990 interview with Hussein--to the effect that Washington had no firm position on Iraqi claims on Kuwait--must have been interpreted by him as virtual confirmation of this assessment. Whether this influenced his decision to seize Kuwait on August 2 cannot, at this point, be established, but I have no doubt that it allayed any anxiety he might have had about a hostile American response.

What can we learn from all of this about U.S. policy toward the Persian Gulf? It seems to me that the principle of relying on surrogates to carry out American policy objectives is an inherently flawed approach. However close the perceived alignment between the United States and any given surrogate, we are not taking here of a true and lasting partnership between sovereign nations with a shared international perspective (as was the case with the NATO alliance), but rather a "marriage of convenience" in which each side seeks to get what it can out of a temporary association. For the United States, this means help in curbing regional threats or disorders that Washington does not wish to confront directly, with American forces; for the surrogate, this means obtaining the wherewithal to resist any rivals in the area and to pursue long-held hegemonic ambitions. Inevitably, this very process creates a divergence between U.S. and surrogate interests (as the surrogate proceeds to advance its own regional agenda), leading, in many cases, to a significant injury to U.S. interests. This occurred in Iran in 1979 and in Kuwait in 1990.

Despite this record, I fear that the United States will turn again to the Surrogate Strategy in the wake of the current conflict. President Bush and Secretary Baker have both indicated that they seek a new "security arrangement" in the Gulf area that will ensure regional stability and protect long-term U.S. interests. Both have also made it clear that U.S. ground forces (and most air and sea forces) will be withdrawn from the area as soon as possible after the cessation of hostilities. I can only surmise from this that the Administration envisions some new

system of surrogates to fulfill this security function. No doubt the United States Congress will be asked to help cement such an arrangement by approving massive transfers of American weapons to any nations selected to perform this surrogate role.

The United States is naturally grateful to the nations that have supported us in the present conflict with Iraq, and we will certainly want to promote lasting peace and stability in the Gulf area when the fighting is over. But before Congress agrees to any plan entailing stepped-up U.S. arms transfers to nations of the region, it should consider carefully not only the purported benefits of such a scheme but also the risk of unintended consequences of the sort that led to the Persian Gulf conflict in the first place. However friendly our allies may appear today, we cannot be sure that they will not at some future date use their American-supplied weapons for parochial purposes that imperil rather than advance the cause of regional stability. Hence the safest course, in my view, is to seek a "world-wide moratorium on arms sales to the Middle East," as proposed by Rep. Lee H. Hamilton in his speech to the National Press Club on January 24, 1991, while thoroughly considering all of the necessary preconditions for lasting regional stability.

As suggested by Chairman Obey in his speech before the Council on Foreign Relations on February 5 of this year, any successful strategy for peace in the Middle East will require a comprehensive mix of political, economic, diplomatic, and arms control initiatives. This includes, among other things, the peaceful resolution of the Arab-Israeli conflict, a just solution to the Palestinian problem, greater equity in the distribution of the area's oil wealth, and the elimination from the area of weapons of mass destruction. These initiatives should, in my mind, be given priority over the reassertion of the Surrogate Strategy and the delivery of still more arms to the nations of the area. Once the elements of a lasting peace plan are in place, Congress can judiciously decide what arms, and under what conditions, should be transferred to the region. But until that time, we should, in Rep. Hamilton's words, "pause on future arms sales to the Middle East."<sup>31</sup>

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<sup>31</sup>. From the transcript of his talk before the National Press Club on January 24, 1991.

## LESSONS LEARNED

**Mr. OBEY.** Thank you all very much.

Let me begin by simply asking each of you for a minute or a minute and a half to lay out what you think the major lessons are that we should have learned from our past involvement in the Middle East as we tried to deal with the post-war problems.

**Mr. QUANDT.** Well, there clearly is an area of agreement amongst all of us that we need to learn something from the pattern of arms transfers and export of dual-use capabilities to the Middle East. If we all go back to business as usual, selling arms, allowing dual-use exports, we should not be surprised if another crisis of this sort emerges in the not too distant future.

So that is perhaps the most obvious problem and in some ways the easiest to address, although I am not sure we will do so. The more subtle message, that may be difficult to seize, is that this is not a region where we are going to find it easy to find reliable allies who will always agree with us and help construct a kinder, gentler Middle East, nor is it a region that is easy for us to dominate, even though we have had this enormous military victory.

By and large, our concern for stability in the region requires some balancing mechanism. Any time one power becomes too powerful, such as Iran at one moment, it sets off a reaction elsewhere that ultimately brings someone else to the fore after that big power is defeated.

So we have to look at the region as one where there will never be a community of interests that guarantees stability, but there will be varying degrees of balance of power that keep some kind of equilibrium. And our interest is never going to be in siding permanently with one of the regional powers against all the others. It is going to be in ensuring that the balance does not get tilted as badly as it did, say, between 1970 and 1990, when on several occasions the regional balance got so far out of tune that major wars resulted.

**Ms. KIPPER.** I think one of the first lessons we have to recognize is that the small states of the Gulf, their combined population being about 10 million, cannot really ever protect themselves by themselves; that we need, as a result, to help to make the GCC a more meaningful organization, with two at least basic questions to be addressed: compatibility of weapons for defensive purposes and communications.

I think we also need to recognize as an offshoot of that that militarism over many decades simply has not worked, and I would say no more militarism, that any arms sales, arms transfers, must be seen in the context of post-crisis strategy.

I think we also need to recognize that the festering sores in the Middle East, the conflicts that we hear about from time to time that annoy us, that confuse us, do have their long-term impact. Lebanon certainly has over many, many years, the Arab-Israeli question, the Iran-Iraq rivalry over many years; each one of these things from time to time explodes in ways that make it more difficult for American policy to protect its interests there, our interests there, and makes it more difficult to stabilize the region and to

reach those regional security arrangements we have all been talking about.

I would also say that, though this is not a Judaeo-Christian, western, nor democratic part of the world, that nevertheless people's aspirations in this Islamic and Muslim part of the world are the same as anybody else's. They want decency, they want security in their daily lives, and they want to be able to prosper economically.

And I would say, Mr. Chairman, while everybody would like a piece of the material pie, our videocassettes and blue jeans and Chevrolets, and certainly to have some of our arms for prestige and protection, nevertheless, the greatest asset of the United States in this part of the world, as elsewhere, is that human dignity is not reserved for ruling elites. And we should use this and understand it in terms of fashioning our foreign policy.

Mr. KLARE. Thank you. I will make a few brief points.

First, I think we have to view conventional arms transfers with the same concern as we have long viewed nuclear and chemical proliferation. We have tended to say nuclear proliferation, chemical proliferation is a terrible thing, we have to stop it, but conventional arms sales are okay.

And I think the consequence of this was the buildup of Iraq and the current crisis we find ourselves in. So I think we have to work with our allies and with the Soviet Union and China and other major suppliers in finding new mechanisms like the Nuclear Non-Proliferation Treaty and the Chemical Weapons Convention that would provide some international control over the spread of conventional weapons in this post-crisis era.

In doing so. I think Congress has to be very skeptical about claims that arms transfers bring influence, which we have always been told in the past. They do not bring influence. They just fuel the ambitions of the recipient, whatever they may be, whether they are in our interests or not.

Finally, I think Congress needs to take a lot closer look at the export of military technology, as distinct from arms. We were pretty good in cutting off our arms sales to Iraq during the recent period, but it is very clear over the past ten years that American firms, not to mention those of our allies, were deeply involved in supplying critical military technology to Iraq on the grounds that it was intended for civilian purposes, and not recognizing the degree to which it had military implications.

#### POSTWAR RELATIONS

Mr. OBEY. Thank you.

Dr. Kipper, I forget exactly how you ended your comments on the Palestinian issue, but you indicated that we should beware of overly high expectations with respect to the willingness of the Arab world to deal with Israel, absent any action on the Palestini an issue.

Let me ask all of you two questions. First of all, when this is over, what specific message do you think we should have for Saudi Arabia, for Iran, and for Syria with respect to the overall needs of the region? What should we be asking them to do, not with respect

to the Palestinian issue, but with respect to other problems in the region?

Then secondly, how would you go about fashioning an atmosphere in which it might be possible to begin to deal with the Palestinian issue, both in terms of what we say to the Israelis and what we say to the Palestinians and the Arab states? And in conjunction with that, given the role of Mr. Arafat in this latest debacle, how should we approach the Palestinians, especially those living in the occupied territories at the moment? How should we approach dealing with their problems?

Should we recognize that the PLO has once again missed an opportunity?

Should we just forget trying to deal with them? Who do we deal with if we do not deal with them? Where would you go on those three questions? Mr. Quandt.

Mr. QUANDT. Sorry, I thought you were asking Judith.

Mr. OBEY. All three of you.

Mr. QUANDT. Well, the messages for Saudi Arabia, Iran, and Syria when this is over are going to be different in each case. I think we have to take it rather slowly with Iran. They are not going to rush into our arms and we are not going to rush into their arms. But we are entering a new period when they are going to be a dominant power in the Gulf region and our concern is that they not become a militaristic threat to the other Gulf states, as Iraq has been.

So whatever dialogue we engage in with Iran has to have something to do with what the rules of the game in the post-war period in the Gulf will be. If they do not threaten their neighbors, they can probably expect from us a greater degree of restraint in terms of our own military posture. That is probably the extent of the U.S.-Iranian dialogue in terms of the Gulf region.

The other issue, of course, is Iran's historical meddling in Lebanon and its involvement with terrorism, and those are certainly issues that in any revived U.S.-Iranian dialogue we must be very forceful on.

With Saudi Arabia, we have so skewed our dialogue with them in recent weeks toward one single issue—namely, will you please pay for this crisis because we are broke—that I am not sure how much more we are going to be able to squeeze out of them if they really do come up with \$13.5 billion.

Going back to them with endless requests for more money for offsets, for aid to Egypt, or for Turkey or for whoever else, which is really what we probably most want out of the Saudis in concrete terms, may fall on deaf ears. I think we have to realize that even the Saudis are beginning to reach the limits of their generosity.

But certainly I would focus on at least two specific political topics. There of course will always be the oil issues and the economic issues. I think we have also to try to persuade the Saudis to be less vindictive toward Jordan. Jordan still matters as a geostrategic reality in the region, and the Saudis seem just bloody-minded about making King Hussein pay for his transgressions. That is ultimately not going to serve our long-term interests.

In addition, I think we have to start talking seriously with the Saudis about the importance of their coming out of the closet in

terms of their willingness to deal with Israel as a fact of life in the region. I agree that they are not going to rush into peace negotiations in the abstract, but I think the Saudis have for too long had the luxury of sitting on the sidelines whispering to us that they support talks between Egypt and Israel, that they support talks between the Palestinians and Israelis, but they have been very shy of engaging in any such talks themselves. So at least we need to start talking along those lines.

Syria is a much more complicated matter because, on the one hand, we have a big backlog of past business involving terrorism, involving Lebanon, involving all sorts of grievances that we have had toward the Assad regime. But we also have to recognize that if there is going to be anything worthy of being called an Arab-Israeli peace process in the near future, Syria is almost certainly going to be one of the major players in it.

Syria, after all, is the Arab state with which Israel has the major remaining conflict. Jordan and the Palestinians are of course very important, but militarily Syria is the only serious remaining threat in the region.

So on the one hand we are going to have to balance our concerns over past behavior with our hopes that perhaps Syria in this new environment will participate in some form of peace talks with Israel.

#### THE PALESTINIAN ISSUE

Let me turn quickly to your other question, about how to create an environment in which to deal with the Palestinian issue. Obviously, we cannot simply make an Israeli-Palestinian negotiation happen. We have to recognize that the Israelis and Palestinians are probably more at odds today than they have ever been.

But in terms of our own policy, I think that there are two things that we should bear in mind. First, we need to find some channel through which to deal with the Palestinians. We cannot punish an entire people for the policies adopted by their leaders in this crisis. And one way or another, if there is to be an Arab-Israeli peace process, the Palestinians and their concerns will have to be addressed.

Of the available potential brokers with the Palestinians among the Arab states, I think we should not look primarily to Syria or Saudi Arabia, nor can we look to Jordan as the sole broker or primary broker. But I do think that we have an opportunity once again to deal with Egypt as the one Arab country already at peace with Israel, that has the capacity to start rebuilding bridges with the Palestinians and with the Jordanians.

Egypt clearly has a special role in the Middle East as the largest Arab power. It also will come out of this crisis with its stature enhanced as part of the victorious coalition. Hosni Mubarak has the capacity as a political leader to reach out to the Jordanians and Palestinians and say: We will now help you get back into the political process of making peace with the Israelis.

I think we should give the Egyptians encouragement and support in being the primary party to whom we look at a time, when we

are not in a position to deal directly with the Palestinians. We need an Arab partner. I think Egypt will be it.

Secondly, I think in our dialogue with the Israelis about the post-crisis period we have to try to explore the possibility for an initial step that they could take, a non-negotiated step I would even say, something that can be done that will demonstrate a serious intention to create new circumstances in the occupied territories that will give Palestinians living there some reason to hope that the post-Gulf crisis order offers them something.

For example, municipal elections could be put on the agenda for the West Bank and Gaza. They have not been held since 1975. It does not require prior negotiations. There is a precedent for it. It simply requires setting a date and stating the conditions that would have to be met for the elections to be held, and then counting on politics as usual to create the incentives to actually participate in it. I think it could be done and it would at least begin to change the atmosphere.

Secondly, with respect to Gaza, frankly, this is a Palestinian area that the Israelis do not want, and perhaps the time has come to do something that in the past I have been very skeptical of, namely a Gaza first step, whereby the Israelis set the conditions under which they would be prepared to disengage from Gaza, assuming that someone, an Arab state, Egypt, could come in and help create the security conditions that would allow Israel to disengage with no threat to its security.

Again, this would not have to be negotiated in any elaborate way. It simply requires a statement of willingness in principle. If that could be done, I think we would be on our way toward creating a new atmosphere in which ultimately political negotiations might be possible.

But I think we need to begin with concrete steps that could change realities on the ground.

#### POSTWAR RELATIONS

Ms. KIPPER. The question of Saudi Arabia, Iran, and Syria. I would say with Iran that we need to send them again a signal that when they are ready to talk we are ready to talk, so that we can move slowly and cautiously toward having a dialogue first, and secondly toward eventual normalization of relations.

For the Iranians, who have been riding an anti-American horse for the last more than 10 years, it is going to be difficult for them to dismount. The United States as well, which has had a very profound anti-Iranian posture, it will also be difficult for us to back away from it. So this is going to take some time.

I would also encourage the Saudis and the Iranians to re-establish the Riyadh-Tehran axis, which worked extremely well to balance the situation in the Gulf from the end of the Second World War until the fall of the Shah in 1979. In my view, both the Iranians and the Saudis understand that, while they have serious religious, political, ethnic disagreements, that really it is necessary for them to re-establish that axis.

I was certainly encouraged when the foreign ministers of those two countries met recently, and by some other things that I have heard.

Syria is a country that is a status quo power. There are some things about that status quo to which we of course have very serious objections. Nevertheless, Syria is a country that has shown it can modify its behavior when it gets rewards, I think that after this period of Syria being in the coalition we will be able to work with Syria on the three issues that are always outstanding on the U.S.-Syrian agenda: Lebanon, of course, and Syria's role in Lebanon today. While it is a dominant one, it has helped Lebanon work toward an implementation of the Taif agreement. In my view, this is extremely important, for Lebanon to go all the way in their peaceful solution eventually to elections, because Lebanon can be a laboratory for a kind of perestroika in the Middle East, new thinking, a laboratory for democracy and for pluralism in the new sense.

And Syria eventually is going to have to leave Lebanon. So we need to work with Syria on the question of Lebanon, on the question of Arab-Israeli, of course, and terrorism. Those are the three main items on the U.S.-Syrian agenda.

#### THE PALESTINIAN ISSUE

Now, as for the Palestinian question, I wholeheartedly agree with what Bill has said, but let me just echo what he has said, adding to what I stated previously about this problem of who is there to talk to among the Palestinians. I think over a decade we have not recognized the vital role of Egypt as much as we might have.

Egypt, after all, has been a strong ally of the United States for some 15 years now. It has been at peace with Israel for 10 years. Egypt is a country that is committed to negotiated solutions of problems and is a major force in the international community as a result of that.

In this post-war period, as the Arab alliance breaks down and the larger coalition breaks down, Egypt's dominant role, as Egyptians themselves say, as the political Mecca of the Arab world, the pillar of civilization in the African continent, needs to be enhanced. Egypt must emerge from this crisis as the model for the Middle East, not its economy of course, because they have not done the reforms they need to do, but politically: a country that takes care of its own interests, those of its neighbors, its region, and the global community, a country that keeps its formal and informal agreements, and a country that we can in fact rely on even though we do not always agree with Egypt.

I think through Egypt we can begin to rebuild with the Palestinians. Those in the territories who have refused to talk to American officials since the breakdown of the dialogue with the PLO are not going to come back in terms of talking to us or the Israelis unless they see some concrete changes on the ground. There have to be some changes that will ameliorate their situation economically and in terms of their security before they are going to believe that it is worthwhile to re-establish a dialogue both with the Israelis and with the United States.

So I think it will be incumbent upon the United States to work with Israel to begin to take some unilateral steps in the territories that will signal that there is going to be a change.

#### DEMOCRATIZATION

Mr. KLARE. Because I agree with much of what has been said by my colleagues, I will be very brief and add just one additional thought. And that is that I think that the United States should call for the same sort of progress towards democratization and respect for human rights that we have called for in other areas.

I think the people of the Middle East see the United States promoting democratization very aggressively in Eastern Europe and in other parts of the world, and calling for human rights progress in the Soviet Union and Latin America and elsewhere, and feel that in the Middle East we do not apply the same kinds of standards, that we tolerate regimes that are undemocratic, that have very poor human rights performance. They see us form an alliance with a country like Syria, whose human rights performance is just as terrible as that of Iraq. And in Saudi Arabia we have seen gender oppression brought to the fore.

So I think if we are to win the loyalty of people in these areas we have to be more aggressive in our support of the democratic process in all of these countries, and voice support for human rights. This particularly applies to the case of the Palestinians, who are calling on the United States to be more aggressive in looking into abuses of human rights they charge are occurring in Israeli-occupied territories.

That is an area where we can make a gesture to the Palestinian people that we are concerned with them, as distinct from their leaders.

#### AMBASSADOR GLASPIE

Mr. OBEY. Thank you.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. Mr. Chairman, this kind of session in the midst of this crisis is very helpful to me personally, but I think also to our subcommittee. We are all anxious to go about looking forward in terms of future policy development that may lead to more stability in this region.

I was struck just a moment ago, Judith Kipper, when you mentioned Egypt. I had kind of put down as a byline for future policy development and consideration, not just in this region but others, your comment that human dignity should not be reserved for ruling elites.

I thought that same line would certainly apply to a piece of the model that would be Egypt.

One of you, I think maybe you, Mr. Klare, mentioned April Glaspie, the Ambassador to Iraq as we came into this crisis. She has been described to me as a very, very competent and talented diplomat, who has received a bit of a rap in some circles relative to signals we may or may not have sent to Iraq.

I would like to hear from each of you your view of how much we knew in the months, maybe the weeks, before relative to Saddam.

Hussein's intent regarding Kuwait. What kinds of signals had we sent? What sort of messages were part of the circles here on the Hill, as best you can measure it?

I doubt that the line can be drawn just around April Glaspie.

Mr. QUANDT. Could I respond to that, Congressman? I think you are correct that Ambassador Glaspie has been given a very rough and unfortunate time. The evidence that everybody is using is a doctored Iraqi transcript of a conversation. The reason we know it is doctored is, first, we have been told so by Ambassador Glaspie herself.

But secondly, the Iraqis put out two different versions of the transcript. When the first one was not quite what they wanted to say, they put out a second one which was a little bit different. So do not think we should be overly impressed by that transcript.

I actually have spoken to Ambassador Glaspie in the last couple of days and she has told me that on several occasions preceding that meeting she had with Saddam Hussein she had made representations to the Iraqi foreign ministry, on instructions, to warn against any action against Kuwait, because at this time there were troop movements toward the border, and she asked for explanations on each occasion.

Now, in the meeting with Saddam Hussein she once again discussed the statement made by Margaret Tutwiler the previous day, warning against any actions against Kuwait. So I do not think it is fair to say that there were no attempts to warn Saddam Hussein.

The sentence in the transcript that she is getting a rough time for, that is implying that we have no opinion on this dispute between Iraq and Kuwait, comes very clearly, even in the Iraqi version, after Saddam Hussein makes an accusation that the location of a border post has been changed by the Kuwaitis to Iraq's detriment. And she says: You know, on an issue of that sort the United States does not take a position, literally on the location of a border post. And that has been taken as if, we take no position on your dispute with Kuwait. I think it is a very unfortunate misreading of what took place in that meeting.

Now, the broader question is why did we miss what was coming. Many people in the United States, in the foreign service, in the academic community, perhaps even some people in Congress, misread signals that in retrospect we all should have noticed.

There were things that Saddam Hussein did and said in the months preceding his invasion that now look very clearly as if they were threats to take at least some kind of action against Kuwait. But of course, this is just one more in a long series of misreading of signals in the Middle East. And it is all very well to look back and see the clear evidence, but frankly, most of us missed the signals. Most of the so-called Middle East experts, I among them, missed the signals.

Very few people have a good record in predicting the invasion. What we thought was going to happen was that this bully, Saddam Hussein, was trying to blackmail the Kuwaitis, extort money from them, threaten them with mobilizing on their borders, perhaps even making a limited incursion into their territory.

That was the kind of pattern that we had seen in Middle East politics before, and had that happened nobody would have been

surprised. We were all prepared for that. What we were not prepared for was something that had not happened before, a full-scale invasion of a neighboring Arab country and its annexation.

So I think it is unfortunate to put the blame on April Glaspie. The Secretary of State missed it, the President of the United States missed it, most Members of Congress missed it, most Middle East experts missed it. I hope we will do better next time.

Mr. KLARE. Might I make a comment? My impression of what was happening then is something that I think often happens in American policy, that foreign policy shifts very slowly, like a giant supertanker—an appropriate analogy here—that is beginning to turn, but has not completed its turn.

I think that up until early 1990 the United States State Department continued to view Saddam Hussein in the somewhat favorable way that I described, as a possible collaborator. As 1990 proceeded and more evidence emerged of his nuclear weapons plans—in March it was revealed that he was trying to acquire the technology from the United States for switches to use in a nuclear device, and at about the same time he made very threatening remarks about a chemical attack against Israel—the policy machinery starts to shift.

But it did not shift overnight. It was slow. As late as June, the State Department was cautioning against moves by Congress to impose sanctions against Iraq because of Hussein's chemical weapons threats, and was opposed to cutting off agricultural credits to Iraq.

So I think that Ambassador Glaspie was caught at a moment in which the policy change had not come full circle. And what she reflected, I think, was the older guidance that had not been completely changed, and so I think that she was a victim of this incomplete shift in American policy.

Ms. KIPPER. I agree with you, Congressman, that April Glaspie is one of our most talented and hard-working diplomats. I have known her for many years, first in Egypt at the time when we were restoring relations with Egypt and just building that relationship.

I think it is a serious mistake to put blame on any individual. I do not think that it is a useful exercise to put blame, period. But I do think that we need to examine how our policy emerged in the 1980's so that we do not make this mistake another time. The stakes are getting higher and higher and higher, and the winking and blinking that we have been doing in our policy, particularly toward the Middle East, and I would suspect it is probably true in other regions as well, but particularly in the Middle East, which does have a very important domestic component, simply has got to stop.

We have to face reality. We cannot overlook the abuses of regimes in the region, and we must listen to what comes out of that part of the world. It is noisy, it comes in a form that is hard for us to hear and to understand, but if we pay attention we can hear what people are saying and begin to address the aspirations of people in the region.

So we work towards stability, not simply to maintain a status quo that is in fact no longer viable and has not been for some time.

## ARMS RACE

Mr. LEWIS. Mr. Chairman, just one more brief comment and maybe question.

You have all suggested that arms buildup, or at least implied, that arms buildup has not been helpful relative to stability in the region. It is important for us as a committee to know that arms sales are not made lightly, without this committee's, subcommittee's, oversight. And as we have significantly built up the arms capability in Iran, then found ourselves with something less than a long-term view of Iran's future as the Shah fell, gave significant support to Iraq, the fourth largest army in the world, as it is described, and we seem to be somewhat surprised that those arms were used beyond what took place in Iran.

You have suggested that we should look at a very serious review of future arms sales in the entire region. I would like to hear all of your comments regarding that. Indeed, the implications vis a vis Israel cannot be ignored or taken lightly, either.

Mr. QUANDT. Well, very briefly, I do think maybe there is a good rationale for simply not agreeing to any sales immediately. There will be a temptation, of course, for everybody to get back in business. There is money to be made in the Middle East, unfortunately, by selling arms. But I think we need to pause a bit and start making some crucial distinctions.

There are some arms that are not particularly destabilizing. For example, I would have no hesitation to see Patriot missiles sold to anybody who wants them. They seem to work reasonably well and they are purely defensive, and that is probably something we should look favorably on, or some variation of it, for specific cases.

There are other kinds of weapons systems that are, almost by their nature, destabilizing, surface to surface missiles for example. Now, we do not directly sell that kind of thing to many parties in the Middle East, but some of our companies do sell the technology that contributes to missile proliferation, and, if we do not, some of our allies do.

It seems to me that the absolute rock bottom concern we should have in the Middle East is to ensure that surface to surface missiles with greater accuracy do not get into the region. The Scud missiles have been bad enough, but quite frankly, they have not been as bad as the next generation could well be. So anything having to do with surface to surface missiles and advanced guidance systems should really be banned from this area if at all possible, and that requires coordination with a number of exporters.

Then secondly, of course, we should try to restrict anything having to do with nuclear technology that could lead to nuclear weapons systems. And it is really shocking to look at how many companies have provided Middle East countries with components of what could well be nuclear weapons systems.

Working back from that, there are all kinds of other weapons that one would like to try to constrain. But I think we need to keep our absolute priority on missiles and nuclear technologies very much uppermost in mind. On the whole, I think we should be more restrained than we have been in the past.

That does not mean that no arms sales are legitimate. There are some legitimate needs of countries in the region. But let us be more prudent in the future than we have been in the past and not simply treat these as commercial transactions that have no particular political significance.

Mr. KLARE. If I may comment, I would like to briefly make reference to the speech by Representative Lee Hamilton on January 24th before the National Press Club, where he laid out a very thoughtful set of comments about arms sales to the region after the conflict. And what he called for was a pause, a pause on arms sales to the region while Congress has an opportunity to look at the total picture of what is needed there.

You have heard comments today on some of the other needs in the area and a desire to avoid rushing into an arms race. Chairman Obey made similar comments in his presentation to the Council on Foreign Relations. So I think a pause, a time to reflect on the consequences of selling arms, is very important.

I also share the view of Mr. Quandt that we have to be very careful about the delivery of systems that would be destabilizing, not only missiles but high-performance aircraft, cruise missiles, and other such weapons.

But I think a third component of this is more coordination with our allies and with other arms suppliers, like the Soviet Union, China, and Brazil, all of which have supplied a lot of weapons to Iraq and other countries in the area. We have collaborated on nuclear issues, on chemical issues, to some degree on ballistic missiles. But in the area of conventional arms transfers, there is no formal mechanism for consultation with these other suppliers.

I think we need something like the NPT regime, the Nuclear Non-Proliferation Treaty, or the Missile Technology Control Regime, some mechanism whereby before we sell something to the area we coordinate with other suppliers and see that this is not going to start a regional arms race, with the French or the Soviets rushing in to match what we sell to one country, which has been the historical record.

If we practice restraint and the other countries do not, it will not do us very much good. So there has to be not only restraint on our part, but cooperation with our allies and other countries to practice similar restraint.

Ms. KIPPER. I would just say that the vestiges of the Cold War, the militarism of that period, has failed. It has left us in a position where the witness is overarmed and where a lot of resources have been squandered on arms. And we certainly have to take a new approach to the question of arming Middle Eastern countries only for defensive purposes and to limit the level of technology, because it is a small area. People are living on top of each other and you cannot have military security. Neighborliness is going to be the best kind of security anybody is going to get in that part of the world.

So it is time to end the militarism.

#### HAVES AND HAVE-NOTS

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. OBEY. Mr. McHugh.

Mr. McHUGH. Thank you, Mr. Chairman, and thanks to all of you for sharing your thoughts with us. This has been very interesting and very helpful.

In terms of security for the region, it seems that one of the issues that needs to be addressed—and it is primarily an inter-Arab community issue, I assume—is the difference between the haves and the have-nots, the Saudi Arabias and Kuwaits on the one hand and the Yemens and other economically deprived countries on the other. Some of these differences are accidents of where the lines were drawn and where oil was found.

Is this something which is a problem to be addressed? If so, is it something that the United States has a role to play in?

The Secretary of State I think recently made passing reference to the possibility of a development bank, for example. How should we look upon this problem, if it is a problem?

Mr. QUANDT. Well, it clearly is a problem, and it is perhaps more acute in the Middle East than in other parts of the world. There is always going to be a problem of richer and poorer. The world is not yet designed for perfect egalitarianism.

But in the Middle East the disparities are really enormous and, as you said, they are not based on one country having a more productive work force than another or being more energetic. They are simply based on accidents of geology, and as a result there is a great deal of expectation in the region that this unique resource of petroleum ought to somehow benefit the region as a whole, not just the ruling families who happen to be in power at the moment.

I do not think we should underestimate the degree of bitterness that exists in many parts of the Middle East toward the regimes in the Arab Gulf states, who are viewed as primarily interested in their own well-being and not in their people's well-being, and certainly not in the region's well-being.

That is going to be a fact of life. You did not see too many people in the Middle East rushing to defend the Sabah family in Kuwait. People did react to the invasion of Kuwait as a breach of principles, but there was not much sympathy for the family in Kuwait, and the reasons do have to do with the perception that the Kuwaitis and others in the Gulf have been very stingy in the way that they have allocated their resources to others in the region.

Some of that is fair. Some of it is just inevitable. Rich people are resented. It is not a big surprise.

Now, if everyone goes back to business as usual when this crisis is over, I think once again you will see a lot of resentment growing against the oil-rich states. They are not going to be very popular. People will say that they were able to rent the American Army to come in and protect them so that they could go on living in their palaces and enjoying their wealth.

And if that is the perception that endures from this conflict, I think you are going to see a lot of bitterness in places like Egypt, where Egypt, after all, played an important role in this crisis. They have high expectations that, as one of the have-nots in the region—their per capita income is about \$800, compared to maybe 10 to 20 times that in the rich states in the region—they have an expectation that some Arab oil wealth should come their direction.

Now, that is certainly something that would serve our national interest as well. It takes a little bit of the burden off the American taxpayers, who have been supporting Egypt rather generously in the past, if the Arab Gulf states can be more generous toward Egypt.

Turkey likewise is a relative have-not and has played a superb role in this crisis, keeping the sanctions on against Iraq, keeping the oil shut off, allowing American forces to operate from Turkish territory. Turkey also is a big country with big needs and, frankly, the American taxpayer is not going to be able to meet them all, nor is the European Community.

Again, if the Gulf states do not see the merit in helping Turkey and Egypt, I think we are going to find the next time a crisis of this sort arises much less willingness on their part to cooperate in their defense.

Jordan has desperate needs. It is a small country, so the actual dollar figures that they need are not so great compared to Egypt and Turkey, but the principle is the same. They will need help from somewhere.

#### MIDDLE EAST DEVELOPMENT BANK

I happen to like the idea that Secretary Baker launched of trying to establish some kind of institution in the region that will depoliticize decisions on aid to certain countries, to put in place a mechanism for allocating investment capital on the basis of development criteria, perhaps generous development criteria, but nonetheless it would break with the old pattern of simply signing a check for whichever ruler you happen to like today in the Middle East.

A lot of money passes hands in the Middle East, but very little of it turns out to contribute to real long-term development. So the idea of institutionalizing a mechanism like a development bank, perhaps a sub-unit of the World Bank, helps to depoliticize the decisions, if it can be capitalized with a substantial amount of money from the Gulf region, from the United States, from Europe, from Japan.

I was a little bit surprised to see how quickly the administration seemed to run from its own idea, as if perhaps we did not want to raise expectations too high or put too much of an arm on the Saudis at a time when we are trying to get as much out of them for ourselves as possible.

But we really do have to start looking at this long-term issue. The problem cannot be totally solved. I mean, haves versus have-nots are always going to be with us. But if there is no attempt to address the economic needs of key countries in the region, then I think we are going to see instability, and some of the countries that have really stood with us in this crisis are going to be some of the first victims of it.

Mr. KLARE. If I may make a brief addition to these useful comments by Bill Quandt, it is to recall what Judith Kipper was saying about demographics, the extreme youth of the population of these countries.

Many of the young people in the area have heard Saddam Hussein revile against the Saudis and the Kuwaitis, and I think that a

lot of that took root with them and I fear that this will be a source of instability in the future, unless some of the aid that we are talking about is addressed to young people in creating jobs and other opportunities for the many young people in these areas, including Iraq itself.

I think the President has made clear that we do not have a quarrel with the Iraqi people as such, and there is going to be great suffering, especially among mothers and young children. There are outbreaks, apparently, of cholera and dysentery because of the breakdown in the water supply. There is going to be a great deal of suffering in Iraq after this is over.

We do not want to create a generation of hostile young people there, or anywhere else. So aid has to be addressed to the young in particular.

Ms. KIPPER. It seems to me essential—

Mr. OBEY. Could I just interrupt to ask you to repeat the number? You said 60 percent?

Ms. KIPPER. In the region in general, the average is 60 percent under the age of 20. In Iraq 70 percent are under the age of 30. With a 4 percent birth rate, their population will double within 18 years in Iraq. In Egypt and Jordan, it is equally as frightening.

It seems to me that in the next period it is essential that the institution that Bill referred to be created, so that whatever available resources exist in the region, primarily from the oil-rich countries, are no longer used for insurance, revenge, or political payoffs, because in this system these resources are squandered in a way that really keeps the area from developing and creates a kind of political atmosphere where cash is the primary factor that moves events, rather than national priorities.

I would also say that the United States, since we do not have funds available to us to provide for the have-nots, that there are some areas where we could lead, be the leaders, with our European and Japanese allies, and that is in the field of education and health care.

The education system in the Middle East, vocational and primary and advanced education, very, very much needs to be helped along the way, particularly vocational education to provide people with the skills that will be useful in the societies in which they live, so that they can get a job and they can contribute.

For example, in a country like Egypt if a priority in the beginning, in the days of Sadat, if there had been a priority on tourism Egypt might have been able to come out in a much better position than it finds itself today, because tourism is a labor-intensive industry. It is also an industry that brings in foreign reserves. Egypt has everything you need for tourism—sun, sights, and service. This priority was not a decision in Egypt.

So it is very important to look at each individual country to see where they are the most capable to employ the most people in a way that will promote economic growth and also promote human development. In a country like Egypt, if you take people out of the villages and other places and you put them in the tourism industry, they tend to learn another language, they learn how to do things, and they bring those skills back to the family, and it promotes a priority on training that does not now exist.

## KING HUSSEIN OF JORDAN

Mr. McHUGH. Thank you very much.

I would like to spend just a moment, if I may, soliciting your view on King Hussein. As politicians we can appreciate the delicacy of his position, and certainly in the past he has been, generally speaking, a moderate, pragmatic leader in that region.

Nonetheless, there is a great deal of unhappiness around here and, I suspect, in the country at large about the position that he has taken in this conflict. Inevitably, that means that we are going to be pressed as a committee, the Subcommittee on Foreign Operations, to terminate any assistance to King Hussein and Jordan, at least in the short term.

This is a judgment, of course, which should be made in the context of our interests in the region, and our relationship with Jordan. And I just wanted to give you the opportunity to comment, if you would, on what your judgment is vis a vis our position on aid to Jordan and, secondly, in a more general political sense, what role King Hussein might be able to play in the context of the Palestinian-Israeli question.

As you said, I think, Mr. Quandt, perhaps others as well, he has damaged himself, with the Saudis in particular, perhaps others, but he presumably has strengthened himself with the Palestinians. Does this have any significance? Does it suggest any particular enhanced role for him?

It seems that in the past few years he has in a sense withdrawn from the Palestinian-Israeli question and left it to the Palestinians and the PLO in particular to carry the ball. The context has changed. The PLO's position is diminished, at least to some extent.

Is there any role for King Hussein beyond what he has been doing in the last few years, or are we likely to see him continue to be withdrawn from this particular issue?

Mr. QUANDT. Well, on the two issues of aid to Jordan and Jordan's role, let me just say a couple of brief words. I do not think that Jordan should be punished. I understand how the political system works here. It is going to be difficult to justify any significant amount of aid for Jordan.

If we cannot produce it, perhaps we can urge the Japanese, as their distinctive contribution to post-crisis stabilization, to come up with half a billion dollars or something like that specifically for Jordan. But Jordan is going to need help.

Unfortunately, one of the reasons that King Hussein got himself so closely aligned with Iraq was that Iraq helped him pay his bills. Iraq was economically very important to Jordan. That is no longer going to be the case, so that bond of interest will no longer exist.

But the Saudis are not going to step in, the Kuwaitis certainly are not going to, to help. Jordan is not going to have the resources to meet all its needs. So somewhere in the international community Jordan needs a significant amount of aid, but by world standards it is not a huge amount. It is a few hundred million dollars.

And unlike many countries in the region, it uses its aid pretty well. You can tell when you have crossed the border into Jordan because it looks like a well-run country. That does not excuse what King Hussein has said in recent weeks about Saddam Hussein.

But I think we ought to recognize that, if Jordan were not more or less as it has been in the past, this crisis also would have been much more difficult. Jordan plays a very important buffer role. We should hope that it continues to.

Now, can the King come out of his retirement with respect to Arab-Israeli peacemaking? It is correct that in August of 1988 he said that Jordan no longer had any legal or administrative links to the West Bank and it was up to the PLO to do whatever could be done for the Palestinians. Of course, that was not meant to be taken quite as literally as it sounded.

Jordan is inevitably connected to the Palestinian issue. At least half of its own population on the East Bank is Palestinian. King Hussein today is probably more popular among Palestinians than he has been in a very, very long time, and I think as a result we can expect to see some kind of joint Palestinian-Jordanian stance in the post-crisis approach to peacemaking.

The Palestinians understand that their own hand is very weak today. They have lost almost all their support in the parts of the Arab world where they most depended upon concrete support, and Jordan has as well. In a sense they are in the same situation.

In 1985 when they were confronting a situation of how to engage in the peace process, they came up with the idea of joint Jordanian-Palestinian representation for peace talks. It was a good idea then. It would be a good idea again, and I think it is more plausible today, partly because the King's stature among Palestinians has increased, than it has been at any time since 1985.

So I would say, yes, Jordan has a role to play, but we always have to be careful not to interpret that as meaning Jordan can deliver a Palestinian solution by itself. The most that can happen is that King Hussein with Palestinian representatives can take a step in the direction of peacemaking with Israel, but no more than that.

Mr. KLARE. I defer to Judith Kipper and Bill Quandt on this.

Ms. KIPPER. I think that Jordan's importance in the region should not be underestimated. It is a buffer zone. It is one of the nation states in the region and, if in fact we are committed to the territorial integrity of all the states in the region, it would be a mistake for the United States to follow a punitive policy, as I think we have been doing over several months.

I do think that it is important symbolically for the United States to continue with the limited amounts of aid that we give to Jordan. As Bill said, Jordan uses this aid quite well. You see all over Jordan plaques and signs that this project was made possible by U.S. AID, and I do believe that this is part of the traditional and long friendship that has existed between Jordan and the United States, that can indeed be resumed.

I think that for King Hussein himself that part of the problem is that our pro-Iraqi tilt during the 1980's and our decision, with the King's agreement and acquiescence, that Aqaba be the port for the Iraqis during the Iran-Iraq War really made Jordan into an economic colony of Iraq and certainly pushed the King perhaps further into the arms of Saddam Hussein than he might have gone otherwise.

I do not think I can expect it can be reversed overnight, because Jordan is truly a poverty-stricken country. It has virtually no resources, natural resources of any kind.

So over time we need to reconcile the fact that we agreed to disagree during this crisis, but that the traditional friendship between Jordan and the United States has been useful for American interests and for stability in the region and there is no reason to believe in the future that it will be any less important to American interests and to stability in the region.

On the question of Arab-Israeli questions, Jordan of course has to be one of the partners with the Palestinians and the Israelis, but I myself do not see a time when King Hussein can come back and actually represent the Palestinian people. He does not want it, they do not want it.

But as Bill said, I also agree that nowadays it will probably be easier to work more compatibly with Jordanians and Palestinians together in a negotiating team that can eventually sit down with Israel to work out a formula for coexistence.

#### DEVELOPMENTS LEADING TO THE GULF CONFLICT

Mr. McHUGH. Thanks, Mr. Chairman. I will defer.

Mr. OBEY. Mr. Smith.

Mr. SMITH of Florida. Thank you, Mr. Chairman. I certainly first want to say first that I am pleased to be here as the newest Member of the subcommittee. I switched places with Mr. Coleman when he left, only so I could see the witnesses. But this is not too bad. Some committees I have been on for eight years, I got binoculars with the seat so I could see anybody. [Laughter.]

Mr. SMITH of Florida. And I certainly look forward to working closely with you, as we have done in the past on many issues, and with staff and other Members of the subcommittee.

As this whole country anxiously monitors the progress of the allied forces' advance into Kuwait and Iraq, I want to commend you for holding these hearings and for the timeliness of these hearings.

I would like to submit for the record a number of newspaper and magazine articles and assorted transcripts that document the sometimes shameful and ill-advised pre-war relationship that existed between the United States, some allies, other third parties, and Iraq. I place these materials in the record so as to contribute to the institutional memory this hearing is designed to create.

Too often we fail to learn the lessons of the past and have been somewhat doomed to repeat those errors. Unfortunately, I must say, Mr. Chairman, I have heard some of that again today as it relates to our dealings as they may be in the future with other countries. It does not seem that we have learned any lesson at all.

I think the case of our pre-war relationship with Iraq is extremely instructive. It tells us about what not to do and how much we need to do with dictators. It tells us that there are serious flaws, not only in the international arms control regime, but also in our own export control laws and in their enforcement.

It tells us of our vulnerability to unreliable sources of foreign oil and, unfortunately, unless we are able to wean ourselves off this

foreign oil addiction, we are likely to face the same type of crisis in the future.

So I would like to submit all these for the record, including a statement of my own, Mr. Chairman.

[The prepared statement of Congressman Smith of Florida follows:]

## STATEMENT BY CONGRESSMAN LARRY J. SMITH

FEBRUARY 26, 1991

## SUBCOMMITTEE ON FOREIGN OPERATIONS

MR. CHAIRMAN I AM PLEASED TO BE HERE TODAY AS THE NEWEST MEMBER OF THE SUBCOMMITTEE. I LOOK FORWARD TO WORKING CLOSELY WITH YOU, YOUR STAFF, AND THE OTHER MEMBERS OF THE SUBCOMMITTEE. AS THE ENTIRE NATION ANXIOUSLY MONITORS THE PROGRESS OF ALLIED FORCES ADVANCE INTO KUWAIT AND IRAQ, I WANT TO COMMEND YOU FOR YOUR TIMELINESS IN HOLDING THIS IMPORTANT HEARING.

I WOULD LIKE TO SUBMIT FOR THE RECORD A NUMBER OF NEWSPAPER AND MAGAZINE ARTICLES AND ASSORTED TRANSCRIPTS THAT DOCUMENT THE SOMETIMES SHAMEFUL AND ILL-ADVISED PRE-WAR RELATIONSHIP THAT EXISTED BETWEEN THE UNITED STATES, OUR ALLIES, OTHER THIRD PARTIES, AND IRAQ. I PLACE THESE MATERIALS IN THE RECORD SO AS TO CONTRIBUTE TO THE INSTITUTIONAL MEMORY THIS HEARING IS DESIGNED TO CREATE. TOO OFTEN WE HAVE FAILED TO LEARN THE LESSONS OF THE PAST AND THUS HAVE BEEN DOOMED TO REPEAT OUR ERRORS. I THINK THE CASE OF OUR PRE-WAR RELATIONSHIP WITH IRAQ IS ENORMOUSLY INSTRUCTIVE. IT TELLS US MUCH ABOUT HOW TO AND HOW NOT TO DEAL WITH DICTATORS. IT TELLS US THAT THERE ARE SERIOUS FLAWS NOT ONLY IN THE INTERNATIONAL ARMS CONTROL REGIME BUT ALSO

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IN OUR OWN EXPORT CONTROL LAWS AND THEIR ENFORCEMENT. IT TELLS US OF OUR VULNERABILITY TO UNRELIABLE SOURCES OF FOREIGN OIL UNLESS WE ARE ABLE TO WEAN OURSELVES OFF OUR OIL "ADDICTION," WE ARE LIKELY TO FACE THE SAME TYPE OF CRISIS IN THE FUTURE.

#### THE FAILURE OF U.S. DIPLOMACY

ALTHOUGH THE PRESIDENT DESERVES KUDOS FOR HIS PROSECUTION OF THE WAR, THE EVENTS LEADING UP TO THE CRISIS NEED TO BE REVIEWED. FOR ONE THING, THIS CRISIS SHOULD TELL US SOMETHING ABOUT DEALING WITH DICTATORS. THE BUSH ADMINISTRATION'S DIPLOMACY SEEMS TO BE GUIDED BY THE PRINCIPLE THAT OUR ENEMY'S ENEMY IS OUR FRIEND. THIS UNSOPHISTICATED VIEW OF THE WORLD, COUPLED WITH CRITICAL DIPLOMATIC MISCALCULATIONS, GOT US INTO THIS CRISIS IN THE FIRST PLACE. WHEN, DURING THE IRAN-IRAQ WAR, WE BEGAN OUR TILT TOWARDS SADDAM HUSSEIN, WE STARTED DOWN THE FATEFUL PATH THAT LED TO WAR.

WHEN CONFRONTED BY IRREFUTABLE EVIDENCE TO THE CONTRARY BY ITS OWN EXPERTS AND THE CONGRESS, THE ADMINISTRATION CONTINUED TO PURSUE A POLICY BASED ON AN ASSUMPTION THAT THE IRAQIS COULD BECOME A STABILIZING INFLUENCE IN THE MIDDLE EAST. ONE CONSEQUENCE OF THIS REFUSAL TO FACE REALITY WAS THE FAILURE OF THE ADMINISTRATION TO SIGNAL SADDAM HUSSEIN THAT THE INVASION OF KUWAIT WOULD BE UNACCEPTABLE. IN HER NOW INFAMOUS JULY 25, 1990 MEETING WITH SADDAM HUSSEIN, AMERICAN AMBASSADOR TO IRAQ, APRIL GLASPIE IS REPORTED TO HAVE SAID THAT THE UNITED STATES WAS

INDIFFERENT TO "...ARAB CONFLICTS, LIKE YOUR BORDER DISAGREEMENT WITH KUWAIT." SIMILARLY, LESS THAN TWO MONTHS BEFORE THE INVASION, WHILE TESTIFYING BEFORE THE HOUSE FOREIGN AFFAIRS SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST, ASSISTANT SECRETARY OF STATE, JOHN H. KELLY, IN RESPONSE TO A QUESTION CONCERNING U.S. COMMITMENTS TO THE TERRITORIAL INTEGRITY OF KUWAIT, STATED, "WE HAVE NO DEFENSE TREATY RELATIONSHIP WITH ANY GULF COUNTRY. THAT IS CLEAR." MANY EXPERTS BELIEVE THAT THESE SIGNALS DID NOTHING TO DISCOURAGE HUSSEIN FROM PURSUING HIS TERRITORIAL AMBITIONS.

FURTHERMORE, EARLY ON, THE ADMINISTRATION FAILED TO RECOGNIZE THAT A STATE THAT MISTREATS ITS OWN PEOPLE WILL LIKELY HAVE A BLATANT DISREGARD FOR INTERNATIONAL LAW. HUMAN RIGHTS CONCERNS DO MAKE A DIFFERENCE. HAD WE NOT IGNORED THE IRAQI GASSING OF THEIR OWN KURDISH CITIZENS, HAD WE REACTED MORE CRITICALLY TO SADDAM HUSSEIN'S ESTABLISHMENT OF ONE OF THE WORLD'S MOST TIGHTLY CONTROLLED POLICE STATES, WAR MAY HAVE BEEN AVERTED. AS RECENTLY AS JUNE 20, 1990, IN TESTIMONY BEFORE THE FOREIGN AFFAIRS COMMITTEE ON WHICH I WAS A MEMBER, SECRETARY KELLY REFUSED TO CATEGORIZE IRAQI HUMAN RIGHTS ABUSES AS "A PATTERN OF GROSS VIOLATIONS OF INTERNATIONALLY RECOGNIZED HUMAN RIGHTS" DESPITE THE FACT THE STATE DEPARTMENT'S OWN HUMAN RIGHTS REPORT LABELED IRAQ'S HUMAN RIGHTS RECORD "ABYSMAL." THE ADMINISTRATION TOOK THIS POSITION IN ORDER TO AVOID IMPOSING SANCTIONS ON IRAQ THAT ARE REQUIRED PURSUANT TO EXISTING LAW.

SIMILARLY, UP UNTIL THE LAST MOMENT, THE ADMINISTRATION VIGOROUSLY OPPOSED CONGRESSIONAL ATTEMPTS, MOST NOTABLY A MEASURE SPONSORED BY CONGRESSMAN HOWARD BERMAN, TO LEGISLATE SANCTIONS AGAINST IRAQ. HAD THE ADMINISTRATION BEEN FAITHFUL TO THE SPIRIT OF THE LAW AND HAD WE SIGNALLED, THROUGH SANCTIONS, OUR DISPLEASURE WITH IRAQ, WOULD HUSSEIN HAVE BEEN EMBOLDENED TO ATTACK KUWAIT? MY GUESS IS THAT HE PROBABLY WOULD HAVE BEEN LESS INCLINED TO DO SO..

#### THE FAILURE OF U.S. EXPORT CONTROL POLICY

AS OUR TROOPS RACE ACROSS MIDDLE EASTERN DESERTS THEY ARE PUT IN HARM'S WAY BY A PANOPLY OF WEAPONS SOLD TO IRAQ NOT ONLY BY OUR ADVERSARIES BUT BY OUR ALLIES AND EVEN BY OUR OWN NATIONALS. I SUPPOSE THE FACT THAT THE IRAQIS ARE PRIMARILY SUPPLIED BY ARMS FROM THE SOVIET UNION IS AN INEVITABLE CONSEQUENCE OF OUR COLD WAR CONFRONTATION WITH THE SOVIETS. AT LEAST AT SOME LEVEL WE CAN UNDERSTAND THAT. WHAT DEFIES UNDERSTANDING, HOWEVER, IS THE DEGREE TO WHICH THE IRAQIS HAVE BEEN SUPPLIED WITH MILITARY TECHNOLOGY BY OUR ALLIES AND EVEN OUR OWN CITIZENS WITH THE ACTIVE ENCOURAGEMENT OF U.S. GOVERNMENT AGENCIES. NONETHELESS, I COMMEND THE FINE WORK OF THE U.S. CUSTOMS SERVICE AND OTHER AGENCIES OPPOSED TO THE REAGAN/BUSH EXPORT POLICY THAT UNEQUIVOCALLY FAVORED PROFITS OVER NATIONAL SECURITY CONCERNS. FOR EXAMPLE, IN COOPERATION WITH THEIR BRITISH COUNTERPARTS, CUSTOMS SERVICE "STING" OPERATIONS WERE

RESPONSIBLE FOR INTERCEPTING PARTS DESTINED FOR IRAQ ESSENTIAL FOR THE CONSTRUCTION OF NUCLEAR WEAPONS AND A "SUPER GUN" CAPABLE OF LAUNCHING PROJECTILES HUNDREDS OF MILES. WERE IT NOT FOR THEIR EFFORTS, OUR TROOPS WOULD BE IN AN EVEN MORE DANGEROUS POSITION THAN THEY ARE TODAY

UNFORTUNATELY, THESE INTERCEPTS ARE ONLY THE TIP OF THE ICEBERG." WE NOW KNOW THAT IN THE RUSH TO SELL GOODS TO IRAQ, THE GERMANS SOLD TECHNOLOGY ESSENTIAL FOR THE PRODUCTION OF POISON GAS, THE BRAZILIANS PROVIDED TECHNOLOGY ESSENTIAL TO THE TESTING OF BALLISTIC MISSILES, THE FRENCH SOLD ADVANCED FIGHTER AIRCRAFT AND EXOCET MISSILES, AND THE JAPANESE CONSTRUCTED THE SAME BATTLEFIELD BUNKERS THAT ARE NOW THE RESPONSIBILITY OF OUR TROOPS TO ASSAULT. THIS IS, BY NO MEANS, AN EXHAUSTIVE LIST. I AM EMBARRASSED TO SAY THAT EVEN AMERICANS PARTICIPATED IN THIS EXPORT BAZAAR. LET THERE BE NO AMBIGUITY, THE COMMERCE AND STATE DEPARTMENTS BEAR DIRECT RESPONSIBILITY FOR THE QUANTITY AND QUALITY OF MANY OF THE WEAPONS ARRAYED AGAINST OUR TROOPS IN THE MIDDLE EAST. IN ONE OF THE MORE HORRIFIC CASES, THE STATE DEPARTMENT APPROVED, AND THE COMMERCE DEPARTMENT LICENSED, THE SALE OF DISEASE PRODUCING ORGANISMS TO THE IRAQIS BY A ROCKVILLE MARYLAND FIRM IN 1988. THESE GERMS HAVE BEEN USED BY THE DEPARTMENT OF DEFENSE FOR BIOLOGICAL WARFARE RESEARCH. IF THESE AGENTS ARE EVER RELEASED IN BATTLE, HOW GUILTY WILL WE BE.

**THE FAILURE OF U.S. ARMS SALE POLICY**

IN ADDITION, THE GULF CRISIS TEACHES US A LOT ABOUT THE SALE OF ADVANCED WEAPONS SYSTEMS TO OUR ALLIES. FOR YEARS I HAVE CRITICIZED SUCCESSIVE ADMINISTRATIONS FOR THEIR LACK OF A SOPHISTICATED, LONG-TERM ARMS SALES POLICY DESIGNED TO STABILIZE NOT DESTABILIZE THE MIDDLE EAST. THE KUWAITIS PURCHASED MASSIVE (IN PER CAPITA TERMS) AMOUNTS OF SOPHISTICATED AMERICAN WEAPONS TECHNOLOGY IN THE 1980'S THAT PROMPTLY FELL INTO IRAQI HANDS ON AUGUST 2. THE JORDANIANS, WHO WE HAVE SUPPORTED FOR OVER THIRTY-EIGHT YEARS, REPORTEDLY TRAINED IRAQI SOLDIERS ON THE USE OF U.S. HAWK MISSILES THAT WERE CAPTURED FROM THE KUWAITIS. AND, WHILE I APPLAUD THE PERFORMANCE OF THE SAUDI ARABIAN MILITARY DURING THIS WAR, CONTRARY TO ADMINISTRATION CLAIMS, AMERICAN WEAPONS SALES HAVE IN NO WAY INSURED SAUDI SECURITY. IN FACT, HAD WE NOT INTERVENED WHEN WE DID, IT IS LIKELY THAT THE IRAQI MILITARY WOULD BE IN POSSESSION OF THE MORE THAN \$50 BILLION IN AMERICAN WEAPONRY SOLD TO THE SAUDIS. NOW THAT WE HAVE SUPPLIED THE VIETNAMESE, THE IRANIANS, AND THE IRAQIS WITH MUCH OF THEIR WEAPONS STOCKPILE, MAYBE SOMEONE IN THE ADMINISTRATION WILL REALIZE THAT IT IS TIME TO REEVALUATE OUR WEAPONS SALES STRATEGY.

**THE FAILURE OF U.S. ENERGY POLICY**

FINALLY, I WOULD BE REMISS IF I DID NOT POINT OUT THAT THE

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CRISIS IN THE MIDDLE EAST AGAIN HIGHLIGHTS OUR VULNERABILITY TO UNRELIABLE SOURCES OF FOREIGN OIL. THE SO-CALLED "ENERGY PLAN" JUST RELEASED BY THE ADMINISTRATION BLITHELY IGNORES THE EVENTS OF RECENT DAYS. IT IS LOGICAL TO ASSUME THAT AS SOON AS THIS WAR IS OVER, THE PRICE OF OIL WILL PLUNGE AS IRAQ, KUWAIT, AND SAUDI ARABIA PUMP HUGE AMOUNTS OF OIL IN ORDER TO FINANCE THE REBUILDING OF WAR-TORN INFRASTRUCTURES. WITH THE AVAILABILITY OF CHEAP FOREIGN OIL, NOT ONLY WILL THE AMERICAN CONSUMER GET THE WRONG MESSAGE ABOUT CONSERVING ENERGY, THERE WILL BE NO ECONOMIC INCENTIVE FOR DOMESTIC PRODUCERS TO DRILL. FURTHERMORE, THERE WILL BE NO INDUCEMENT TO DEVELOP ALTERNATE SOURCES OF ENERGY, ESPECIALLY BECAUSE THE ADMINISTRATION IN ITS ENERGY PLAN, SHORT-CHANGES MOST ALTERNATE ENERGY RESEARCH AND DEVELOPMENT, WITH THE EXCEPTION OF NUCLEAR POWER. WHAT THIS SITUATION SIGNALS TO ME IS MORE NOT LESS DEPENDENCE ON OIL, AND PARTICULARLY FOREIGN OIL, AS OUR PRIMARY SOURCE OF ENERGY. IT WOULD BE A TRAGIC SHAME IF, IN A FEW YEARS, WE ARE BACK AGAIN IN THE MIDDLE EAST WITH OUR MILITARY FORCES SECURING THE WORLD'S ACCESS TO THE REGION'S OIL. THE ADMINISTRATION DOES LITTLE TO ADDRESS THIS SCENARIO IN ITS ENERGY PLAN

MR. CHAIRMAN, I HAVE MADE THESE POINTS IN AN ATTEMPT TO POINT OUT THAT EVEN AS WE ACHIEVE A STUNNING MILITARY VICTORY, THERE ARE LESSONS TO BE LEARNED AS A CONSEQUENCE OF THIS CRISIS. IT IS MY FERVENT DESIRE THAT WE LEARN MORE FROM THIS WAR THAN THE LESSONS OF BATTLE. I WOULD LIKE TO SEE A LITTLE MORE EMPHASIS,

NOTWITHSTANDING THE EUPHORIA OF MILITARY VICTORY, ON WAYS TO  
AVOID, THROUGH VALID DIPLOMACY, LEGITIMATE LONG TERM PLANNING AND  
POLICY, MILITARY CONFRONTATIONS IN THE FIRST PLACE.

Mr. SMITH of Florida. I would like to welcome today's witnesses and thank them for their testimony. I agree with a great deal of it, and over the years, as a Member of the Foreign Affairs Committee, I have had the opportunity to deal with many of the witnesses.

I would like first to go into some of the things that we have discussed with reference to the lead-up to the conflict. Dr. Klare, I want to agree with you that all of the things that you mentioned set the stage somewhat, I guess shaped the thinking, the perception, of Saddam Hussein and the people of Iraq.

The sales of the helicopters and the other civilian equipment that almost everybody, certainly on the Hill and in other places, knew could be used in dual role with military applications;

The dual use technology; the transfer of the intelligence data; the third party arms sales from allies, et cetera, which we encouraged, to Iraq. Plus, of course, you left out the significant increase in contacts with Iraq, the attempt by the Commerce Department to open up significant new lines of credit, commercial credit extensions, to the country of Iraq after they gassed their own people, after the report of the abysmal human rights record, as it was categorized by Mr. Kelly and other members of the State Department themselves, including the man that wrote it, Mr. Shifter, all of those things occurring at a time when he was obviously shaping his desires and calculating in the balance what we were going to do.

#### MESSAGES SENT TO SADDAM HUSSEIN

Mr. Quandt, I am a little bit puzzled by your testimony. Although I agree with your assessment of April Glaspie in terms of her capability and there is no doubt that there has been some altered transcripts put out by Iraq, you somehow seem to have glossed over other people in the State Department who made strikingly similar statements prior to the time that Glaspie met with Saddam Hussein and subsequent to the time that she met with him.

For instance, just two days before he invaded Kuwait, John Kelly, the Assistant Secretary in charge of the Near East Bureau, came before the House Foreign Affairs Committee on Europe and the Middle East, and talked about the fact. I want to quote because Mr. Hamilton, who is the chairman, asked him what I consider to be the ultimately probing and most important question at that moment.

The date on this, just so we have the record very clear, is July 31st, two days before Iraq invaded Kuwait.

"What is precisely the nature of our commitment to supporting our friends in the Gulf?" This is Mr. Hamilton. "I read a statement, an indirect quotation in the press from Secretary Cheney, who said that the U.S. commitment was to come to Kuwait's defense if it was attacked."

Mr. KELLY. "I am not familiar with the quotation you just referred to, but I am confident in our position on the issue. We have no defense treaty relationship with any Gulf country. We are calling for peaceful resolution of any differences." I am skipping here. "And we respect the sovereignty of every state and we believe that the sovereignty of every state in the Gulf ought to be respected."

Mr. HAMILTON. "Do we have a commitment to our friends in the Gulf in the event that they are engaged in oil or territorial disputes with their neighbors?"

Mr. KELLY. "As I said, Mr. Chairman"—"we have no defense treaty relationship with any of the countries." And more importantly, "We have historically avoided taking a position on border disputes or on internal OPEC deliberations."

Now, you talked about the border post. Mr. Kelly talked about Arab "border disputes."

Then the chairman talked about a hypothetical: "What if, for example, Iraq charged across the border into Kuwait? What would be our position in regard to U.S. forces?"

Mr. KELLY. "That, Mr. Chairman, is a hypothetical or a contingency, the kind of which I cannot get into. Suffice it to say we would be extremely concerned, but I cannot get into the realm of what-if answers."

Mr. HAMILTON. "In that circumstance, is it correct to say, however, that we do not have a treaty commitment which would obligate us to engage U.S. forces?"

Mr. KELLY. "That is correct."

Now, this is a flag-raise of the highest order. It seems to me that we have to be very, very circumspect in terms of what we did prior to the time: making Iraq a buffer vis a vis Iran, sending out these hugely mixed signals. On the one hand, the State Department writes a report that shows an abysmal human rights record; on the other hand, when there is the very strong possibility of an invasion, the State Department says we treat Arab border disputes as Arab border disputes and we have no treaty commitments at all with the state that is threatened.

A few weeks before that, because it is important and instructive on arms policy, on June 20th, which was eight weeks, the administration had brought up a significant sale for review under the Arms Export Control Act, 36[b], to Saudi Arabia.

I might add that I have been and will continue to be—and perhaps I was ahead of my time; I guess timing around here is everything—a staunch opponent of these enormous arms sales. Mindless, I called them, and I still call them, mindless arms sales that are nothing more than an attempt to bribe countries, to persuade them to be western-oriented and to support our views in the region, as Mr. Klare said, well beyond their ability to absorb these arms or to use them for defensive purposes.

We received with the request for the arms sale a briefing by the military, and one of them had indicated that Iran, in response to my question, was a serious threat, the most serious threat to Saudi Arabia, and that was the basis on which the arms sale was being proposed.

Well, Mr. Kelly was here and I asked him the same question, and I asked him what was the country, the most serious threat to the Saudi Arabian integrity. He said Iran. This is June 1990.

And I asked him why ten months before, when they came prior for a previous sale, M1 tanks, they had told us Iraq was the number one threat to Iran and that that sale was to counter that threat. And he refused to abandon the Iranian threat as the reason for this new sale, and he said: "We think Iran is still capable of

great mischief and trouble-making, and we know that they have still been involved in international terrorist incidents," that he was not going to get into the business of stirring up a public feud between Iraq and the Government of Saudi Arabia.

That was Mr. Kelly's position, because I asked him if he was disavowing the previous testimony that he had on Iraq, and he would not.

#### HUSSEIN'S INTERPRETATION OF U.S. POLICY

It seems to me we have to take this into account, because it is apparent to me—and I am certainly interested in your thoughts—that we created this scenario as sure as almost anything else that is sayable or doable in terms of this issue. We created this scenario by virtue of the messages, the communications, the sales, the actions, and the words that Saddam Hussein could see and measure and understand between him and us.

I am curious whether you think we did or did not. I am convinced we did and I am curious whether you think we did or did not.

Mr. QUANDT. Well, I think Saddam Hussein clearly did not expect, after this long list of comments that you have reminded us of, that the United States would react as it did to his invasion of Kuwait. In that sense, I think it is true.

I am not sure, had we changed our tune significantly, that he would have been dissuaded from the intervention in Kuwait. I think deep down Saddam Hussein did not believe that the United States had the stomach for a war in the Gulf that might entail significant casualties.

That is one of the other things he said to April Glaspie. He said: You Americans do not have the stomach for the kind of game that is played out here, where 10,000 casualties may be taken in one battle. So even if we had taken a tougher line, I am not sure it would have deterred him. But all I know is we did not take the tougher line.

Mr. SMITH of Florida. That was a diplomatic error, was it not?

Mr. QUANDT. It was a diplomatic decision. I think we should have had a statement, not just from John Kelly or April Glaspie, but from the President of the United States, early on making it clear that a threat to a state in the Gulf by Iraq was viewed as a very serious matter of concern to the United States.

It is true that we do not have a treaty with Kuwait, but there are ways of answering that question that do not give the impression of indifference.

The one other point I would add to your list—and again, I am not trying to finger any individual as responsible, but you will recall—

Mr. SMITH of Florida. Let me just say, I do not mean to implicate Mr. Kelly.

Mr. QUANDT. No, I was not implying you were.

Mr. SMITH of Florida. No, no, and I do not want the record to infer that I was saying that Mr. Kelly is the sole reason. He was just the representative of the administration.

Mr. QUANDT. He was stating American policy at the time.

Mr. SMITH of Florida. Exactly, exactly.

Mr. QUANDT. But there was also an incident that I find difficult to justify, and that was the occasion where the Voice of America had an editorial that was critical of Iraq and used the example of what had happened to Ceceascu, and that dictatorial regimes can be toppled by their own people and that there were regimes in the Middle East that might suffer the same fate.

Now, it may not have been diplomatically wise to have had that editorial at that particular time, although I think it is a pretty striking parallel. Everybody was talking about it. All the Middle East experts were saying, is it going to be Assad or Saddam Hussein who suffers the fate of Ceceascu.

But we personally went and apologized to Saddam Hussein for that editorial and, as I understand it, rebuked the person who had issued it. Now, I thought that was going a bit too far. Maybe you say, well, this is not an official statement of American policy. But I thought that it gave a signal to Saddam Hussein that we cared far too much about his good opinion. So that was just one more occasion where we need not have signaled the excessive deference to his sensibilities that we seemed to signal.

Mr. KLARE. May I make a few comments? I certainly want to support your comments that you have made about the background to this crisis, and I would argue that it was not just a matter of tactical errors made in the last few months. I think this was a problem that is much more deeply embedded in the nature of American foreign policy, that has occurred again and again—I call it the surrogate doctrine, but you could call it something else—of placing American policy, especially in the third world, not on a country, not on a people, but rather focused on a particular leader whom we view as friendly or as a useful instrument of American policy.

We did that with the Shah, even though there were plenty of warnings that the close relationship that we had with him—overlooking his human rights abuses, overlooking the detrimental effects of his military spending on the Iranian economy—was provoking dissent in Iran. There were reports in Congress to this effect. Yet, several administrations, one after the other, continued to hinge American policy on support of the Shah.

I think the same thing occurred to a lesser extent with Saddam Hussein—we had a policy of aiding Iraq in the Iranian-Iraq conflict for strategic reasons, but that was viewed as hinged on our relationship with Saddam Hussein. And so whatever he wanted, the administration in power, was inclined to support, to assist him in what he was seeking.

This is not a policy that changes quickly. It was continued right into the end of July, even though there were stirrings at other levels of the administration and the Defense Department that this was an unwise policy.

I think the history, the momentum of forging this kind of close relationship with a friendly leader and hinging everything on that relationship continued and produced a momentum that we were not able to correct in time. And I certainly hope that Congress will be aware of this tendency in the future.

Thank you.

Ms. KIPPER. Just to add briefly that this pro-Iraqi tilt I think comes out of looking at the region through a very narrow focus, and I do think that we need to have a regional policy that will also permit us to deal with reality and not with what we wish was there.

I think that a lot of people in the case of Iraq, not only did we have this tremendous anti-Iranian view in this country, but I think that we also saw a lot of economic opportunities in Iraq, because it is the second biggest oil reserve in the area, it has talented and well-educated people, agricultural possibilities, and so on. And Iraq, without all of these wars, could have been the first really developed country.

I think that our commercial interests, while they are understandable, nevertheless I think there are leaders—that there is a point beyond which we can go. We have to stop winking and blinking. The issue of human and civil rights, while we cannot effectively use it as a policy, nevertheless must enter into our assessment of how far to go with individual countries.

#### AID TO JORDAN

Mr. SMITH of Florida. Thank you. I agree with that last statement completely. I think one of the cornerstones of our policy ought to be human rights. That would be very important.

Let me get into the post-war issues with reference to what we just talked about. It is hard to get off the horse you are riding. It takes a long time. Let us focus on Syria. We have invited into this coalition a country against whom the United States has imposed sanctions. It is on the list of countries that sponsors state terrorism. There are only three. It is a country that sponsors and harbors terrorists. At least two or three of the dissident Palestinian organizations are based there.

What do we do about avoiding the possibility of having set up, by virtue of our recognition of Syria for this coalition purpose, Syria against Iraq the same way we set up Iraq against Iran? How do we now avoid the future tendency to be more inclined to deal with unreliable dictatorships and the possibility that they will use U.S. support for their own purposes once again, since they have shown no inclination to do anything else.

And what do we do about Jordan? Is it fair that, after 30 years of American foreign aid and American help and all of the extensions of friendship that we have given to Jordan, that at a time when it was called upon to act in a manner in which the International Community considered to be in the best interests of the region and for peace and stability, it immediately rejected the United States and choose to take sides with a man that has been condemned worldwide?

And do we excuse that solely on the basis that over 50 percent of the population is Palestinian, therefore we can understand what the King did and we do not have to call him to account for it? Is that an excuse the American people should be asked to swallow? I find that rather difficult.

It would be different if we had little or no relationship and we expected a completely moral stand vis a vis Iraq. But what do you

do after you have had a relationship for 30-some odd years, with enormous amounts of aid, military and economic, flowing, and a deep-seated friendship? What do you do?

Mr. QUANDT. Well, I think I have expressed myself on aid to Jordan. I just do not think being punitive, although it might make us feel good, is going to serve our national interests. First and foremost in justifying any decision to the American public, I think it has to be based on not what is necessarily fair, to use your words but on what serves American national interests.

Punishing Jordan today might make us feel that we have settled accounts with the King, who somehow let us down. But I do not see that we are going to be better off in our broad objectives of bringing peace and stability to the Middle East. So I just would not do it, even though in the next round of talks with King Hussein I might say a few words about the extent to which he has jeopardized our ability to keep on supporting him the way we have in the past.

Somewhere in the international community, nonetheless, Jordan needs to find some economic support.

That does not mean a clean bill of health for how Jordan behaved in this crisis. But I also do not think we can wallow indefinitely in the past. We do need to look ahead.

Your other question was about Syria. Again, I think I have had my chance to say a word or two about the nature of our dialogue with Syria. It would be going over these issues from the past, the quarrels we have had with Syria over terrorism, its policies in the region, and our expectation that in the future, if there is going to be any chance of Arab-Israeli peacemaking, Syria is going to have to be part of it.

Now, that makes for a very complicated political discussion, because on the one hand you have to say some very tough truths about how, if Syria continues to support terrorism, if its human rights records remains as bad as it has been in the past, it is going to be virtually impossible to do business with them.

#### ISRAEL AND EGYPT

That has to be put against the record that Syria has negotiated with Israel, has reached agreements and has respected those agreements.

Mr. SMITH of Florida. Golan Heights.

Mr. QUANDT. The Golan Heights. And that Israel is probably more prepared to deal with Syria than any of its other neighbors, because they see a strategic imperative for doing so if the price is right.

So I think the simple answer is we should not go into these talks forgetting the past, but we also have to look and see if there is any reason to sense there is a change.

Let me give you just one historical example I can think of that justified a prudent testing of new possibilities, and that was Anwar Sadat. Anwar Sadat when he came to power was labeled as just the same old Egyptian leader that we had seen before. He, after all, had been Vice President under Nasser. He had never deviated one iota from what Nasser had said and wanted, and when he came to power people said: There is no reason to deal with Egypt; we

should not believe this man when he talks about his willingness to make peace with Israel.

And it took us a very, very long time to understand that the combination of changed personality at the top and changed circumstances meant that Egypt was in fact ready to make a deal. And in fact, I think we missed an opportunity by being too weighed down with our perception that Egypt would never be willing to move from its known positions.

So you have to balance your awareness of history. You cannot ignore it, but you also have to recognize that sometimes circumstances change. And that I think, after all, is politics.

#### SYRIA

Mr. KLARE. Can I just say a few words?

Mr. SMITH of Florida. Go ahead.

Mr. KLARE. Just a quick comment about Syria. I do not think that Syria will be expecting to come to the United States for arms transfers after all this is over. But it might seek, like Iraq did before, technical assistance. And we should bear in mind that Syria has a military-industrial complex not unlike that of Iraq, not identical, but they nevertheless have a large chemical capability. They have built up chemical warheads for their Scud missiles. They have gotten western assistance, as did the Iraqis, to build these capabilities.

And so we need to be very, very careful about any kind of technical assistance that could be used for military purposes in Syria.

#### ARAB-ISRAELI CONFLICT

Mr. SMITH of Florida. Mr. Chairman, would you indulge me one question on the Israeli component here. Just taking the totality of what has just been discussed, and since I do not believe that the Israeli problem vis a vis the Palestinians had anything to do with Iraq invading Kuwait, let us talk about it in the context of the whole region.

Would you say that Israel's insistence that it should negotiate first with Arab front-line states—Syria, Jordan, Saudi Arabia—bilaterally, focus on and then the Palestinian issue will be easier to sell around now that this whole incident has occurred; that the Palestinians may be a little bit more leaderless, looking for some other issues?

I personally feel that there needs to be an Arab-Israeli solution with some of the states, especially Saudi Arabia, before you will ever be able to solve the Palestinian issue, and if this happens, it will be easier to solve the problem of the Palestinians.

Mr. QUANDT. Just briefly on a complicated issue, I think the state to state dimension of the Arab-Israeli conflict does need to be addressed. It has always been strategically the most important part of the conflict, but politically it is difficult to deal with it in isolation from the other part of the conflict, which is the Palestinian-Israeli conflict.

So I guess if I had to place my bets, I would say we have a better chance of having a state to state dimension of Arab-Israeli peace-making than we have had at any time since the Egyptian-Israeli

negotiations, but it cannot be done as the Egyptian-Israeli one was done, strictly as a bilateral discussion between any one Arab state and Israel. It is just not going to happen. Maybe it should, but it is not going to.

So I think the art here is going to be to construct some kind of two-track diplomatic effort, whereby the states are engaged—Syria, Jordan, perhaps Saudi Arabia if we can find an issue for them to talk about—and a second track dealing with Jordan, Palestinians, and Israelis for some kind of an interim step on that front.

I do not think you can totally disentangle the two, but it is certainly true today that we are not going to see an approach taken comparable to the one that was suggested a year ago of exclusive Palestinian-Israeli talks. That approach is dead.

But to rule the Palestinians out entirely or to say that they will only have their issues addressed after all of the states have made peace, that also is not going to work. It is the balance between the two. But I think the state dimension is now more prominent and more realistic than it has been in the past.

Ms. KIPPER. I would say that the two-track approach has been essential in the past and will be even more important in the future. I do not think one can be done without the other.

But overall, from my point of view the most critical part of any approach is consistency, that we stick with it and that we are very active. We have seen in the Middle East that when the United States is not engaged that stagnation always leads to serious trouble and very often to war.

So I think in this next period the United States and some others will need to be extremely active and very consistent in working with the parties of the two tracks, the Israeli-Palestinian to ameliorate the situation there and certainly on an Israeli-Arab state track as well.

Mr. SMITH of Florida. Thank you.

Thank you very much, Mr. Chairman. I appreciate it.

#### HAVES AND HAVE-NOTS

Mr. OBEY. Just three very quick last questions. First of all, I was reading, as we all did, I am sure, Tom Freedman's piece in *The Times* on Sunday, and in that piece he raised the question of whether or not tomorrow is going to look a whole lot like yesterday. Among the cautionary notes he threw out to us was the following statement.

"After this war is over, the haves are not likely to have anything left for the have-nots because of the cost to the Kuwaitis to rebuild their country and the amount of money that the Saudis have already spent or borrowed."

That statement, to the contrary, notwithstanding, all of you have indicated the importance of dealing with that corner to the problem. So what would your response be to the assertion that there is not going to be any money left to deal with the haves versus the have-nots at the end of this?

Mr. QUANDT. Just briefly, it is partly true, but it is a result of choices that have been made of how money should be spent. The Saudis have said that they want to spend some \$13 billion on arms.

Some of that no doubt will be spent, but some of it could equally well be put aside, a billion or two, for other purposes, including regional economic development.

Those are political choices. The balance sheet does not emerge from some mechanistic set of processes. It is the result of political decisions of how people choose to use their resources.

Now, I think one really has to wonder how much security has been purchased by the billions and billions of dollars spent on arms by the Gulf states, including the Saudis, during the 1970's and 1980's. Certainly Kuwait did not have any capacity to defend itself, although it had spent billions of dollars on defense.

I think the time has really come to talk seriously to the Saudis, when they ask us for another \$13 billion worth of arms purchases, as to whether that is the best use of their resources, given the competing demands, including economic redistribution.

There will be, of course, limits to how much the petrodollar states can contribute. But they are not broke and they should not be let entirely off the hook by pleading poverty. It simply does not quite ring true to my ear.

Mr. KLARE. I agree with that.

Ms. KIPPER. As Bill said, it is a question of priorities. But I also think that, not only when they come to us for arms sales that we have to help them change their priorities, but we also should be more careful in our own militarism, of what we suggest to them that they buy.

The way I understand how these arms sales work is that the original premise of what ought to be purchased and in what amounts comes from the United States first. So we also need to have some different priorities.

#### SOVIET BEHAVIOR

Mr. OBEY. The second question: What should we learn from Soviet conduct in the last ten days in this area? What do we think that means in terms of the way they will be dealing with the region after the war, and what does that mean in terms of how we ought to deal with them with respect to the region?

Mr. QUANDT. Well, I come out on the side of this argument saying that on the whole the Soviets have behaved remarkably well in this crisis. If you think of any previous major crisis and compare Soviet behavior in this one to those previous crises, they have been remarkably cooperative in the UN and outside.

The difference that we have had with them over the past ten days has been relatively minor and in my view has not strained the basic fabric of the relationship. I do not happen to believe that Mr. Safire is correct that people are fuming with rage about the Soviet intervention of the last couple of weeks. I think, on the contrary, there has been an understanding that, although we did not agree with the approach they took, that it was not intended to be disruptive, that they had their own national interests that they were trying to deal with, but they did not ultimately cause us unmanageable problems, and I think that is the important bottom line.

So I think that as we look to the post-crisis period we should expect and hope that we can have a degree of cooperation with the Soviet Union on the key issues where we need help. First, in the UN any decision that is going to be made in the Security Council will need their cooperation, if we are going to create a peacekeeping force for Kuwait, as I think will be done. Simply taking actions on what to do in the aftermath of the crisis with Iraq will require some degree of coordination.

#### SOVIET SUPPORT

Mr. OBEY. Let me interrupt. I guess what I am asking is what do you think our policy will have to be in order to have a reasonable degree of support from the Soviets at this time?

Mr. QUANDT. Well, I do not think the Middle East is the top priority for the Soviet Union. The top priority today is of course dealing with their internal affairs and keeping a decent relationship with the United States against the backdrop of what is happening internally.

So I think on the whole they will look to cooperate with us on Arab-Israeli peacemaking, on an arms control regime for the region, provided that we want their cooperation in those areas.

President Gorbachev is not in the position to play very complicated games in the Middle East. He does not have a great deal of influence there. The Soviets do not have money. They clearly are not prepared to send military forces.

There are some things that they could do that would be disruptive, like engaging in large-scale arms sales to make money, which they need. But on the whole, I think we should recognize that the Soviets are signaling a willingness to cooperate to quite a significant extent, and we could probably set the agenda and hope that they will go along with us.

Mr. KLARE. If I may speak briefly, I think that if there is any good that will come out of this whole conflict in the Gulf area, one of the things that is possible is new cooperation between the U.S. and the Soviet Union on the transfer of military technology and arms to areas of instability.

As the United States has been burned by its policy of arming countries in the region, the Soviets have as well. Saddam Hussein was more their customer than he was ours or the French, and that is equally true of other countries that have turned away from Moscow. I think they have seen the risks of building up regional superpowers like Iraq that can then pursue their own interests.

So I think there is a commonality of experience that allows us at this moment in time to sit down with the Soviets and work out some very progressive agreements with respect to controlling the export of arms and military technology. You will recall that in 1977 and 1978 we had a series of negotiations known as the Conventional Arms Transfer Talks, the CAT Talks, which were suspended because of the hostilities in the Persian Gulf area. I think that now is the time to resume those talks and other kinds of bilateral discussions that could lead to a new pattern of cooperation and collaboration in promoting peace by restraining the most destabilizing weapons going into these areas.

**Ms. KIPPER.** I would say that, on the Soviet peace initiative, we will never have the chance to know, but had the land war been postponed for a day or two might there have been enough room for the Soviets to in fact get the Iraqis to agree to the conditions that had been set out by the United States?

There was, after all, a preemptive American strike to prevent the Soviet initiative from working. I do not have any problem with it. I think the Soviets and the United States, will continue to have some competition in areas like the Middle East, but our basic view of the region is not very far apart. And I think the idea of Pax Americana is over with and we are going to need all the help we can get out there, if the Soviets can work with us through the international system we will be much better off for it.

#### HOSTAGES

**Mr. OBEY.** One last question. What, if anything, do you think all of these events mean in terms of American hostages in the Middle East at this point?

**Mr. QUANDT.** Well, one hates to raise expectations that we are about to see some kind of breakthrough, and I have no basis to say that there could be one. But insofar as Iran and Syria may have significant influence over the groups that hold the hostages in Lebanon, I think we at least have the capacity on the diplomatic level to have some very serious talks with both of those countries now in circumstances where they have incentives to show signs of good intentions by helping out.

But I am not sure that the control of the hostages in Lebanon today is exclusively a matter that can be decided in either Damascus or Tehran. It may have devolved to the point where the hostage holders are simply beyond control, and if that is the case it depends on very specific local circumstance.

**Mr. KLARE.** I defer.

**Ms. KIPPER.** I agree with all of what Bill has said, but I would also add that part of getting those hostages released will be the atmosphere after the war is over and the continued statement by the United States that our troops are not going to be staying permanently in the region.

This is an area of the world that has been crisscrossed by foreigners for centuries. There is an extreme sensitivity to having foreign troops in the area and, while we may maintain a small presence and certainly equipment and materiel, it will be very, very important to begin to talk about the withdrawal of foreign forces from the region and to state our intention to take diplomacy seriously to try to ameliorate some of the problems that existed before and are really a lot worse after.

**Mr. OBEY.** Thank you.

Matt, any last questions?

#### AID TO ISRAEL

**Mr. McHUGH.** One question. The panel this morning was focused on how we got into this crisis and I think you have helped us tremendously in understanding that. But we have inevitably taken advantage of your expertise to ask about future policy issues.

Again, bearing in mind that this is a foreign aid subcommittee, we are going to be faced with respect to aid to Israel with at least two questions beyond the current level of assistance. The most immediate one is whether to provide additional foreign assistance, military assistance, to enable the Israelis to recoup expenses that they have incurred on alert, so to speak, during this crisis. I think I heard on the radio this morning there has been a formal request of the State Department by Israel for a billion dollars, which presumably would be included in the Desert Storm supplemental request not subject to the budget ceilings.

What do you think about that in the context of what you have said about the arms situation in the Middle East? And secondly, there has been no formal request yet, but I am sure that Israel's primary concern at the moment in terms of its economy is how to absorb the enormous number of refugees that are coming into the country. Undoubtedly this is putting a tremendous strain on the economy.

At some point I know that Israel will be looking to its friends, and particularly the United States, for some assistance, perhaps housing guarantees, to enable them to resettle these folks in the short term. What do you think about that proposal, although it is not a formal proposal yet, particularly in the context of what you have said about the political issues involving the Israelis and the Palestinians?

Mr. QUANDT. I think both requests for military and supplemental housing guarantees are really a reflection of the hard-pressed Israeli economy. After all, Israel has not expended any military resources, hardware, in this war, but there have been economic costs from being on alert and so forth.

So we really have to look at the Israeli economy and make a decision as to how much we as Americans feel obliged to help them deal with temporary economic strains, the military ones caused by the crisis, and how much we are prepared to help them deal with the very long-term and very big challenge of absorbing Soviet Jewish immigrants.

I guess I am inclined to say, on the latter, on the housing guarantees, that the administration was correct to try to be fairly tough-minded about the conditions under which any such housing guarantees would be offered, because there is a serious question of what we are being asked to subsidize. Is it housing within Israel pre-1967? Is it in the occupied territories? Is it in disputed territories?

And unfortunately, I do not think we got an entirely clear set of assurances on exactly what was meant. Even if we did get entirely clear assurances, quite frankly, as long as any continued settlement activity takes place, new settlements being built in the West Bank and Gaza, we are indirectly subsidizing that process by releasing funds that will make it easier to use funds to the West Bank.

In this fairly delicate moment of diplomacy I would want very tight assurances that no new settlements were being constructed as a condition of any new housing guarantees, because of the fungibility issue. We all know that is the reality. Whatever assurances we get on a green line, we will always find that our definition of the

green line is not identical with the Israeli definition of the green line.

So I think that the simple proposition has to be that for this period the funds can be only made available in conditions where no new settlements are being constructed, period. And if the Israelis are not prepared to accept that condition, they should not get the additional support.

Mr. KLARE. Just briefly, I do not feel able to comment on the general economic situation in Israel and what our assistance should be in its political context. But with respect to military aid, I think that the U.S. wants to be sympathetic to Israel's concern about missile attacks, for very obvious reasons, and Israel, as you know, has a project under way to develop an anti-missile defense system, which the U.S. might also want to co-develop with them.

I could see an argument for continuing work on that. But I would be opposed to giving Israel any favored status in terms of military aid when we are not going to be doing the same with any of the other countries in the area and should not.

I subscribe to Representative Hamilton's view that the best approach for the whole region is a moratorium on arms sales to all countries, and if we make exceptions for Israel that will make it impossible to impose those kind of restraints on anyone else, and it will encourage those countries to turn elsewhere and so we will be in a worse mess.

So I think that there should be a moratorium on all arms transfers to the area, with the exception of weapons that might be usable for defense against missile attacks and chemical weapon attacks and that sort of thing.

Ms. KIPPER. It seems to me that we have come to the point where we have a very long agenda of items which we need to discuss with Israel at the highest levels over a period of time, because we have agreed to disagree on some issues, settlements and other things, for a very long period of time.

I do not think those things can be fudged any more. I think we have to say to each other where the limits are and what is the commitment as well. I think Israel is often very nervous about the special relationship with the United States because the Israelis are not really sure what is the content of the American commitment. After this war I think that will be a little bit more clear and also where the limits are.

And I think the time has come on peace issues, on economic issues, and certainly major and urgent strategic issues that the United States and the Israelis really need to engage in the kind of friendly, trusting dialogue that used to characterize the relationship, so that we can get back on track even where there are differences between us. And certainly any future economic aid and security assistance should be seen in that context.

Mr. McHUGH. Thank you.

Mr. OBEY. Thank you very much.

Let me simply say that I agree with much of what both of you have said. I really believe that we have crossed a threshold. It is one thing to continue to fudge issues and understandings. It is one thing to agree to disagree on some basic problems as long as there is no direct impact on the United States.

But we have crossed a threshold with the loss of American lives in that region, and it simply seems to me that, while the world has, and our friends in the Middle East certainly have, a right to expect our leadership, we also have a right to expect their cooperation on some very basic issues.

To me that means that, while I am certainly willing, in the context of conduct which leads to a more stable area, to consider any request for funds for the Arabs or the Israelis, that with respect to, for instance, funding the international bank, which I happen to think conceptually is a good idea, I am not going to be eager, in fact I am going to be incredibly reluctant, to fund any financial initiatives or to support any arms sales whatsoever to any country in the Arab world until we have a better set of understandings about their future conduct, not only on bilateral issues but also with respect to their willingness to deal realistically with the fact that Israel is there forever.

Secondly, with respect to the Israelis, it was my notion that last year provided the addition money for housing guarantees. I think we did the right thing because I think we have a moral obligation to assist any Jew who wants to get out of the Soviet Union, given the past history of that society.

But I also think Israel has a concurrent obligation to us when we do that to assure that the settlement of refugees is not going to cause problems to our national interests and cause problems in terms of resolving outstanding problems in the area. So there again, you are going to find me extremely reluctant to provide that or any other additional assistance above existing levels for Israel as well as the Arab world, until we get the kind of understandings, with respect to settlements, which cannot be used by forces which want to inflame the region and will take any excuse they can to do it.

So I guess I end where I began the hearing, by saying that the issue has never been whether we would win the war; the issue has always been whether we would have the guts and the judgment and the subtlety and the tenacity to insist on actions that we know are necessary to secure some stability for the region, because if we do not do that we will betray every single American who has lost his or her life in that part of the world, and I do not think Congress ought to be in the business of doing that.

I appreciate very much the time you have given us today and would simply say that tomorrow at 10:00 o'clock we will hear from Bob Hunter, Martin Indike, Edward Luttwak, Richard Murphy, Laurie Milroy, and Dmitri Simes on the future of the region.

Thank you very much. I appreciate your time.

[The following material was submitted for the record by Congressman Smith of Florida:]

[From the Forward, Jan. 15, 1991]

#### GROUNDING THE HAWES

(By Douglas M. Bloomfield)

When—not if—Israel strikes back at Saddam Hussein, its air force may have to cross Jordanian airspace. Israeli pilots will be able to thank the U.S. Congress that the trip will not be as dangerous as it could have been.

That is because for the past 16 years, Congress has beaten back repeated efforts by Presidents Ford, Carter, and Reagan to provide the Hashemite kingdom with a top-of-the-line American-built air defense system:

During his first visit to the Reagan White House in 1981, Prime Minister Begin was asked by the president why Israel and its friends in America objected to his desire to sell high-tech American weapons to Israel's neighbors so they could defend themselves from Communist threats. Mr. Begin responded that the Arabs rarely if ever used American arms for such purposes, but frequently turned them against Israel.

In 1966, President Johnson assured Israel that he had King Hussein's personal commitment that new American tanks being sent to Jordan would not be used to attack the Jewish state and would not be sent to the West Bank, then occupied by Jordanian forces. In the 1967 Six Day War, however, Israel captured many of these tanks on the West Bank and as they crossed into Israel.

Today King Hussein has allied himself with Saddam Hussein in the Gulf war. He has declared, "We are determined to do whatever we can to make sure our airspace is not violated by any side." Yet when faced with evidence that Saddam had sent his Scud missiles across the Hashemite kingdom to strike targets in Israel, the king first denied it had happened and then refused to condemn the act. Instead, he threatened to shoot down any Israeli planes on their way to retaliate against Iraq.

To do that, he would depend on SAM anti-aircraft missiles bought from the Soviet Union, but would not be able to use his American-built Hawk missiles. The Hawks, among the most effective mobile anti-aircraft missiles in the world, are set in cement, where they easily can be avoided by Israeli planes.

That is not what King Hussein or President Ford wanted. In 1975, Mr. Ford sought to sell Jordan \$354 million worth of Hawk batteries along with Vulcan mobile anti-aircraft guns and Redeye shoulder-fired anti-aircraft missiles. The mobile Hawk batteries could provide an effective umbrella to protect an advancing army.

The late Benjamin S. Rosenthal, a Democratic congressman from New York, a leader of the opposition to the Hawk sale, pointed out that King Hussein was able to resist Arab pressure to join the 1973 war against Israel by pleading that he lacked a first-class air defense system. Mr. Rosenthal declared that the administration's desire to provide such a system in 1975 amounted to an unavoidable invitation for Jordan to join any future Arab-Israeli war.

In the face of strong Congressional opposition, the Ford administration agreed the Hawks would be taken off their mobile carriers and planted in cement.

As Jordan continued to ask for the Hawks to be modified to make them mobile, and Congress continued to oppose the requests, President Carter in 1979 upgraded the quality and effectiveness of the fixed Jordanian batteries.

Ronald Reagan was sympathetic to King Hussein's requests for several squadrons of F-16s, 26 new mobile I-Hawk batteries plus modification of the old ones, M-1 Abrams tanks, air defense radars, Sidewinder missiles, and more than 1,600 shoulder-fired Stinger missiles. However, the king once again encountered overwhelming bipartisan opposition in Congress.

In 1982, led by Sens. Kennedy, Democrat of Massachusetts, and Heinz, Republican of Pennsylvania, a majority of the Senate went on record opposing such a sale in the absence of tangible moves by Jordan to make peace with Israel. There was a general feeling on Capitol Hill that the king was all talk and no action when it came to peace with Israel.

The following year, the Reagan administration entered into secret negotiations with the king to set up a \$22 million, 8,000-man Jordanian Rapid Deployment Force. When the plan became public, it collapsed of its own weight. Arabs feared it would be an American mercenary force, and Israelis worried that instead of deploying east toward the gulf to rescue a threatened sheikdom, the JRDF might get in the desert and turn west toward Israel. The package was to include satellite ground stations for real-time intelligence sharing, something America still refuses to provide Israel.

In 1985, a foreign policy adviser to Prime Minister Peres came to Washington and secretly lobbied for the Jordan arms sale among friends of Israel. It was never clear for whom he was speaking, but he got little sympathy outside the State Department. Most pro-Israel congressmen and political activists continued to insist the king show more movement on the peace front before his Hawk missiles would be made mobile or he received F-16s.

During the mid-1980s, the Reagan administration repeatedly attempted to revive these sales, in whole or in part, but consistently met firm congressional resistance. Congress reaffirmed the Kennedy-Heinz resolution and wrote into foreign aid legislation an amendment by Rep. Larry Smith, a Florida Democrat, linking the sale of

new air defense weapons to Jordan to the kingdom's commitment to recognize Israel and engage it in serious peace negotiations.

With much coaching from the State Department, the king declared in late 1981 that he was prepared to negotiate "promptly and directly" with Israel, but he went on to insist on a string of unacceptable conditions. The administration threw in the towel.

As part of its alliance with Iraq, Jordan has reportedly permitted Iraqi aircraft to fly reconnaissance missions along its border with Israel, and Iraqi intelligence officials have been stationed in Jordan to monitor Israel and gather information. American intelligence officials report Jordanian technicians and air defense crews have been training Iraqi crews on the use of captured American-made Kuwaiti I-Hawk batteries. Since the same missile is in the front line of both American and Israeli air defense systems, this means Jordan has given Iraq valuable information and weapons to use against Americans, Israeli and allied planes.

When Israel's air force goes after targets in Iraq, it will face many threats. But thanks to the U.S. Congress, it will not encounter some of the most dangerous in the world—the mobile I-Hawk missile and the F-16—if it has to cross Jordanian airspace to get there.

EXCERPT FROM A HEARING AND MARKUP BEFORE THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST OF THE COMMITTEE ON FOREIGN AFFAIRS, HOUSE OF REPRESENTATIVES ON DEVELOPMENTS IN THE MIDDLE EAST JUNE 20, 1990

#### THE THREAT TO SAUDI ARABIA

Mr. SMITH of Florida. Oh, absolutely not. We wouldn't want you to do that.

Oh, one other question. Military sales have been of interest to your Administration and the previous Administration and to us for quite a long time and we hear all of the same stories back and forth over the years about threats and so on, but can you tell me, from your experience, your understanding, what country is the single most threatening to Saudi Arabia at this point?

Mr. KELLY. I think Iran, sir.

Mr. SMITH of Florida. Iran?

Mr. KELLY. Yes.

Mr. SMITH of Florida. Last year it was Iraq, about nine months ago when you came up here with your request for M-1 tanks. Can you tell me why it changed?

Mr. KELLY. Well—

Mr. SMITH of Florida. We were told last year that they were arming against Iraq.

Mr. KELLY. That was not my testimony, Congressman.

Mr. SMITH of Florida. Are you disavowing the testimony of others, do you?

Mr. KELLY. I believe you asked me about this last autumn and you asked me whether Mr. Clark of the PM Bureau and I talked to one another and I said yes, but that I wasn't going to get into the business of stirring up a public feud between Iraq and the Government of Saudi Arabia, and that is still my position.

Mr. SMITH of Florida. So now, as far as you are concerned, Iran is the single most important threat to Saudi Arabia.

Mr. KELLY. That is correct.

Mr. SMITH of Florida. The fact that Iran has reduced capability significantly, has not made any threatening gestures, and Iraq is continuing to build itself up and is trying to import long guns, is trying to import crytron, not krypton—I think you said krypton—krytron switches and that means nothing, it is still Iran.

Mr. KELLY. Well, I think Iran is still capable of great mischief and trouble-making and we know that they have still been involved in international terrorist incidents.

#### MILITARY COOPERATION BETWEEN JORDAN AND IRAQ

Mr. SMITH of Florida. Okay, now, we know Jordan and Iraq have undertaken highly visible steps to expend military cooperation including the creation of a joint air force squadron and a joint army brigade, correct?

Mr. KELLY. I am not sure that is correct, Congressman. I know that they are doing joint pilot training. I do not know that they have formed a joint air force squadron.

Mr. SMITH of Florida. What is the current status of military cooperation between Jordan and Iraq? Is there any joint force?

Mr. KELLY. Not to my knowledge, but I would be happy to check that and supply something for the record.

Mr. SMITH of Florida. Would you please?

Mr. KELLY. Yes, sir.

[The information follows:]

"Iraqi-Jordanian military cooperation centers around joint training. We do not believe the two countries have formed an operational joint air squadron, an assurance confirmed by the Jordanians. The joint training, which takes place in Iraq, appears designed to give Jordanian pilots additional flight time which Jordan could not otherwise afford. The training is on Mirage F-1 aircraft (French), which both countries possess. We are not aware of any plans to expand this training program."

[From Expose (NBC) Feb. 26, 1991]

This grainy video, from Iraqi TV, shows a test firing of Saddam Hussein's ultimate dream weapon: a ballistic missile that could travel between continents. And in the control room, American computers monitor the missile's progress. The computers got to Iraq with the approval of an agency of the United States government: The Department of Commerce. Thousands of miles from the gulf, this is the Department of Commerce, one of Washington's sprawling bureaucratic mazes. It takes the census, forecasts the weather and was supposed to control what gems of American technological got into the hands of Saddam Hussein. This is Robert Mosbacher. He's is Secretary of Commerce, head of the department responsible for millions of dollars of civilian and military exports to Iraq.

This is Dennis Kloske, one of Mosbacher's top lieutenants. He's supposed to monitor the exports so that nothing dangerous gets out.

And this is Michael Manning, a Commerce Department official whose job is to help American companies line up lucrative deals overseas.

All three of these officials—public servants paid with our tax dollars—attempted to run or hide when Expose tried to talk to them about a scandal brewing in the corridors of the Commerce Department and beyond.

SOT WILLIAM VON RAAB. There are two reasons why a bureaucrat will not talk to the press. One is security reasons, which are legitimate. And secondly, they're embarrassed because they've made a mess of something.

William Von Raab was Commissioner of Customs under President Reagan. He tried to crack down on dangerous exports.

SOT WILLIE. In this case, I think they ought to be embarrassed.

Question. Embarrassed for what? SOT Von Raab: For doing something that the American people think is not only wrong but shocking.

What many find wrong and shocking is that the Commerce Department aggressively pushed the sale of sophisticated American hardware into the hand of Saddam Hussein.

SOT VON RAAB. The Commerce Department, for years, has pandered to the venal businessman whose desire were just to increase profits . . . and they too often placed national security second to profitability. Some of the Commerce Department's most bitter critics have been senior officials at the Customs Service and here at the Pentagon. They told Expose that the Commerce Department repeatedly ignored warnings that what was being sent to Saddam Hussein by American companies was being used to build nuclear and chemical weapons. Richard Perle was Assistant Secretary of Defense under President Reagan.

SOT PERLE. The Commerce Department at one time or another has fought with the U.S. Customs Service, has fought with the Department of Defense, and has fought with the Department of State, it has fought with the Central Intelligence Agency.

Question. Why?

SOT PERLE. Bureaucratic turf. This internal Commerce Department document, obtained by Expose, reveals how the Commerce Department told the Pentagon that it had no business meddling in some of the most dangerous export control issues the government ever faced:

Quote: The development of biological and chemical weapons as well as missile technology . . . are beyond the preview of (Defense Department) . . .

In the last several months, as military and intelligence officials scrambled to assess Saddam Hussein's military strength, Commerce Department officials have tried to keep the lid on their potentially embarrassing decisions.

These secret Commerce Department documents, obtained by Expose, are stamped with a solemn warning: Unauthorized disclosure is prohibited by law. The documents disclose dozens of American deals with the Iraqi government, the Department approved.

The inventory is chilling. Trucks and navigation radar to the Ministry of Defense in Baghdad. Bacteria and fungi to the Iraq Atomic Energy Commission. Computers

to the Ministry of the Interior, which runs Saddam's dreaded secret police. All approved by the Department of Commerce.

**SOT PERLE.** Every one of these items—bacteria, computing equipment, chemicals—all of these things have military applications. Now you've got to be a fool to deal with the Iraqi Atomic Energy Commission without the utmost care. Michael Manning is the Commerce Department official who encouraged this company, Consarc Corporation of New Jersey, to sell several state-of-the-art industrial furnaces to an Iraqi ministry run by Saddam Hussein's son-in-law. Before the deal Consarc's President warned Commerce that the ovens could have nuclear potential.

Former Pentagon official Stephen Bryen:

**SOT BRYEN.** The president told the Commerce Department officials in clear terms that the equipment can be used, without modification, on zirconium, for which the principal end use is nuclear. Let me go back to that. Principal end use is nuclear. Yet Commerce Department officials chose to believe Iraq's official explanation, outlined in this press release from the Iraqi Embassy.

**Quote:** Iraq needs these furnaces in producing artificial limbs for the thousands of unfortunate people who lost limbs during the eight year war with Iran and finds it most inhumane to prevent or delay the acquisition.

**SOT PERLE.** You don't have to be a genius to know that Saddam Hussein was not looking to help the handicapped. Government sources told Expose that the Commerce Department was still keen on the Consarc deal only weeks before Iraq invaded Kuwait. The shipment was cancelled only after Pentagon officials made a direct appeal to the White House.

**SOT BUSH.** "...And so we...stopped the export of furnaces that had the potential to contribute to Iraq's nuclear capabilities. And then there is the vital matter of satellite reconnaissance...Pictures taken by spy-in-the-sky satellites are crucial sources of information for modern intelligence agencies, and American spy satellites are the best.

**SOT:** Good morning. International imaging system.

We now learn that Iraq has bought advanced satellite computers from this company, International Imaging Systems of California.

**SOT BRYEN.** The official excuse was that it was, was to be used to study forestry in Iraq. Our worry was that it would be used by the Iraqis to target their neighbors and also to target our own ships then operating in the Persian Gulf..Fact is was that it was licensed in 1987. We we never told about it. I only learned about it about a week ago.....And they went ahead and licensed it again another copy of it in February of 1990.

That was just six months before Iraq invaded Kuwait.

Of course, the Commerce Department was not alone in fostering warm relations with Iraq. Strong factions inside the Bush Administration, and the Reagan Administration before it, argued that America needed a friendly Iraq to play off against the Islamic fanatics of Iran. Last April, right before one of Iraq's most joyous occasions—the birthday of Saddam Hussein—a group of prominent U.S. Senators, with White House blessing, travelled to Baghdad. There, they had more especially kind words for the Iraqi leader.

According to a an Iraqi transcript of the meeting, a Senator Howard Metzenbaum was impressed by the Iraqi strongman.

**Quote:** I am now aware that you are a strong and intelligent man, and that you want peace. Alun Simpson of Wyoming told Saddam:

**Quote:** I believe that your problems lie with the Western media, and not with the U.S. government. All these nice words which the Senators claim were taken out of context came just four months before Saddam Hussein invaded Kuwait.

**SOT PERLE.** A lot of people were wrong about Saddam Hussein. What's unforgivable is that we put in his hands....technologies that we shouldn't put in the hands of any leader with a record like Saddam Hussein's, whether we thought him an immediate threat or not.

**Question.** So the things we approved for export to Iraq we're staring at today.

**SOT PERLE.** Oh yes. The difference is the people who wrote, wrote the licenses are not in the desert.

## DEADLY CONTAGION

(By Eric Nadler and Robert Windrem)

On a bend in the Tigris River, thirty-seven miles southeast of Baghdad, stands the suspected home of Saddam Hussien's biological weapons program. French satellite photos taken two years ago reveal a military-style complex near the small town of

Salman Pak, complete with laboratories and large outdoor pens for animals, all surrounded by high walls. Although what goes on there remains a classified mystery, intelligence sources say Iraq now has the capability to deliver significant quantities of deadly organisms via bombs, rockets, and missiles. It has been reported that West German, French, and Soviet technology and equipment have aided Hussien's biological—as well as his nuclear and chemical—weapons endeavors. What has escaped all but minor congressional notice is the U.S. government's possible complicity in building up Saddam's biological arsenal.

Analysts first saw clues to the Iraqi program in the suddenly accelerated pace of development of the country's pharmaceutical sector in the mid-1980s. In a report on Iraq's chemical and biological programs, W. Seth Carcus of the Washington Institute for Near East Policy mentions the establishment of the Al-Kindi Company for Serum and Vaccine Production in Baghdad; the planning of the Arab Company for AntiBiotic Industries (a joint venture presumably now in jeopardy between the governments of Iraq, Jordan, and Saudi Arabia); the creation of an Iraqi State Company for Drug Industries; and an announcement by Iraqi biotechnologists that they were building a biological "research station" in the southern marshes that would incorporate a genetics research lab.

The Iraqis used analogous fronts to build their clandestine chemical weapons program. At the notorious State Establishment for Pesticide Production in Samarra, seventy miles north of Baghdad, the Iraqis churned out chemical warfare bombs used against Iran and the Kurds. This plant is now suspected of also producing bomb assemblies for biological agents at Salman Pak, where anthrax and botulin toxins—two bio-warfare mainstays—have been produced since 1987, according to U.S. intelligence agents. Anthrax causes fever, shock, and, if inhaled, has a mortality rate of between 80 to 100 percent. Botulism, often fatal, causes vomiting, convulsions, and paralysis. U.S. intelligence sources now also suspect that meningitis and yellow fever are being produced at the site.

Against this backdrop, in late 1988 Senator John McCain's office got wind of the activities of a nonprofit company in Rockville, Maryland—the American Type Culture Collection. The firm has the nation's leading collection of cultured diseases, and acts as a library of microbes for institutions all over the world. With a staff of 217, it curates and manages 1,000 different strains useful in public health programs. The ATCC sells approximately 130,000 cultures annually and ships orders to sixty nations; according to director Robert Stevenson, Iraq has been a customer for twenty years.

In January 1989, at the request of McCain, the State Department investigated ATCC's tularemia sales to Iraq. "We got a clean bill of health" from State, says Stevenson. All of the material sent abroad, he insists, received the proper export permits from the Department of Commerce and a review committee from State and Defense.

But investigators from the House Subcommittee on Commerce, Consumer, and Monetary Affairs have questions about seventeen shipments over the past five years of attenuated strains of various toxins and bacteria to Iraq's Atomic Energy Commission. The commission is located near the rubble that was once Iraq's Osirak nuclear reactor, and is believed to be procuring components for biological weapons. No analyst concerned with Iraq weaponry at the Pentagon or in the intelligence community saw these seventeen export applications. Commerce did send two other ATCC licensing requests over to the Pentagon; they were returned with an implicit recommendation that they not be approved, and they weren't. Congressional suspicions were heightened by disclosure that the seventeen export licenses were approved very rapidly—three or four days in most cases—and that some of the material desired by Iraq was relatively expensive: \$8,000, in one instance.

Stevenson refuses to identify exactly what he has sent to Iraq. "We're like a Swiss bank that way," says the affable 64-year-old curator. Stevenson, as it happens, heads the Commerce Department's advisory committee on biological exports; it took his word when he insisted there's nothing to worry about, claiming that the materials he sent are of no use for biological warfare. But even Stevenson concedes that ATCC cultures would be "useful" in a biological warfare program as "reference points" to determine if the deadly strain under development is the real thing. Iraq might also want them to develop vaccines to make its troops immune from the biological equivalent of "friendly fire."

There is no clear evidence that these shipments went to an Iraqi germ warfare program, but there is a scary sloppiness in sending known bio-warfare agents to a warring nation with a reputation for supporting terrorism. Stevenson admits he really can't be sure who's using his microbes: "We're not an international police

agency, and we don't have one that we can depend on. We do what we can to make sure responsible people are getting these materials.

Last October Representative Doug Barnard, chairman of the Subcommittee on Commerce, served subpoenas on the Commerce Department for all information on biological exports to Iraq. Commerce provided only limited data to the subcommittee, and has refused a Freedom of Information Act request by TNR to make this information public, saying the "national interest" would not be served in releasing it. One congressional aide called Commerce's stonewalling "pathetic." Its secretiveness, he says, can be attributed to "national embarrassment, not national interest."

The laid-back attitude of the government's biotechnology fraternity extends to the U.S. Public Health Service. Last April NBC broke the bizarre news that during the 1980s PHS's Centers for Disease Control shipped deadly viruses via Express Mail to researchers in Iraq, South Africa, Cuba, the Soviet Union, and China—all nations suspected of biological warfare research—ostensibly for public health reasons.

The virus requested by, and supplied to, an Iraqi researcher in Basra was an Israeli strain of West Nile encephalitis. The virus had been the subject of a long-term vaccine research project in Israel supported by the U.S. Army because of its potential as a bio-warfare agent. The same virus was a cause of concern inside the Israeli defense forces medical corps due to outbreaks in Negev desert posts in the early 1980s. When NBC asked the CDC to provide documentation of these exports under the Freedom of Information Act, the center said it had no records, since such transfers are handled "informally." Remarkably, CDC staffers expressed no fear that the exported agents (all Biohazard level 3 and 4 materials—the deadliest classification) would be used for germ warfare, "because we know these people," as CDC spokesperson Gayle Lloyd breezily put it. She called any biological war scenario "far-fetched." The Israelis were not so sanguine, privately expressing shock at the transfer. And President Bush ordered national security adviser Brent Scowcroft to investigate. (Since NBC's report aired, "there have been no further biological shipments to Iraq," says Chuck Fallis of the CDC.)

The chance of the Iraqis using biological weapons depends, of course, on effective delivery systems. The Iraqis have cluster bombs, the weapon most likely to be adapted for biological use; and they have BM-21 rockets, provided by the Soviet Union. The BM-21s, however, have a short range of fifteen miles and are vulnerable to U.S. aerial bombardment. And the use of either delivery system is precarious. Experts cite the unpredictable behavior of a biological agent once dispersed, the fact that no vaccine for your own troops is 100 percent safe or effective, and the time factor—it would take between two to four hours and six weeks (depending on the agent) for the organism to cause disease. But biological warfare does have ready uses for terrorists. Already the U.S. Department of Health and Human Services as well as the Department of Agriculture regularly conduct exercises on how to deal with terrorist biowar attacks on our shores. An equally likely terrorist target will be Israeli cities.

These terrible scenarios have caused the predictable ripples in the political arena. The hawks, such as former Defense Department official Frank Gaffney, lament the present state of U.S. biowar preparedness. Gaffney, who now heads the Center for Security Policy in Washington, calls the Defense Department's biowar defensive planning "little more than a vestigial, indeed pathetic" operation and urges a "crash program" to counter the Iraqi threat. The military's biowar budget is difficult to decode, given its diversified nature. But Pentagon-watchers calculate that spending on biological defense rose drastically under the Reagan presidency, enjoying an average increase of 37 percent annually from 1980 to 1985, peaking at \$90.6 million in 1985 and remaining at a similar level thereafter. Meanwhile, the doves, such as the Council for Responsible Genetics, are praying for peace and worldwide ratification of the 1972 Biological and Toxin Weapons Convention, which prohibits the development, production, stockpiling, acquisition, retention, and transfer of bioweapons. (The convention has been ratified by 110 nations; Iraq has signed but not ratified it.)

For the immediate concerns in the Gulf, U.S. countermeasures are under way. American troops were issued gas masks and are being inoculated against the suspected biohazards in Hussein's arsenal. Doctors at the U.S. Army Medical Institute for Infectious Diseases in Fort Detrick, Maryland, have formed a special squad to make lightning diagnoses of illnesses felling American troops in the Gulf.

These preparations in the deserts of Arabia signal that biological warfare—a horror out of sci-fi pulp—has arrived. "It is one of our biggest collective nightmares, an attack of deadly invisible bugs," observes Dr. Raymond Zelinskas of the Maryland Biotechnical Institute. Although no one knows the full extent of Hussein's biowar capabilities, his propensity to deploy weapons reviled and outlawed by the world community—even upon his own citizens—is completely clear.

Eric Nadler is investigative editor of the public television newsmagazine *South Africa Now*. Robert Windrem is a field producer for NBC News.

[From the Financial Times, Sept. 19, 1990]

## UNITED STATES OFFICIALS IGNORED OBJECTIONS TO DUAL-USE EXPORTS TO IRAQ

(By Alan Friedman)

The US Commerce Department brushed aside explicit objections by the Pentagon and approved as many as 14 export shipments to Iraq between 1985 and 1990 that directly helped Baghdad's development of nuclear, chemical and ballistic missile capabilities.

According to documents obtained by the Financial Times and confirmed by officials of the Bush administration, the exports included "dual-use" equipment—seemingly for civilian use, but with direct military application—that went to the development of Iraq's non-conventional weapons arsenal.

More than anything else the shipments of militarily useful computers, defense electronics and related equipment offer evidence of a breakdown in the US system of export controls.

The State Department is normally responsible for reviewing items specifically contained on its list of munitions, but in cases of dual-use exports to Iraq, the Commerce Department, which issues the license, would consult the Pentagon for an opinion on their military potential and the State Department on the foreign policy considerations.

When there is a difference of opinion the export in question is supposed to be discussed between the departments or even sent to the White House for an inter-agency review.

Pentagon officials involved in the process have alleged that in most of the 14 cases their advice was an explicit objection that was subsequently ignored by Commerce, which went ahead and allowed the goods to be sent to Iraq, often without informing Defense of the decision. Officials at State said they did not necessarily see all of the cases.

The allegations come amid a debate in Congress over how to tighten US export controls to nations such as Iraq that are considered nuclear missile proliferation threats.

The Commerce Department, led by Mr. Robert Mosbacher, secretary of commerce, is fighting a rearguard action to fend off criticism and to protect its primacy in the export control review process. The shipments occurred not just during the Iran-Iraq war—when US policy tilted in favour of Iraq—but well after its ending in August 1988.

Mr. Stephen Bryen, the deputy under-secretary of defense for trade security policy from 1985 to 1988 who personally handled some of the cases, accuses the State and Commerce departments of irresponsible behaviour in the face of clear evidence the exports were of vital military use of Iraq.

"Commerce overrode all of these cases and never even told Defense about the decisions," Mr. Bryen charges. "They disregarded five years of thorough technical and intelligence evaluations by Defense and the CIA."

US export control policy throughout the 1980s was targeted towards the East bloc rather than the Third World. Commerce officials deny improper behaviour.

Although not missile-related, the most recent case of a dubious planned US shipment to Iraq occurred on July 30, 1990, just three days before the Iraqi invasion of Kuwait. West Homestead Engineering, a Pennsylvania company, had obtained a Commerce Department license in 1989 to export to Iraq forges and a related computer that defense officials say could be used to manufacture 16-inch gun barrels.

Lawyers for the company met State Department officials, who said they had no objections to the export, but Mr. Bill Cook, the company's president, says he was worried about what use Iraq might make of the equipment and decided in any case to voluntarily cancel the order.

The most recent missile-related export license, approved by the Commerce Department on February 23, 1990, allowed International Imaging Systems, a California company, to ship a computer and related equipment worth \$600,000 (£324,000) that is designed for infra-red imaging enhancement. That occurred even though Defense Department officials first tried to stop the export as long ago as 1987 on the grounds that CIA technical evaluations showed it could be used in systems for the near real-time tracking of missiles.

A number of the exports were sent directly, or by way of German companies such as Gildemeister and Messerschmitt-Bölkow-Blohm (MBB), to Iraq's \$1bn Sa'ad 1 nuclear weapons and missile development centre at Mosul. This occurred in spite of intelligence information showing that the shipments to the desert centre would enhance Mr. Saddam Hussein's progress toward nuclear-capable missiles.

One of the most contentious cases was the shipment by Electronics Associates, New Jersey company, of an advanced \$449,000 hybrid analog computer system used in missile wind tunnel experiments. The analog computer is the same type used in the US White Sands missile range in New Mexico.

The Pentagon tried to stop the export, but there was such discord among State Commerce and Defense that a White House meeting was called to discuss the issue when in September 1987, it was then decided officially to block the export. But Mr. Otis Wright, an executive at the company, this week said the computer hardware had already been shipped eight months earlier—in January 1987—from the US to the Sa'ad centre in Iraq by way of Messerschmitt and Gildemeister, the intermediate companies in West Germany.

Another case involved the 1987 sale by Wiltron of California to Iraq's Sa'ad missile centre of electronic test and measuring equipment that uses a radio frequency of up to 40 GHz, a high level so vital to sensitive communications that it is proscribed by both the Commerce and missile technology lists of dangerous items:

The Pentagon tried to stop the \$49,510 shipment in November 1986, but the Commerce Department issued a full export licence in January 1987 even though the licence itself identified the heavily bunkered Sa'ad 16 desert missile site as the end-user. Wiltron has confirmed it shipped the equipment in 1987.

Spurred by the debate, the Senate last week voted to give the Defense Department an enhanced role in reviewing shipments of militarily useful equipment to four Middle Eastern nations, including Iraq.

#### WHEN THE ENEMY IS US IRAQ IS USING AMERICAN TECHNOLOGY TO FIGHT ALLIED TROOPS IN THE DESERT

(By Gloria Berger and Stephen J. Hedges with Douglas Stanglin)

It was a red, white and blue moment for American technology: a slick brochure distributed at the Baghdad international trade fair to herald "new bonds of commercial cooperation" between the United States and Iraq. George Bush wrote of "mutually beneficial" trade. Commerce Secretary Robert Mosbacher encouraged Iraqi industry to "seize this moment." Ambassador April Glaspie gushed at how the embassy placed the "highest priority on commerce and friendship between our two nations." The date: November 1989.

The courtship was mutual, the marriage convenient. Saddam Hussein needed American technology; the United States saw him as a counterweight to arch-enemy Iran. The policy looked past Hussein's use of chemical weapons in 1988 against Iraq's Kurdish population and growing evidence of a massive war machine in the making. Only the invasion of Kuwait—and an airtight trade embargo—could shatter the cozy relationship that had taken years to cultivate.

But the equipment hawked at trade fairs remained behind. And American soldiers at war are now facing the results—forced to look for ways to outsmart technology sold to the enemy by their own government. "Our pilots are being asked to bomb labs full of U.S. electronic equipment," says Gary Milhollin, an expert on nuclear proliferation. They face chemical, biological and conventional weapons with killing power enhanced by Western know-how.

While the war has prompted a reappraisal of the way the West trades its high technology, the United States may still be making old mistakes. Confidential government figures show that since 1985, U.S. companies have continued to sell advanced technology to renegade states that support terrorism. Syria has spent \$23.5 million on items with potential military application. Iran has bought \$282 million of similar goods—with an additional \$311 million pending Commerce Department approval.

In many ways, Iraq is a case study in how an upstart aggressor can exploit gaping trade loopholes—particularly when the laws are aimed at keeping Western technology out of Soviet hands. "The Soviet Union was our top priority," said Paul Freedberg, former under secretary of Commerce for export administration. "Iraq was a sideshow."

## DANGEROUS CUSTOMERS

Even now, America and its allies cannot agree on how to keep dangerous technology from similarly dubious customers: This week the United States will issue its own tighter restrictions on high-tech exports, while an international coalition is about to loosen its guidelines on trade to the East—despite fears that cash-starved Warsaw Pact countries may funnel high technology to the Mideast and points beyond. Meantime, federal bureaucrats are still fighting an old war over whether exports should be governed by national security, foreign policy or profit.

Unlike some allies, America traded in technology, not weapons. A classified list of sales to Iraq over the last five years reveals 767 transactions worth more than \$1.5 billion. In government parlance, the goods were "dual use"—that is, sold for civilian purposes but with the potential for military application. Some of the ingredients in fertilizer, for instance, can also be used to make chemical weapons.

Under those definitions, sophisticated computers, navigational radar, gas-turbine engines—even biological viruses—were sold. The destinations ranged from the seemingly benign (hospitals) to the blatantly dangerous (ministries of defense and atomic energy). "Sometimes it took a leap of the imagination to believe this stuff would be put to good use," says Republican Sen. John McCain of Arizona. Pentagon officials complained bitterly, unable to alter the foreign policy endorsed by American diplomats, and acceded to by Commerce. "Our position," says House Democrat Lee Hamilton of Indiana, "was that Saddam was a fellow we could work with."

At the time, it seemed geopolitically pragmatic. When Iraq invaded Iran in 1980 and launched an eight-year war, the Reagan administration declared neutrality but backed Iraq. Bitterness over the Iranian hostage crisis and fears of the Ayatollah Ruhollah Khomeini made Hussein seem a plausible, if not palatable, ally. "Back then, I didn't find any voices in the Pentagon that were raised over being in bed with Iraq," says Noel Koch, a former director of the Pentagon's counterterrorism program. The tilt soon became obvious. In 1982, Iraq was taken off the terrorist list, opening the way for trade, which grew from \$571 million in 1983 to \$3.6 billion by 1989.

Warnings that Iraq was not on the path to peace were largely ignored. Intelligence agencies reported on possible chemical-weapons production, including a 1984 discovery of a German-built chemical-weapons plant 70 miles outside Baghdad. The intelligence was so good, a former White House aide recalls, that it even detailed accidents inside the plant. The State Department protested to Germany, but the Reagan team kept it quiet, abiding by its own diplomatic schizophrenia—courting Iraq while it played with firepower. The only way to influence Hussein, they thought, was to engage him.

The chief influence peddler was Nizar Hamdoon, Iraq's diplomat in America beginning in 1983 and now Hussein's deputy foreign minister. He was a brilliant choice, a former member of the Iraqi ministry of information who knew how to play at the highest levels. "The great stop on the Washington social circuit was Nizar Hamdoon's levee," says Koch. Entertaining was business. "People came back from his house talking differently about Iraq," recalls Marshall Wiley, a former U.S. ambassador to Oman who began the United States-Iraq Business Forum in 1985.

## ALWAYS WELCOME

Wiley's business group, formed with Hamdoon's blessing, proved lucrative. More than 70 companies paid annual dues of between \$2,500 and \$5,000, and the list included corporate giants such as General Motor, Amoco, AT&T, Mobile and Westinghouse. The forum lobbied to keep Congress from cutting off trade after Hussein used chemical weapons on Iraq's Kurds. And in 1989, a delegation of about 25 key forum members met with Hussein in Iraq. During the session, Wiley recalls, Hussein even posed for pictures with some of his guests—an entourage that included former U.S. Sen. Charles Percy. "No matter what happens with political issues between the U.S. and Iraq, your business interests will always be welcome," Hussein told the group.

Such overtures led to massive exports to an Iraq intent on building—not just buying—advanced weaponry. Germany led the way, exporting equipment and engineering know-how to build chemical labs, even Hussein's now fabled luxury bunker. The French provided Exocet missiles and Mirage jets. American goods went to seemingly innocuous ministries and research centers. Computers went to Iraq from Hewlett-Packard via a German company. A New Jersey firm, Lummus Crest, built a petrochemical plant; it insists that it cannot be used to make weapons.

Pentagon analysts began to worry that the administration was selling Hussein the store. In a 1986 dispute over a \$49,500 shipment of electronics equipment by Wiltron Co., Pentagon officials warned Commerce of a "high likelihood of military end use."

The shipment, they say, went from Wiltron to a German firm, to Iraq's Saad 16 missile center. They blame such decisions on Commerce officials bent on promoting exports and State Department diplomats using trade as a foreign-policy tool.

The battle still rages. In a recent, confidential review of exports to Iraq, the Pentagon found that about a dozen shipments it thought it had stopped before the allied embargo began had been cleared by Commerce. Kern & Co. of Switzerland, for instance, sold Iraq's "General Establishment Survey" \$121,000 in precision mapping equipment that includes an American computer. London's International Computers Ltd. sent \$285,000 in American hardware to Iraq's "State Organization Company." Thermo Jarrell Ash, a Franklin, Mass., instruments manufacturer, sold Iraq several spectrometers, which measure particles in liquids and solids. Company President Earl Lewis and other executives question the Pentagon objections. Lewis says the worry was not about the spectrometer but the computer that runs it. "You see these computers everywhere," says Lewis. "It's not like they're not commercially available in Taiwan or Singapore.

No matter who gets the blame, the results of the policy are now painfully clear. "We were creating a monster and we knew it," says Koch. What is less clear is how the United States and its allies will avoid the same errors in the future. The upcoming U.S. guidelines will expand controls on both the ingredients and equipment used for chemical weapons. They will also sharply restrict sales of missile technology. And the president will use his executive powers to impose sanctions on noncomplaint countries.

Proliferation experts agree the key to enforcement rests with strict international pacts. However, while the United States is tightening its own export rules, the Coordinating Committee on Multilateral Export Controls (CoCom)—which includes the United States—is loosening up restrictions in ways that will allow previously suspect countries, such as the Soviet Union, to obtain advanced technology. CoCom signatories argue it makes no sense to restrict sales of computer equipment that can be snapped up in a Third World electronics shop. A recent National Academy of Sciences study agrees, although it recommends strict monitoring. But critics say such changes will open a calamitous floodgate. "We'll sell to the Eastern bloc, and it will go directly south," predicts Gary Milhollin. "There will be tremendous pressure to make a quick buck by shipping stuff to Iran."

The gulf conflict could provide two distinctly opposite results: a world market for more high-tech pirates and growing international pressure to shut them down. After the war, there will be a "golden moment" to stop technology transfers, says Mitchell Wallerstein of the National Research Council. "Many countries may be willing to take action that before would have been out of the question politically." Hussein's use of his Western-bred arsenal may decide the case.

[From the New York Times, July 29, 1990]

### MUST THE UNITED STATES GIVE BRAZIL AND IRAQ THE BOMB?

(By Gary Milhollin and David Dantzic)

WASHINGTON.—Iraq, with modern armed forces numbering a million with a leader driven by dangerous ambitions, started a war with Iran, threatens Israel and has rattled its saber against tiny Kuwait. Its President, Saddam Hussein, may not stop at threats if he can complete plans to build weapons of mass destruction.

U.S. technology could contribute to this awful enterprise if senior officials in the Commerce and State Departments have their way. These officials are supporting I.B.M. in an irresponsible attempt to put a supercomputer into the hands of a Brazilian team that is helping Iraq build long-range missiles and that could help it build atomic bombs.

Apparently, Commerce is pushing for the sale at the behest of I.B.M. to promote U.S. export. State's support for Commerce appears to be based, as usual in such cases, on a desire to win favor in third world countries. A very high State official has intervened on behalf of the Brazilian buyer, reliable sources say.

The deal is opposed by the Arms Control and Disarmament Agency and the Energy Department, which are sticking to the Reagan Administration's policy of denying supercomputers to countries that are trying to make the bomb. It appears that the deal is on the verge of going through.

With a supercomputer, a missile designer can simulate the thrust of a rocket engine, calculate the head and pressure on a warhead entering the atmosphere and simulate virtually every other force affecting a missile from launch to impact.

In a third world missile program, a supercomputer can drastically cut development time, costs and the need for flight tests.

According to Brazilian press reports, which have been confirmed by U.S. officials, the Brazilian team has been training the Iraqis in rocket aerodynamics, flight testing and the control of rocket trajectories. The Brazilians have also shown Iraq how to use on-board electronics and rocket propellants.

The team has been in Iraq since at least the spring of 1989, which helps explain why last December Iraq suddenly launched a space rocket big enough to orbit satellites.

Iraq made the rocket—potentially useful as an intermediate-range missile—by strapping together five Soviet-supplied Scud missiles, which Brazil is also helping Iraq improve. These are the same missiles Iraq use to bombard the civilian population of Teheran—and the same missiles Iraq is aiming at Tel Aviv from a launch site west of Baghdad.

The leader of Brazil's high-tech mercenaries is Gen. Hugo Piva, the retired director of Brazil's Aerospace Technology Center, known in Brazil as CTA. At CTA, he was in charge of converting Brazil's latest space rocket, the Sonda IV, into a missile big enough to carry a nuclear warhead, and of secretly making nuclear weapon material by enriching uranium by using gas centrifuges.

According to West German intelligence, CTA has become so adept at designing centrifuges that it has already enriched uranium almost to nuclear weapon grade. CTA is situated next door to, and exchanges personnel with, Embraer, the Brazilian aircraft manufacturer that wants to buy the I.B.M. supercomputer. Embraer and CTA are both part of Brazil's team in Iraq.

Iraq like Brazil, is hoping to make nuclear weapon material. It has bought a machine for manufacturing centrifuges from a company in West Germany. The German company has already sold such a machine to Brazil. The magazine *Der Spiegel* has reported that there is a dense network of relations between nuclear bomb builders in Iraq and Brazil, on the one hand, and German contractors on the other.

CTA's nuclear scientists in Brazil can gain access to the supercomputer through Embraer and can share nuclear calculations with their Iraqi customers.

For an atomic bomb designer, a supercomputer can simulate the implosive shock wave that detonates nuclear warheads, calculate the multiplication of neutrons in a nuclear chain reaction and model the process of nuclear fusion in a hydrogen bomb.

Thus, the I.B.M. supercomputer may help design the Iraqi bomb as well as Iraqi missiles.

Commerce Department regulations require that a country should have good "non-proliferation credentials" to buy a U.S. supercomputer. The country should be a party to the Nuclear Nonproliferation Treaty, have a' of its nuclear activities under international inspection and have a nuclear trade agreement with the U.S. Brazil falls on every count.

Nonetheless, the Commerce and State Department officials, along with I.B.M., argue—absurdly, naively or cynically—that Brazil should be excused from these requirements because U.S. agents would be able to inspect the supercomputer and prevent its misapplication.

I.B.M. says it has no evidence of any relationship between Embraer and Iraq. Is I.B.M.'s head buried in the sand?

Embraer will be free to design aircraft—to compute air flows around aircraft noses and wings. The programs for making such calculations are the same as those for calculating such flows around missile noses and fins, and strongly resemble those for modeling nuclear explosions. American inspectors probably will not be able to detect any violation.

State and Commerce Department officials, along with I.B.M., are on a perilous course. For their separate reasons, they are ready to ignore Brazil's outrageous and aid to Iraq and risk helping Brazil and Iraq get the bomb. They are sending the world an ominous signal: profits and vague diplomatic goals mean more than nuclear proliferation.

**Congress of the United States**  
**House of Representatives**

Washington, DC 20515

September 14, 1990

The Honorable Brent Scowcroft  
 Assistant to the President for  
 National Security Affairs  
 Old Executive Office Building  
 Washington, D.C. 20506

Dear General Scowcroft:

We are writing to urge you to delay your decision to process any export licenses for the sale of supercomputers or components to Brazil. If a decision on the applications must be made immediately, we urge you to deny the export license requests. Serious questions exist about continued Brazilian military cooperation with Iraq and the possibility that the sale of U.S. technology to Brazil could be used to assist Iraq improve its military capability.

As you are well aware, for years now, the Government of Iraq has been engaged in an ambitious effort to acquire the most powerful and destructive arsenal in the Middle East--an arsenal which could very well be turned on U.S. and multinational forces in the region. A substantial portion of this effort has been devoted to upgrading Iraq's missile technology and developing the ability to manufacture nuclear weapons. We understand that a group of ex-Brazilian Government officials operating in Iraq has been assisting, and continues to assist, Iraq achieve these objectives.

The Brazilian team is comprised of ex-government officials of the Aerospace Technology Center (CTA) and Embraer, a quasi-governmental aircraft manufacturing concern. The delegation's leader, General Hugo Piva, a former director of CTA, was in charge of converting a Brazilian space rocket into a missile large enough to carry a nuclear warhead, and of secretly making nuclear weapons material. There is well-founded fear on the part of many experts that this team continues to share information with their former associates in the Brazilian Government. To its credit, the Brazilian Government has requested that the team return to Brazil. However, General Piva and his employees have, thus far, refused to comply with this request.

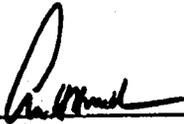
Currently pending before the Commerce Department are export licenses which would allow the sale of supercomputers or components to entities in Brazil--one of which is Embraer.

General Scowcroft  
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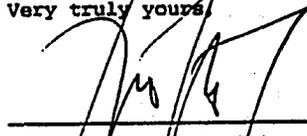
It is our understanding that both the Commerce and State Departments support the sale of these supercomputers and components (over the objections of the Arms Control and Disarmament Agency and the Department of Energy) and are prepared to process the licenses in the very near future. Additionally, you should recall that just last week, the State Department approved the export of rocket components to Brazil despite the heavy weight of the evidence of continued Iraqi-Brazilian military cooperation. At this time, when the threat of a military confrontation with Iraq is a real possibility, sales of this nature to Brazil are contrary to our national interest in the short and long run.

We appreciate your consideration of this matter and, once again, urge you to delay processing these export licenses or deny them if a decision must be made at this time.

Very truly yours,



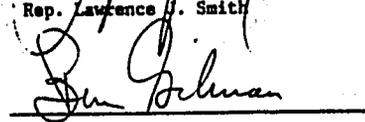
Rep. Lee H. Hamilton



Rep. Lawrence J. Smith



Rep. Gus Yatron



Rep. Benjamin A. Gilman



Rep. Howard Wolpe



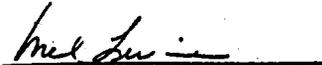
Rep. Henry H. Hyde



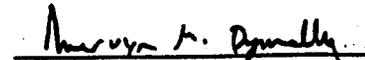
Rep. Stephen Solarz



Rep. Howard Berman



Rep. Mel Levine



Rep. Mervyn Dymally

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Tom Lantos  
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Peter H. Kostmayer  
Rep. Peter Kostmayer

Gary L. Ackerman  
Rep. Gary L. Ackerman

Morris Udall  
Rep. Morris Udall

James McClure Clark  
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Jaime B. Fuster  
Rep. Jaime B. Fuster

Harry A. Johnston  
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Douglas H. Bosco  
Rep. Douglas H. Bosco

Christopher Smith  
Rep. Christopher Smith

Dan Burton  
Rep. Dan Burton

Jan Meyers  
Rep. Jan Meyers

D. E. "Big" Lukens  
Rep. Donald E. Lukens

Porter J. Goss  
Rep. Porter J. Goss

Wayne Owens  
Rep. Wayne Owens

Eliot L. Engel  
Rep. Eliot Engel

[From the Washington Post, Sept. 18, 1990]

## COMMERCE DEPARTMENT URGED SALE TO IRAQ: FURNACES USEFUL IN MAKING ARMS

(By R. Jeffrey Smith and Benjamin Weiser)

President Bush boasted two weeks ago to a group of congressmen that even before the Iraqi invasion of Kuwait, his aides had blocked the export to Iraq of U.S.-built, high-temperature furnaces that could be used in making a nuclear weapon.

But left unstated were the extraordinary circumstances surrounding the last-minute interception of the three furnaces. For 18 months, U.S. Commerce Department officials had promoted the proposed \$10 million sale, approving it in June 1989 even though the manufacturer had warned them that the equipment could be used to make nuclear weapon components.

The administration decided to stop the shipment only after the Pentagon received a tip from outside the government and launched an investigation in June, a year after Commerce's original approval of the export. While a huge furnace sat temporarily detained on a dock in Philadelphia during the administration's late-hour deliberations, Commerce officials continued to argue that the sale should proceed, saying they had no persuasive evidence of potential Iraqi misdeeds and lacked authority to stop the deal.

Eventually, a National Security Council official intervened, and in a highly unusual closed-circuit television conference involving four federal agencies on July 19, the proposed sale was permanently halted, according to informed sources and internal government documents.

Several participants said the episode illustrates the divisions between the Defense Department, which is concerned with national security issues, and the Commerce Department, which both promotes exports and grants licenses for strategically sensitive equipment and technology.

A former undersecretary of defense for trade security, Stephon Bryen, who helped tip off the Defense Department, said, "The bottom line is that clearly the [furnace] company had given at least enough information to the Commerce Department to send up all kinds of flags, and no flags went up."

The Commerce Department has defended its role in the furnace sale, stating in a detailed press release this week that it could have blocked the sale only if either the manufacturer or the government knew the equipment would be used in sensitive nuclear activities, a possibility it learned of at the last minute.

U.S. officials say the government's involvement began in early 1989, when the furnace manufacturer, the Consarc Corp. of Rancocas, N.J., told Commerce of the proposed sale of three furnaces and sought advice on its legality.

Consarc President Raymond J. Roberts first raised the possibility of nuclear applications for the furnaces in a conversation last year with Commerce Department engineer Jeff Tripp, based in Washington, according to internal Consarc documents. "I told him . . . there is nothing to stop them from melting zirconium, the main use of which is a cladding material for nuclear fuel rods," Roberts wrote in a memo dated Feb. 15, 1989.

One week later, at Consarc headquarters, Roberts reminded another Commerce representative, Alan C. Stoddart, that the furnaces can be used "without modification" for nuclear applications, company documents state. Roberts noted that the company had no evidence Iraq intended that use.

On Mar. 6, Consarc obtained from the Iraqi Ministry of Industry and Minerals a formal letter of intent to purchase the furnaces. Ten days later, Consarc sought an advisory opinion on the deal from Commerce, saying "we will not proceed with the project until we have received approval to export . . ." documents state.

Consarc also cabled Russell Smith, Commerce's embassy representative in Baghdad, telling him of the prospective sale. "Hooray for you," Smith cabled back on April 5. "Look forward to your coming. Please do not hesitate to ask us for any service."

The Commerce Department approved the sale after inspecting Consarc technical documents and receiving from Consarc a copy of a written pledge from an Iraqi agency that the furnaces would be used for scientific research and to make prostheses for handicapped war veterans, according to agency officials.

Consarc president Roberts said in an interview this week that "we were being encouraged by the Commerce Department in Washington and by the U.S. Embassy in Baghdad to go get this order. The feeling we get from our government is that this is business we should be going after."

The Pentagon's involvement began in June, when Bryen's tip helped lead to an investigation by F. Michael Maloof, the Pentagon's director of technology security operations. Bryen had learned about the case from a Philadelphia Inquirer reporter, and the newspaper's source later provided information to the Defense Department.

The Pentagon discovered that in all, five Consarc furnaces—including two scheduled to be shipped separately from a Consarc subsidiary in Scotland—were to be installed by an Iraqi firm previously associated with weapon-related work at a complex south of Baghdad, far from any medical facilities.

The investigators were told by Western prosthesis makers that the capacity and complexity of the furnaces were "absolute overkill" for medical purposes, one official said.

William N. Rudman, deputy undersecretary of defense for trade security policy, whose office coordinated the investigation, questioned whether Iraqi President Saddam Hussein "is so caring of his own people that they're all going to be walking around with hi-tech wooden legs."

"I don't believe in the excuse Iraq gave," Rudman said in an interview. "In the end, the U.S. government had ample evidence to believe that the end-use was nuclear. The Iraqis were lying."

In early June, Maloof called the Customs Service, which agreed to detain a furnace already at a dock in Philadelphia—a decision that provoked angry protests by Michael Manning, a trade specialist with the Trenton, N.J., of Commerce's International Trade Administration. Manning had advised Consarc closely on the furnace exports and complained to Customs on June 22 that its actions were jeopardizing his reputation with the company, according to a July 13 memorandum of the call written for Customs Service Strategic Investigations director John C. Kelly.

Maloof was criticized by Manning in separate calls as someone who "creates issues which cause problems for everyone but never result in any significant findings," according to the memo, which was obtained by The Washington Post from a source outside the Bush administration and authenticated by Customs Service spokesman David Hoover. "Manning further stated that Consarc is a major employer in the South Jersey region," the memo said.

On July 11, Manning telephoned a Customs official from Consarc's headquarters to argue that neither Commerce nor the State Department would support the detention. He said the Defense Department was "running around . . . stirring things up, when there really is no issue," the Customs memo states.

In another phone call from Manning, Customs Service special agent Andrew McCrossan said he and other Customs officials "were disturbed" by some of Manning's comments in the presence of officials of the manufacturer, which McCrossan said might jeopardize the government's legal position in blocking the deal, the Customs memo states.

A Commerce Department spokesman, asked what role trade specialists such as Manning should play in licensing and export matters, said, "None, besides advising them to be in touch with [the agency's] Bureau of Export Administration."

But Elizabeth Dugan of Commerce's International Trade Administration defended Manning's role in the furnace case, saying he "was never in a position to influence the outcome of the licensing decision . . . [and] was not interfering in the substance of the process."

A Philadelphia Inquirer report about Custom's detention of the shipment led to a July 12 letter of complaint to Bush from Senators Jesse Helms (R-N.C.), Connie Mack (R-Fla.), Jeff Bingaman (D-N.M.) and five other senators, supporting the contention of Undersecretary of Defense Paul Wolfowitz that the immense, state-of-the-art furnaces could process and purify metals for nuclear arms, missiles and jet engines.

Wolfowitz's claim was based in part on information supplied by the Defense Intelligence Agency and the Central Intelligence Agency about the furnaces' probable use in nuclear weapon applications.

The senator's letter got the attention of senior White House officials, who asked the intelligence community to provide more information on Iraq's intentions.

One day before Customs' temporary detention of the shipment was to expire, National Security Council aide Richard Haass chaired the late-afternoon conference call that culminated in the decision to halt the export. After this decision, Consarc voluntarily held back the two furnaces due to be shipped from Scotland.

"We carefully followed Bush administration policy at that time and we acted within the confines of the law and the policy guidance," said Wayne Berman, counselor to Commerce Secretary Robert A. Mosbacher. He said Commerce had worked closely with State Department lawyers to find a "creative way within the law" to revoke approval for the shipment. He also said there had been conflicts with some

Defense Department officials and criticized Defense official Maloof as a "low-level clerk" who was part of a group of "ankle-itters."

[From the New York Times, Sept. 7, 1990]

#### U.S. CHANGES APPROVES EXPORT OF ROCKET PARTS TO BRAZIL DESPITE FEARS OF LINK TO IRAQ

(By Michael Wines)

WASHINGTON.—The State Department has decided to allow the export to Brazil of rocket components that some experts contend could assist efforts by Brazilian engineers and Iraq to develop a long-range ballistic missile, Government officials said today.

The components, seven steel casings, are the outer shells of a three-stage rocket called the VLS which Brazil's air force hopes to launch in 1993. Brazil has long argued that the rocket is part of a civilian project to enter the commercial satellite-launching business.

But the United States and France, noting Brazil's past cooperation with Iraq and its refusal to sign nonproliferation agreements, had been refusing to supply components for that and other Brazilian missiles until now.

It was not clear today why the United States changed its stance.

#### SIMILAR TO IRAQI ROCKET

Private arms-control experts say the VLS is similar in design to a three-stage satellite-launching rocket that Iraq first tested last December. Its solid-fuel technology would also be important to Iraq's development of an intermediate-range ballistic missile at a billion-dollar research complex called Saad 16 near Baghdad.

The Wall Street Journal reported this week that 23 Brazilian engineers, including the former head of Brazil's space agency, are in Iraq now and have refused to leave despite the Brazilian Government's formal request that they return home.

A spokesman for the Brazilian Embassy in Washington, José Carlos Fonseca, confirmed today that the State Department had lifted an earlier prohibition against export of the rocket casings. "Our understanding is that this equipment is free to leave the country at any time," he said, "It's a matter of bringing the airplane from Brazil and loading it."

#### EXPERT CRITICIZES AGREEMENT

One private expert on missile proliferation, Gary Mihollin of the Wisconsin Project on Nuclear Arms Control, today said the State Department's action calls into question the cooperation between Washington and its allies. The rocket casings themselves are on a second list of proscribed military items, called the Missile Technology Control Regime, which the United States and six European allies have agreed not to export to nations that spread weapons technology.

"One would expect us not to export an item like this to a country like Brazil," Mr. Mihollin said. "It seems it undermines the agreement between the seven countries, and specifically between the United States, England and France."

Mr. Mihollin argued that providing Brazil with rocket components "is the same as giving missile technology to Iraq," because of the close cooperation between the two nations.

#### LICENSE FOR CHICAGO COMPANY

The seven casings had been used in VLS rocket tests in Brazil and were sent to the United States earlier this year to be heat-treated, in a process called annealing, to harden them for use in a space launch.

A Chicago-based company, Lindberg Engineering, won a contract to anneal the casings and they arrived in Chicago three months ago, Mr. Fonseca said.

Lindberg's president, Leo Thompson, did not return several telephone calls today seeking comment. But according to Government officials, whose accounts were confirmed by Mr. Fonseca, the State Department gave Lindberg a license to anneal the rocket casings after determining that the treatment process was on a list of munitions items that require Federal approval for their export.

## LICENSE REVIEW IN QUESTION

The officials, who refused to be identified, said that the State Department later ordered the United States Customs Services to impound the casings while it reviewed the license, then gave approval to export the treated casings about two weeks ago.

Both the Customs Service and the State Department's politico-military affairs office, which approved the export of the casings, declined to comment.

Other Government officials said the initial license was apparently granted erroneously and was allowed to remain in force because the casings had been treated by the time the error was discovered, but that account could not be confirmed.

The officials said Lindberg was supposed to treat 18 rocket components in all, but that the remainder of the contract would be aborted.

Private arms-control experts said today that the State Department action is unusual because the United States and some other European nations have effectively boycotted Brazil's missile program in recent months.

Four Brazilian space and military agencies signed a contract with Iraq last year to help develop missiles, satellites and weaponry, several Brazilian press reports said. The Brazilian Embassy said today it could not confirm the existence of the agreement.

[From the Wall Street Journal, Dec. 18, 1990]

## A GREAT AMERICAN SCREW-UP: THE UNITED STATES AND IRAQ

(By Paul A. Gilgot)

On June 19, 1981, Israeli Prime Minister Menachem Begin addressed Holocaust survivors at the Wailing Wall in Jerusalem. Twelve days earlier Israeli warplanes had undertaken a spectacularly successful bombing of Iraq's nuclear reactor, Osirak. "What's the difference if it's radiation and not Zyklon B gas?" Mr. Begin said.

On the same day at the United Nations, U.S. Ambassador Jeane Kirkpatrick was preparing to cast a vote on the Osirak bombing. She would vote to condemn Israel, not Iraq. That U.S. response is the symbolic beginning of a decade of American misjudgment. The climax was Iraq's invasion of Kuwait on Aug. 2, 1990, an invasion that caught nearly everyone in the U.S. government by surprise.

In her classic book on Pearl Harbor, Roberta Wohlstetter writes about the difficulty of selecting genuine policy "signals" from a world of "noise." U.S. policymakers all claim to have heard the aggressive signals from Saddam Hussein. What they failed to do was change their hypothesis about Saddam's intentions. They couldn't shake what even they themselves now call "the mindset" about Iraq.

From his mistake flowed a second one: Failing to signal American intentions. U.S. officials thought that conciliation, rather than a new policy of containment, had a better chance of persuading Saddam. So when they did send warning messages, the messages were mixed in a way that Saddam could plausibly interpret as appeasement.

For two decades before the fall of the Shah, the U.S. had viewed Iran as its strategic bulwark in the Persian Gulf. The rise of Ayatollah Khomeini and the taking of U.S. hostages changed everything. The Carter administration turned its attention toward a new "pillar of stability" in the Gulf, Saddam Hussein's Iraq.

Howard Teicher, a Defense Department official at the time (he later joined the Reagan National Security Council), wrote a 50-page paper about the danger of this tilt and predicted that Iraq would invade Iran. No one paid much attention. By April 1980, National Security Adviser Zbigniew Brzezinski could assert that, "We see no fundamental incompatibility of interests between the U.S. and Iraq."

## IRANIAN THREAT

Even when Iraq invaded Iran, the overriding U.S. view was that Iran was stronger and would be the greatest threat if it emerged from war dominant in the region. So the U.S. became Iraq's silent ally. In 1982, the U.S. took Iraq off its list of nations promoting terrorism and, by 1984, had resumed full diplomatic relations. The final tilt was the U.S. decision to reflag Kuwaiti tankers in 1987.

Arabs made a point of underscoring that Saddam was no longer a radical. Mr. Teicher recalls a meeting with Egyptian President Hosni Mubarak in April 1982. "Mubarak gave me a 15-minute lecture about how Iraq had changed. He said, 'You

have to do everything you can to make Iraq survive the war. You have to tell President Reagan.' He kept shaking my hand and wouldn't let go."

Not everyone agreed, of course. Mr. Teicher and Graham Fuller a CIA analyst at the time, collaborated on a memo in 1985 arguing that Iran remained a strategic prize, and that Saddam's barbarity meant his "change" might be cosmetic.

But their memo took on a tragic cast during the Iran-Contra hearings, when it was interpreted as the intellectual basis for President Reagan's failed opening and sale of arms to Iran. Congress scorned any attempt to deal with Iran as futile, even absurd, but never questioned assistance to Iraq. Peter Galbraith, a Senate Foreign Relations and Iran-Contra Committee aide, says the Iraqis gave him extraordinary access to Iraqi Kurdistan in 1987 in large part because "the Iraqi Ambassador thought we were doing the Lord's work." Congress must bear some of the responsibility for creating an environment in which dissenters on the Gulf could not be heard.

Iran's surprising decision to end the war in August 1988 offered a new chance for the U.S. to release its Gulf policy. Instead, "the mindset" continued.

In late August, ethnic Kurds began streaming over the Iraq border into Turkey. Their testimony and physical condition provided evidence that Iraq has used chemical weapons against its own people. The State Department publicly condemned the attack, but privately also sent a message of conciliation. As one State official told the New York Times on Sept. 8, 1988: "The approach we want to take is that, 'We want to have a good relationship with you, but that this sort of thing makes it very difficult.'"

The mixed message continued as a battle regarded in Congress over U.S. sanctions against Iraq. Secretary of State George Shultz privately complained to Iraq's foreign minister and received a promise that Iraq would not use gas again and would attend an arms-control conference the next January. "It was enough to persuade us that working on it privately was enough to be productive," says Richard Murphy, State's Middle East point man at the time.

It is impossible to know if U.S. sanctions in 1988, or later in 1990, would have changed Saddam's behavior. But it is possible that Saddam was learning "that his actions would be met solely with rhetorical opposition," says Mr. Galbraith.

Meanwhile, inside the State Department, Zalmay Khalilzad, a Columbia professor hired to offer advice on Afghanistan and the Persian Gulf, was concluding that Iraq had replaced Iran as the foremost threat to American interests in the region. His logic was that Iran had emerged from the war so weak that it could no longer balance Iraq.

Mr. Khalilzad's memo was debated at the highest levels. But as one official familiar with the period observes, "That was pissing into the wind in Washington, and still is."

In 1989, the new Bush administration had another chance to reconsider Gulf policy. It conducted a long "strategic review," but its conclusions were close to those of the Reagan team.

This isn't surprising: Richard Haass, the new Middle East point man at the NSC, had worked at Defense when the Carter administration began to consider overtures to Iraq. Dennis Ross, now head of State's policy planning shop, had worked in the late Reagan NSC before joining the Bush presidential campaign. And Richard Fairbanks, who headed the Bush campaign's Middle East policy team, had also worked on Middle East issues in the Reagan years. By then out of government, Mr. Fairbanks was until recently also Iraq's registered agent in Washington.

Most of these officials understood but rejected the strategic arguments made by Mr. Khalilzad. As one White House official who developed the policy put it, after the Iran-Iraq War "there was a sense that the Gulf had come out of a difficult period and was getting better." Both sides in the war were thought to be exhausted. "The detente analogy" prevailed, says this source. The U.S. might not like everything Iraq did, and might detest its human rights record, "but if we could have a more normal relationship with Iraq, why not try?"

Like the Soviets in the 1970s, however, Saddam Hussein refused to cooperate. On Feb. 24 Saddam gave a blistering speech to the Arab Cooperation Council. He warned that with declining Soviet power, "the Arab Gulf region will be governed by the wishes of the United States." In March, Iraqi agents were arrested in Britain for smuggling parts to build nuclear weapons. Then on April 2, Saddam declared he had binary chemical weapons and that, "By God, we will make the fire eat up half of Israel, if it tries to do anything against Iraq."

The April speech inspired the Bush team's only serious reconsideration of its Iraqi policy. Mr. Ross and John Kelly, the assistant secretary for Near Eastern Affairs,

have told reporters they went to Secretary of State James Baker and urged a new policy of limited sanctions against Iraq. Mr. Baker is said to have agreed.

But the policy review died aborning. Mr. Baker turned the effort over to Robert Kimmit, State's undersecretary for political affairs, who made a case to the interagency's "deputies committee," a set of officials just below the Cabinet level. Accounts differ on what happened next. By State's account, its initiative met resistance from the Commerce Department and the NSC, including NSC adviser Brent Scowcroft.

Other sources, the majority by far, insist State never really made much of an effort. "My impression was they were worried more about public positioning than about the policy," says one official. Another claims, "I don't know what was said to the secretary, but State did not represent a policy position that was at variance with anyone else's." The meeting reached a consensus not to renew commodity loan credits to Iraq, but to attribute this decision to a scandal involving a bank. "We tried to de-politicize the decision," says one of the deputies, in order not to risk antagonizing Saddam.

The review's failure is partly explained by the way national-security advice is transmitted to President Bush. His administration really has two national-security policy systems. The first, and least important, is the formal interagency process, led by the NSC. The other, much less formal but much more influential, system is dominated by George Bush's close friend James Baker, his small team of aides and whatever allies they include.

But this second system's strength is also its weakness: It relies on a small nucleus of people. If an issue drifts off their radar screen, it is probably being run on autopilot by the permanent bureaucracy. Mr. Ross is Mr. Baker's Middle East expert, but he is also a main adviser on Soviet policy. For most of the Bush Administration, Mr. Ross's Middle East preoccupation was the Arab-Israeli peace process. The Gulf was left to Mr. Kelly and his Near East bureau, which would never change policy without orders from above.

State's spokeswoman quickly denounced Saddam's April speech as "inflammatory, outrageous and irresponsible." But 10 days later, five U.S. senators, led by Kansas Republican Bob Dole, met Saddam in the Iraqi city of Mosul. They presented a letter expressing "very deep concerns" about his chemical and biological weapons, but according to a transcript released by the Iraqis, the senators were less than profiles in indignation.

Mr. Dole said President Bush would probably veto sanctions against Iraq and that, "We in Congress also try to exert our utmost efforts in this direction." Howard Metzenbaum, the Ohio Democrat, chimed in that, "After listening to you for about an hour, I realized you are a strong and an intelligent man, and that you want peace."

The episode that may best symbolize the muted warnings to Saddam was State's quashing of honest commentary by the U.S. Information Agency. On February 15, a Voice of America editorial, entitled "No More Secret Police," hailed popular revolts against "dictatorial rule." It included the following reference to Iraq: "The secret police are still widely present in countries like China, North Korea, Iran, Iraq, Syria, Libya, Cuba and Albania."

Saddam must have reacted furiously because the response at State was to mollify him. "Our guess is that the President himself heard it on February 15," U.S. Ambassador to Baghdad. April Glaspie cabled to Washington. She had been called to see Iraq's deputy foreign minister, who protested a "flagrant interference in the internal affairs of Iraq," according to the cable, which was uncovered by New York Times columnist William Safire.

After Saddam's complaints, State asked to see all VOA editorials on Iraq before they were aired. So on July 25, one week before the Kuwait invasion, VOA submitted a draft editorial that would prove to be prophetic. It read: ". . . the U.S. remains strongly committed to supporting the individual and collective self-defense of its friends in the Persian Gulf. . . . The U.S. would take very seriously any threat that put U.S. interests or friends at risk." Mr. Kelley's bureau killed even that tepid warning to Saddam Hussein.

Nearly as telling is the way NSC staffers toned down an April 30 speech by Vice President Dan Quayle. Accordingly to White House sources who saw it, the speech draft included a reference to Saddam's April 2 "threats." Comments on the draft from the NSC asked that this be changed to Saddam's "remarks." Another NSC comment: "Emphasis on Iraq misplaced given U.S. policy, other issues."

## CONGRESSIONAL SANCTIONS

The Bush team was also resisting anti-Iraq sanctions in Congress. Douglas Waller has reported in the New Republic that Sen. Dole put a legislative "hold" on one sanctions bill right up to the day of the invasion. Expressing the administration's view of sanctions attached to a farm bill, Sen. Richard Lugar (R., Ind.) said that, "Passage of this legislation would badly undercut any possibility we have of influencing Iraqi behavior in areas from the peace process to human rights, terrorism to proliferation."

The most famous exchange is the July 25 meeting between Ambassador Glaspie and Saddam in Baghdad. Saddam threatened and blustered, all but declaring his intent to invade Kuwait. Ms. Glaspie replied: "We have no opinion on the Arab-Arab conflicts, like your border disagreement with Kuwait."

This conversation has been taken as the decisive signal to Saddam of U.S. weakness, and it well may have been. But it also wasn't far removed from the pattern of U.S. policy, especially over the previous five months.

Indeed, after Ms. Glaspie's meeting, with Iraqi troops massed on the Kuwait border, a cable was sent to Saddam under President Bush's signature. According to the Middle East Policy Survey newsletter and to sources familiar with the text, the cable gave a "firm" but general message opposing the use of force. It offered no specific security guarantees to Kuwait, and it held out the hope for better relations. April Glaspie was not alone.

To the very end, U.S. officials expected that Saddam would not invade. By all accounts, U.S. intelligence documented the Iraqi buildup near Kuwait, but missed his intentions until Aug. 1. "The theory was that everything he was doing was to coerce" Kuwait, says one ranking source. "He wanted the money, or maybe the two islands in the Persian Gulf, but not Kuwait. So what was the problem?"

Could a different policy have deterred Saddam? It is impossible to say. Administration officials are naturally defensive about their decisions, and Secretary Baker has gone so far as to denounce as "shameful" the "20-20 hindsight going on." Perhaps he is right, but it is undeniable that U.S. policy failed to send even the most basic signal that might have deterred Saddam. The policy failed to understand a basic truth of international relations: That bullies who threaten American interests cannot be appeased; they must be opposed.

EXCERPT FROM A HEARING BEFORE THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST OF THE COMMITTEE ON FOREIGN AFFAIRS, HOUSE OF REPRESENTATIVES ON DEVELOPMENTS IN THE MIDDLE EAST JULY 31, 1990

## IRAQI CONDUCT AND U.S. POLICY

Mr. BERMAN. Thank you very much, Mr. Chairman. Mr. Secretary, first, I do appreciate the opportunity to ask some questions. I want to focus on an area that Mr. Lantos initially got into, the question of Iraqi conduct and the U.S. position, frankly, as part of understanding better the Administration's position and laying a foundation for my own legislation dealing with sanctions on Iraq.

Is it correct to conclude that Iraq initiated the use of nerve gas in the Iraq/Iran war?

Mr. KELLY. That is my understanding.

Mr. BERMAN. Is it correct to conclude that after that, there was a ceasefire in that war, Iraq then used nerve gas against its own Kurdish population?

Mr. KELLY. That sounds correct to me.

Mr. BERMAN. Is it fair to say that over the past ten years, Saddam Hussein has consolidated power in a fashion that makes him one of the most despotic and totalitarian regimes in the world today? A regime which is marked by a total absence of free press, legitimate political opposition or any of the other features of democracy and freedom that we seek to promote around the world?

Mr. KELLY. It is certainly an arbitrary regime with a human rights record which is abysmal, yes, sir.

Mr. BERMAN. Is it fair to conclude that Iraq is engaged in a systematic effort to acquire the means by which it could develop its own independent nuclear capability?

Mr. KELLY. Certainly, there is the indisputable public evidence of the attempt to smuggle the capacitors, the kryptonite capacitors which could be used for nuclear weapons purposes. That is indisputable.

Mr. BERMAN. What about nuclear triggers? What about the triggers?

Mr. KELLY. No, that's what I am talking about, the triggers.

Mr. BERMAN. Okay, all right.

Mr. KELLY. Yes.

Mr. BERMAN. Is it fair to assume that notwithstanding Iraq's public position that it took back in the mid-1980's, that it is still harboring and providing sanctuary for terrorists?

Mr. KELLY. There are certainly disturbing reports to that effect now. It appears that Abu Abbas is there, among other people.

Mr. BERMAN. Haven't we known that Abu Abbas has been there since shortly after the Achille Lauro hijacking?

Mr. KELLY. I don't think we have. I think we believed he was in other locations.

Mr. BERMAN. All right. Well, I would suggest my information is different with respect to that.

Mr. KELLY. I would be glad to check that and try to find out.

[The information follows:]

Abu Abbas now spends most of his time in Baghdad where his organization, the Palestine Liberation Front (PLF), has administrative offices. The organization uses training bases in both Iraq and Libya. Over the past few years, Abu Abbas has spent significant amounts of time in both Iraq and Libya.

Mr. BERMAN. At this particular point, we know that Iraq—Abu Abbas is under an extradition order from the United States, is that correct? Based on his involvement to the Achille Lauro hijacking.

Mr. KELLY. I believe we are going to have to refer that one to the Department of Justice. I am not certain that there is an outstanding extradition order.

Mr. BERMAN. Would—

Mr. KELLY. But I would be happy to supply that for the record, Congressman.

[The information follows:]

No. There is currently no outstanding U.S. warrant for the arrest of Abu Abbas. An arrest warrant is a prerequisite for extradition.

Mr. BERMAN. But your current information is that Abu Abbas is based now in Baghdad.

Mr. KELLY. He is, as we understand it, he has been in Baghdad at least for the last three weeks.

Mr. BERMAN. Okay. Have we made, by the way, any efforts to confirm that with the Iraqis?

Mr. KELLY. Yes, we have taken that up with the Government of Iraq and said that we understand he is there. We cannot understand why this known terrorist is there and asked them for an explanation.

We have not received one, but as Secretary Baker indicated in his testimony, we take this seriously.

Mr. BERMAN. Can you confirm reports by Amnesty International that the Iraqi regime is now in the process of systematically exterminating the children of its political opponents? Have you heard those reports?

Mr. KELLY. I have heard those reports, but my understanding was that it referred to abhorrent activities of several years ago. You used the words "now engaged in." I don't know.

Mr. BERMAN. Well, it is contained in the State Department's human rights report. It is the subject of a recent release by Amnesty International and it is based on activities which are recent in nature.

Mr. KELLY. Okay.

#### WHY DOES THE ADMINISTRATION STILL OPPOSE SANCTIONS AGAINST IRAQ?

Mr. BERMAN. Given all of this, given the fact that we have imposed sanctions on a number of countries based on support for terrorism and other conduct, why does the Administration continue to oppose efforts to legislate sanctions at this particular time?

And I add to that question, that even the arguments used by the Administration in the mid-1980's with respect to the hope that Iraq was moving from a rejectionist position in terms of the peace process, to a more moderate position, even those have been now, I think, totally refuted by virtue of the Iraq position at the recent Baghdad summit as well as their saber rattling and other statements with respect to Israel.

Mr. KELLY. Congressman Berman, the sanctions that are in effect on Libya, Iran, Syria—to name three—are in effect because of state sponsorship of terrorism.

Until recently, we have not seen indications, since the reestablishment of relations between the United States and Iraq, that Iraq was involved in state sponsorship of terrorism.

The presence of Abu Abbas and PLF offices in Iraq raises exactly the question that you have correctly pointed out and we are going to have to deal with that question. It raises the possibility that Iraq may have to be restored to the terrorism list as a state sponsor of terrorism, which would automatically invoke the sanctions.

That is a different question than the imposition of sanctions as suggested in, I believe, your legislation which would be as a result of human rights violations or other activities.

But the legislation on terrorist countries and state sponsorship of terrorism is very explicit, and so on. But you put your finger on exactly the right question.

Mr. BERMAN. So from this, Mr. Chairman, if I am permitted to follow-up with a conclusion, and then one final question, I can assume that the State Department is now reviewing the question of whether or not Iraq should be restored to the list of countries supporting terrorism.

Mr. KELLY. That is correct.

#### CONGRESSIONAL RESOLUTION CONCERNING HUMAN RIGHTS IN IRAQ

Mr. SMITH of Florida. All right, finally, Mr. Chairman, if I might, our colleague, the Chairman of the subcommittee on human rights, Mr. Yatron, asked if I would ask this question.

By the way, just before I do that, I just want to say that I would like to commend President Bush for having written that letter which has been reported as being written in the press to Mr. Shamir.

I have found over the last few months, very offensive and wrong-headed having diplomacy conducted on the front pages of the newspapers by choice of the State Department, including what Mr. Baker did last week in response to the question Mr. Levine posed to him.

Mr. KELLY. With all due respect, Congressman, the Secretary was responding to reports from the Israeli newspapers.

Mr. SMITH of Florida. I am of the opinion that that kind of diplomacy doesn't succeed at all, and I think that the President returning to this kind of diplomacy, this kind of diplomatic action and new overtures being made by others in the normal diplomatic channels will have a great effect on the relationship, a positive effect and will provide a much better chance for succeeding at least in the small steps necessary to get where we want to go, rather than the way it was before.

I appreciate that.

Mr. Chairman, our colleague, Mr. Yatron, wanted me to ask this question.

According to the State Department's human rights report, Iraq's human rights record is "abysmal." That's a quote. The report goes on to detail a number of on-going serious human rights violations committed by the Iraqi Government, including the use of torture and summary executions.

A review of the previous reports suggest that the Iraqi Government is engaged in a consistent pattern of gross violations of internationally recognized human rights.

Mr. Yatron has introduced an unbinding resolution which condemns the Government of Iraq for human rights violations. The resolution specifically states the Government of Iraq is engaged in a "consistent pattern of gross violations of internationally recognized human rights."

As I understand it, your Administration is opposed to the use of the "consistent pattern" language in the resolution, and I wanted to ask on behalf of Mr. Yatron and myself—because I agree with Mr. Yatron completely—how can the Administration argue that the Iraqi regime is not engaging in a consistent pattern of human rights violations, when your own human rights report makes the case that there is a consistent pattern by making reference to their current year's rights violations, and to the previous years' rights violations of the same magnitude and in the same area?

Mr. KELLY. Thank you, Mr. Smith. In our annual human rights report, we have described Iraq's appalling human rights record in detail. We have been objective, we believe accurate and we pulled no punches.

The human rights situation in Iraq is egregious, including widespread abuses of the most fundamental rights to life and to security of the person.

The particular question uses a specific legal formulation, "a pattern of gross violations of internationally recognized human rights." This is legally binding language found in at least eight statutes relating to prohibitions of assistance and other forms of cooperation with other countries.

We believe that our ability to conduct foreign policy in this highly volatile area and any possibility of positively affecting Iraq's human rights performance demand

that we retain the flexibility to respond to new developments as they unfold over the course of the year.

We in the Department are keenly aware of these statutes and approach with the utmost seriousness in any circumstances in which they might be applicable. Although we have never made a formal finding that a country is guilty of gross violations, we are extremely careful never to engage in actions that could contravene these statutes.

Mr. SMITH of Florida. Mr. Kelly, this is a non-binding sense of Congress resolution. Are you suggesting to us that non-binding sense of Congress resolution has to be measured by the same standard you would measure a statute which could be passed and become law, which this cannot? This cannot have any binding affect on the President whatsoever.

Mr. KELLY. I believe that I am going to have to consult with the Department's lawyers before I take it to this—

Mr. SMITH of Florida. I would really appreciate it if you would. The case has been made significantly on Iraq's enormously consistent patterns, year after year, documented by your own Department in the global terrorism report, and in addition, in the gross nature of those—and we have even talked about some of them here today.

Mr. HAMILTON. Would the gentleman yield?

Mr. SMITH of Florida. I would be happy to.

Mr. HAMILTON. I just wanted to reinforce here, Mr. Secretary, we wrote to Secretary Baker, I wrote to Secretary Baker on May 3rd regarding your position on the resolution that Mr. Smith has been talking about. We have not had a response to that letter.

Mr. KELLY. Mr. Chairman, I know that and I am distressed by that and let me pledge that I am going to make my best efforts to bust that response loose.

Mr. HAMILTON. I would appreciate that. Thank you.

[From the Wall Street Journal, Jan. 7, 1991]

#### WHITE SLAVES IN THE PERSIAN GULF

(By Arthur Schlesinger Jr.)

President Bush's gamble in the Gulf may yet pay off. Let us pray that it does—that the combination of international economic sanctions, political pressure and military build-up will force Saddam Hussein to repent and retreat. Let us pray that the tough talk from Washington is designed primarily as psychological warfare—and that it will work.

But tough talk creates its own momentum and may seize control of policy. If the gamble fails, the president will be hard put to avoid war. Is this a war Americans really want to fight? Sen. Robert Dole (R., Kan.) said the other day that Americans are not yet committed to this war, and he is surely right. And is it a war Americans are wrong in not wanting to fight?

Among our stated objectives are the defense of Saudi Arabia, the liberation of Kuwait and restoration of the royal family, and the establishment, in the president's phrase, of a "stable and secure Gulf." Presumably these generous-hearted goals should win the cooperation, respect and gratitude of the locals. Indications are, to the contrary, that our involvement is increasing Arab contempt for the U.S.

#### WHITE SLAVES

In this newspaper a few days ago Geraldine Brooks and Tony Horwitz described the reluctance of the Arabs to fight in their own defense. The Gulf states have a population almost as large as Iraq's but no serious armies and limited inclination to raise them. Why should they? The Journal quotes a senior Gulf official: "You think I want to send my teen-aged son to die for Kuwait?" He chuckles and adds, "We have our white slaves from America to do that."

At the recent meeting of the Gulf Cooperation Council, the Arab states contraluted themselves on their verbal condemnation of Iraqi aggression but spoke not one word of thanks to the American troops who had crossed half the world to fight for them. A Yemeni diplomat explained this curious omission to Judith Miller of the New York Times: "A lot of the Gulf rulers simply do not feel that they have to thank the people they've hired to do their fighting for them."

James LeMoyné reported in the New York Times last October in a dispatch from Saudi Arabia, "There is no mass mobilization for war in the markets and streets. The scenes of cheerful American families saying goodbye to their sons and daughters are being repeated in few Saudi homes." Mr. LeMoyné continued, "Some

Saudis' attitude toward the American troops verges on treating them as a sort of contracted superpower enforcer. . . ." He quoted a Saudi teacher, "The American soldiers are a new kind of foreign worker here. We have Pakistanis driving taxis and now we have Americans defending us."

I know that the object of foreign policy is not to win gratitude. It is to produce real effects in the real world. It is conceivable that we should simply swallow the Arab insults and soldier on as their "white slaves" because vital interests of our own are involved. But, as Mr. Dole implied, the case that U.S. vital interests are at stake has simply not been made to the satisfaction of Congress and the American people.

Of course we have interests in the Gulf. But it is essential to distinguish between peripheral interests and vital interests. Vital interests exist when our national security is truly at risk. Vital interests are those you kill and die for. I write as one who has no problem about the use of force to defend our vital interests and who had no doubt that vital interests were involved in preventing the domination of Europe by Hitler and later by Stalin.

In defining our vital interests in the Gulf, the administration's trumpet gives an awfully uncertain sound. It has offered a rolling series of peripheral justifications—oil, jobs, regional stability, the menace of a nuclear Iraq, the creation of a new world order. These pretexts for war grow increasingly thin.

If oil is the issue, nothing will more certainly increase oil prices than war, with long-term interruption of supply and widespread destruction of oil fields. Every whisper of peace has brought oil prices down. And the idea of spending American lives in order to save American jobs is despicable—quite unworthy of our intelligent secretary of state.

As for the stabilization of the Middle East, this is a goal that has never been attained for long in history. Stability is not a likely prospect for a region characterized from time immemorial by artificial frontiers, tribal antagonism, religious fanaticisms and desperate inequalities. I doubt that the U.S. has the capacity or the desire to replace the Ottoman Empire, and our efforts thus far have won us not the respect of the Arab rulers but their contempt.

What about nuclear weapons? The preventive-war argument is no more valid against Iraq than it was when it was proposed against the Soviet Union during the Cold War. In any case, Secretary of State Baker has in effect offered a no-invasion pledge if Iraq withdraws from Kuwait—a pledge that would leave Saddam Hussein in power and his nuclear facilities intact.

As for the new world order, the United Nations will be far stronger if it succeeds through resolute application of economic sanctions than if it only provides a multilateral facade for a unilateral U.S. war. Nor would we strengthen the U.N. by wreaking mass destruction that will appall the world and discredit collective security for years to come.

No one likes the loathsome Saddam Hussein. Other countries would rejoice in his overthrow—and are fully prepared to fight to the last American to bring it about. But, since the threat he poses to the U.S. is far less than the threat to the Gulf states, why are we Americans the fall guys, expected to do 90% of the fighting and to take 90% of the casualties? Only Britain, loyal as usual, has made any serious military contribution to the impending war—10,000 more troops than Egypt. If we go to war, let not the posse fade away, as befell the unfortunate marshal in High Noon.

And please, Mr. President, spare us the sight of Dan Quayle telling the troops that this war won't be another Vietnam. How in hell would he know?

No one ever supposed that an economic embargo would bring Iraq to its knees in a short five months. Why not give sanctions time to work? The Central Intelligence Agency already reports shortages in Iraq's military spare parts. If we must fight, why not fight a weaker rather than a stronger Iraq? What is the big rush? There is a phrase of President Eisenhower's that comes to mind: "the courage of patience."

I also recall words of President Kennedy that seem relevant during these dark days: "Don't push your opponent against a locked door." What is so terribly wrong with a negotiated settlement? Iraq must absolutely withdraw from Kuwait, but the grievances that explain, though not excuse, the invasion might well be adjudicated. As for the nuclear threat, that can be taken care of by a combination of arms embargo, international inspection throughout the Middle East and great-power deterrence. Such measures would do far more than war to strengthen collective security and build a new world order.

One has the abiding fear that the administration has not thought out the consequences of war. Fighting Iraq will not be like fighting Grenada or Panama. The war will most likely be bloody and protracted. Victory might well entangle us in Middle

Eastern chaos for years—all for interests that, so far as the U.S. is concerned, are at best peripheral.

#### IRAQI SIDESHOW

Worst of all, the Iraq sideshow is enfeebling us in areas where vital interests are truly at stake. While we concentrate energies and resources in the Middle East, Eastern Europe is in travail and the Soviet Union is falling apart. We cannot single-handedly rescue democracy in the ex-communist states, but at least we ought to be thinking hard about ways we could help on the margin. Europe is far more essential to our national security than the Middle East.

And we confront urgent problems here at home—deepening recession, decaying infrastructure, deteriorating race relations, a shaky banking system, crime-ridden cities on the edge of bankruptcy, states in financial crisis, increasing public and private debt, low productivity, diminishing competitiveness in world markets. The crisis of our national community demands major attention and resources too. While we fiddle away in the Middle East, the American economy will continue to decline, and Japan and Germany will seize the world's commanding economic heights.

War against Iraq will be the most unnecessary war in American history, and it will may cause the gravest damage to the vital interests of the republic.

[From the New York Times, Jan. 24, 1991]

#### C.I.A. SIDELINES ITS GULF CASSANDRA

(By Michael Wines)

WASHINGTON.—As Iraqi forces massed along Kuwait's border on August 1, a Central Intelligence Agency analyst named Charlie Allen walked into the offices of the National Security Council's Middle East staff.

"This is your final warning," he is reliably said to have told them. Iraq, he said, would invade Kuwait by day's end.

It was not the first time that Mr. Allen, a 32-year C.I.A. veteran with the ominous-sounding title of national intelligence officer for warning, had sounded the Kuwait alarm. Until the last hours of Iraq's sword-rattling, when a handful of others joined him, Mr. Allen had been the leading doomsayer among analysts tracking Iraq's military preparations. For Mr. Allen, associates say, shunning the beaten path is standard fare.

So, apparently, is what happened next. His forecast was disregarded, and top White House and Pentagon officials were surprised at home when Iraq marched into Kuwait on the morning of Aug. 2.

#### A KLAXON FOR THE GOVERNMENT

Mr. Allen's job is to alert the Government when crisis brews, even if the Government chooses not to believe him. His biggest crisis is just that: too often, right or wrong, the Government chooses not to believe him. Were Mr. Allen your average functionary, that might not matter. But in January, as in August, Mr. Allen is supposed to be the klaxon, sounding the alarm when global events threaten to spiral out of control.

Even in peacetime, the national intelligence officer for warning is potentially among the most vital analytical jobs in espionage.

"If you ever subtracted warning from intelligence, it would be like giving a sheepdog a haircut and finding out it's a Chihuahua," said Herbert Meyer, who advised President Reagan's Director of Central Intelligence William J. Casey. "This is the person who yells, 'Iceberg, dead ahead!'"

Depending on one's view, Mr. Allen's troubles stem from Mr. Allen himself, who even friends conceded is an irascible and sometimes uncontrollable workaholic, or from a bureaucracy that won't recognize and profit from his insight, or from both.

Neither wishes to air the matter. Mr. Allen declined requests for an interview and a photograph. The C.I.A. declined to discuss Mr. Allen.

What is nevertheless clear is that his work has work has lately landed him in the worst sort of doghouse.

His main product, a report on developing trouble spots prepared for the Director of Central Intelligence, William H. Webster, every two weeks, has been suspended since fall. His staff in the Pentagon and the National Intelligence Council, an inter-agency group of senior analysts, has shrunk. Credit that to normal attrition, said a senior Administration official who spoke on condition of anonymity, or to a cam-

paign to "denude" Mr. Allen's authority, said two Government associates who also insisted on anonymity.

#### A PUZZLE TO MANY

The decline of Mr. Allen, a tall, graying man given to sober suits and precise grammar, puzzles many because he has no small number of admirers.

In his sole private passion, the chairmanship of the suburban Herndon, Va., planning commission, Mr. Allen is largely credited with rewriting the town's master plan and persuading politicians and developers to adhere to it. The town's Rotary Club made him its citizen of the year in 1988.

In Government work, Mr. Allen is said to wear out secretaries, natter co-workers and pull all-nighters with a college student's abandon. Associates say he can infuriate them with his demands and criticisms.

Yet Frank C. Carlucci, who employed Mr. Allen as an aide when he was Deputy Director of Central Intelligence in the late 1970's, calls his work "outstanding." James Woolsey, once Mr. Allen's lawyer and now the Government's chief negotiator at the conventional arms talks in Vienna, calls him "a man of extraordinary ability and integrity."

"Charlie represents the type of thing you want an intelligence analyst to do: to stand up and say what he thinks, and not worry about covering his behind," said an intelligence official who worked with him in the 1970's. "You can look at some of Charlie's product and say that he's a doomsayer. But on the other hand, that's his job."

#### LIMITS OF DOOMSAYING

Or is it? Without specifically citing Mr. Allen, a senior Administration official involved in warning issues made it clear that doomsaying has its limits.

"Warning is a process, not an event like 'I predict,'" that official said. "Holding one's fire and getting it right is important. Firing a lot, and getting it right occasionally, is not."

Even admirers concede that Mr. Allen overreaches. In August, five months too early, he was predicting that a Soviet incursion in Lithuania was imminent. People who read his reports say that is not the only example of faulty analysis.

But Mr. Allen and his staff can also score dead hits. He was among the first to argue that the Soviet military threat in Eastern Europe was vanishing. He was also right—and his superiors were wrong—in forecasting that the Soviets' withdrawal from Afghanistan in 1989 would produce not a quick victory by C.I.A.-backed rebels, but a violent stalemate.

Mr. Allen also forecast the greatest political scandal of the 1980's: Oliver L. North's use of proceeds from the sale of United States arms to Iran to finance a war in Nicaragua. A coworker with Mr. North, he warned superiors in October 1986, two months before it became public, that he believed Mr. North was diverting arms profits to the contras.

The C.I.A. later reprimanded Mr. Allen for not being sufficiently forthcoming to investigators about the scandal, an accusation he fought personally and with lawyers.

Mr. Allen's specific duties are classified. But warning of impending crisis is not his exclusive franchise. Intelligence analysts and spies alike red-flag events they believe signal danger. The intelligence establishment maintains a network of "watch officers" who confer regularly by telephone about trouble spots.

Amid this mix, said the senior official involved in warning issues, the national intelligence officer for warning is "the devil's advocate," pointing out the overlooked and chiding other analysts to sharpen their conclusions. The job is delicate, he said, because its occupant steps on the turf of other analysts and sometimes disagrees with their conclusions.

In the sanctum sanctorum of the National Intelligence Council, an elite, collegial body that regards itself as the authoritative analyst of world events, Mr. Allen is unlikely chaplain.

#### HOW HE SEES HIS ROLE

In fact, associates say, Mr. Allen sees his mandate as not just to advise his fellow analysts about danger spots, but to alert Mr. Webster and Administration policy makers to all potentially major changes, even unlikely ones.

"He warns on impact, not probability," A Government official said. "As a result, Mr. Allen's analyses often conflict with those of the agency. That shouldn't be a problem, but it is."

Iraq, the latest example, may be the tripwire that threw Mr. Allen's long career into its latest limbo.

The intelligence grapevine carries several versions of Mr. Allen's actions. The consensus is that he issued three separate official warnings of an invasion of Kuwait, each more pessimistic: one in early July, raising the prospect; one on July 25, placing its likelihood at somewhat greater than 50 percent, and one virtually flat prediction, the day before the invasion occurred.

In a move that is said to have angered superiors, Mr. Allen then bolted the intelligence bureaucracy, warning a senior State Department official and two National Security Council experts that an invasion was imminent.

#### OTHERS RAISE RED FLAGS

It is not known what those officials did with his advisory. But it is also not clear that it makes any difference. While a lonely voice, Mr. Allen was not allowed in red-flagging Iraq's military ambitions. A witness says the President's Daily Brief, a C.I.A. intelligence report given six mornings a week to Mr. Bush and a handful of other high officials, accurately described Iraq's preparations, albeit in torpid language. A Pentagon official also raised red flags.

(From the New York Times, May 25, 1990)

#### LAVORO UNFOLDS

(By William Safire)

WASHINGTON.—"The Lavoro affair" is what some of us call the Government of Iraq's manipulation of the American and Italian banking systems to help Dictator Saddam Hussein finance the building of a missile with a nuclear warhead.

In Atlanta, a grand jury has been investigating the running of \$3 billion through a U.S. branch of Italy's Lavoro bank, a large chunk of which was ostensibly for commodity loans guaranteed by the ever-trustful U.S. Department of Agriculture.

Like the savings and loan scandal, this case is too complex for media scrutiny (Alan Freedman of The Financial Times excepted), and Attorney General Richard Thornburgh slowed the investigation by easing out the U.S. Attorney in Atlanta.

Reverberations from the Lavoro probe made our Secretary of Agriculture, Clayton Yeutter, nervous enough to dispatch a team to Baghdad to find out about "possible irregularities" in our billion-a-year guarantee of loans to Iraq. As predicted here, these bureaucrats returned with indications of corruption and kickbacks that they hastily unloaded on the department's Inspector General.

Because the Bush Administration does not want to upset the Iraqi dictator, who will be anointed next week in Baghdad as "the new Nasser" by the Arab leaders, no questions are being asked of the National Security Agency about why it failed to spot the huge transfer of dollars; nor has the F.B.I. yet asked the Export-Import Bank which of its officials knew of the illegal transfers.

But Atlanta's Lavoro leads are making some investigators here and in Europe nosy: where else has Hussein been getting the money for his costly weaponry? And who is providing him with the Western technology to terrorize the world?

All fingers point to France, which was the leading weapons supplier to Iraq during its war with Iran. Six months ago, a scientific delegation from Paris met with Saddam Hussein after visiting his secret missile base at Mosul; four French companies turned out to have received payments through the Lavoro Atlanta "paymaster."

France has already helped Iraq concoct its own Awacs, placing a radar dish 10 yards in diameter built by Thomson-CFS on top of an Ilyushin-76 bought from the Soviets. The French technicians, who maintain and operate the advanced command reconnaissance aircraft, have boasted that their Adnan I is better than Moscow's own version.

In January of this year, France's Defense Minister, Jean-Pierre Chevenement, was summoned to Baghdad. The dictator wanted a better product than the Mirage F-1 that helped him defeat Iran; he wanted the new Mirage-2000 jets, expected to be ready by 1994, on credit. Mr. Chevenement reminded Saddam Hussein that he already owed France \$6 billion.

Bankers know how that made Hussein all the stronger in the dealing; the dictator found \$158 million to pay Thomson-CSF cash for new orders and thereby drew Chevenement into advancing much more new debt; most important, he agreed in principle to provide the Dassault Mirage 2000—and have it produced in Iraq.

That's not all; the Iraqis want a modern long-range ground-to-ground missile. They took the old Soviet Scuds, with a range of only 200 miles, and with the help of a score of French technicians upgraded these to 500 miles; they are called Al-Abbas and Al-Hussein. What then became vital was a sophisticated inertial guidance system—the missile system's "brain."

The French company Sagem makes those guidance systems, but by E.E.C. treaty—the Missile Technology Control Regime—France is bound not to export this destabilizing warmaker. Somehow, these made-in-France devices have been getting through to Iraq; as a result, Hussein has a new weapons system that led to his boast to be able to "scorch half of Israel."

On this critical item, French customs has become a sieve, and investigators find it is hard to imagine that Mr. Chevenement's ministry is unaware of the smuggling.

While France's technical expertise is bolstering the Nasserite pretensions of Iraq's dictator, U.S. loan guarantees have helped him free money for leverage for more French credit. Congress wants to impose sanctions, but Mr. Bush—supported by Pennsylvania Republican Senator Arlen Specter—thinks Saddam Hussein is a closet moderate.

We could learn more about the buildup of a menace to peace by unraveling the Lavoro affair. But Mr. Thornburgh's Justice is timorous; television news finds it all too complicated, and France's arms merchants have an investment that pulls them deeper into the pit.

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[From the New York Times, Sept. 23, 1990]

### UNITED STATES GAVE IRAQ LITTLE REASON NOT TO MOUNT KUWAIT ASSAULT

(By Elaine Sciolino with Michael R. Gordon)

WASHINGTON.—In the two weeks before Iraq's seizure of Kuwait, the Bush Administration on the advice of Arab leaders gave President Saddam Hussein little reason to fear a forceful American response if his troops invaded the country.

The Administration's message, articulated in public statements in Washington by senior policy makers and delivered directly to Mr. Hussein by the United States Ambassador, April C. Glaspie, was this: The United States was concerned about Iraq's military buildup on its border with Kuwait, but did not intend to take sides in what it perceived as a no-win border dispute between Arab neighbors.

In a meeting with Mr. Hussein in Baghdad on July 25, eight days before the invasion, Ms. Glaspie urged the Iraqi leader to settle his differences with Kuwait peacefully but added, "We have no opinion on the Arab-Arab conflicts, like you border disagreement with Kuwait," according to an Iraqi document described as a transcript of their conversation.

Portions of the document, prepared in Arabic by the Iraqi Government, were translated and broadcast by ABC News on Sept. 11, and were the basis of accounts by The Washington Post and The Guardian of London. The State Department declined to confirm the accuracy of the document, but officials did not dispute Ms. Glaspie's essential message.

As those and other details of the Administration's diplomacy have unfolded in recent weeks, its handling of Iraq before the invasion has begun to draw strong criticism in Congress, even among those who generally support the Administration's military action in the Persian Gulf. Some lawmakers have asserted that the Administration conveyed a sense of indifference to Baghdad's threats.

Interviews with dozens of Administration officials, lawmakers and independent experts and a review of public statements and the Iraqi document show that instead of sending Mr. Hussein blunt messages through public and private statements that an invasion would be unacceptable, the State Department prepared equivocal statements for the Administration about American commitments to Kuwait.

### ARAB ASSURANCES ON INVASION

The American strategy, carried out primarily by the States Department but approved by the White House, was based on the assumption that Iraq would not invade and occupy Kuwait. President Hosni Mubarak of Egypt and King Fahd of Saudi Arabia, who assured the Bush Administration that Mr. Hussein would not

invade, argued that the best way to resolve an inter-Arab squabble was for the United States to avoid inflammatory words and actions.

Some senior Administration officials said the strategy was also rooted in the view that Washington—and most of the Arab world—probably could live with a limited invasion of Kuwait, in which Iraqi forces seized bits of Kuwaiti territory to gain concessions.

"We were reluctant to draw a line in the sand," said a senior Administration official. "I can't see the American public supporting the deployment of troops over a dispute over 20 miles of desert territory and it is not clear that the local countries would have supported that kind of commitment. The basic principle is not to make threats you can't deliver on. That was one reason there was a certain degree of hedging on what was said."

#### EFFECT OF A HARDER LINE

Even in the days before the invasion, there was a consensus inside the Administration and among outside experts that Mr. Hussein would not invade despite largely correct intelligence assessments of the military buildup on the ground.

"There would have been a lot of fluttering if there had been a partial invasion," said an Administration official. "The crucial factor in determining the American response was not the reality but the extent of the invasion."

It is not clear that taking a harder line would have made a difference in Baghdad's decision to take Kuwait, and some Administration officials argue that if they had they would now be accused of pushing Mr. Hussein toward extreme actions.

As the Administration's policy toward Iraq before the invasion has come under criticism in Congress, the President's Foreign Intelligence Advisory Board, a group of experts who report to President Bush on intelligence issues, has also begun a post-mortem on the handling of the crisis.

The Administration was following what President Bush acknowledged last week was a flawed policy toward Iraq, a policy built on the premise that the best way to handle Mr. Hussein and moderate his behavior was through improving relations with Baghdad. That assessment presumed that Iran and Iraq, both exhausted by their eight-year border war, would focus on domestic reconstruction, not foreign adventurism.

As a result, the Bush Administration failed to calibrate its policy to take into account a string of belligerent statements and actions by Mr. Hussein in recent months, including the execution of a British journalist and a threat to use chemical weapons against Israel.

"We were essentially operating without a policy," said a senior administration official. "The crisis came in a bit of a vacuum, at a time when everyone was focusing on German reunification."

In the days before the invasion, Administration officials sent mixed signals about the American commitment to Kuwait's defense.

Secretary of Defense Dick Cheney, for example, was quoted as telling journalists at a press breakfast on July 19 that the American commitment made during the Iran-Iraq War to come to Kuwait's defense if it were attacked was still valid. The same point was also made by Paul Wolfowitz, Undersecretary of Defense for Policy, at a private luncheon with Arab ambassadors. But Pete Williams, Mr. Cheney's chief spokesman, later tried to steer journalists away from the Secretary's remarks, adding that Mr. Cheney had been quoted with "some degree of liberty."

From that moment on, there was an orchestrated Administration campaign to speak with one voice, and speak quietly.

On July 24, when Margaret D. Tutwiler, the State Department spokesman, was asked whether the United States had any commitment to defend Kuwait, she said, "We do not have any defense treaties with Kuwait, and there are no special defense or security commitments to Kuwait."

Asked whether the United States would help Kuwait if it were attacked, she replied, "We also remain strongly committed to supporting the individual and collective self-defense of our friends in the gulf with whom we have a deep and longstanding ties," a statement that some Kuwaiti officials said privately was too weak.

#### BUSH'S FORCEFUL TONE

Two days before the invasion, John H. Kelly, Assistant Secretary of State for Near Eastern and South Asian Affairs, essentially repeated the same message in Congressional testimony.

Even after the invasion, there was unease in some quarters in the State Department over Mr. Bush's tough public stance. On Aug. 6, when President Bush clearly

committed the United States to roll back Iraq's conquest of Kuwait, Secretary of State James A. Baker 3d expressed reservations about the wisdom of the forceful tone of Mr. Bush remarks, according to Administration officials.

Last Tuesday, at a hearing before a House Foreign Affairs subcommittee, Representative Lee Hamilton sharply chided Mr. Kelly for not taking a tougher stance against Iraq in his testimony before the invasion.

"You left the impression that it was the policy of the United States not to come to the defense of Kuwait," said Mr. Hamilton, an Indiana Democrat. "I asked you if there was a U.S. commitment to come to Kuwait's defense if it was attacked. Your response over and over again was we have no defense-treaty relationship with any gulf country."

#### POLICY GUIDELINES FOLLOWED

Bush Administration officials assert that Kuwait never asked for American troops or sought to join in joint military exercises with American forces.

Mr. Cheney told a breakfast group on Capitol Hill on Thursday that "the fact was, there was literally nothing we could do until we could get access to that part of the world, and the attitude of Saudi Arabia and the Persian Gulf states has been consistently that they didn't want U.S. forces on the ground over there."

On July 25, a week before the Iraqi invasion of Kuwait, Ms. Glaspie was quickly summoned into Mr. Hussein's office in Baghdad, and she faithfully followed conciliatory policy guidelines sent to her from the State Department.

In their conversation, Mr. Hussein described an American conspiracy against him since the end of the war with Iraq, and warned the United States not to oppose his goal of getting economic concessions from Kuwait and the United Arab Emirates, according to the document described as the official Iraqi transcript, which ABC News made available to the New York Times. Miss Tutwiler said Friday that the State Department would not reveal the contents of a diplomatic exchange.

#### WE TOO CAN HARM YOU

Mr. Hussein told the American Ambassador that the United States should thank Iraq for stopping Iran's aggression during the war, because the United States could never fight such a war to defend its friends in the region. According to the Iraqi document, he also suggested that he would use terrorism to curb any effort by the United States to try to stop him from achieving his goals.

"We too can harm you," he said, according to the document, adding, "We cannot come all the way to the United States but individual Arabs may reach you."

But at another point in the document, he characterized the feud with his neighbors as an inter-Arab dispute, adding that the solution "must be found within an Arab framework and through direct bilateral negotiations."

Ambassador Glaspie, stuck to the State Department line that President Bush wanted good relations with Iraq. Citing concern about Iraq's large troop buildup on the border and threatening remarks by Mr. Hussein in a number of his statements, she said that she had received instructions from Washington "to ask you, in the spirit of friendship—not in the spirit of confrontation—regarding your intentions."

Some officials say they are convinced that Iraq had already made a decision to invade when President Hussein met the American Ambassador and that Mr. Hussein's talk of a possible peaceful resolution was an effort to deceive Washington.

"To suggest that we are to blame for all of this and we lulled them into thinking they could have Kuwait is really terrible," a senior official said. "But we should have had a stiffer tone. It is unlikely to have made a difference, but it might have made a difference."

WEDNESDAY, FEBRUARY 27, 1991.

**MIDDLE EAST PANEL: WHERE DO WE GO AFTER THE  
WAR?**

**WITNESSES**

**ROBERT HUNTER, VICE PRESIDENT OF REGIONAL PROGRAMS, DIRECTOR  
OF EUROPEAN STUDIES, CENTER FOR STRATEGIC AND INTERNATIONAL  
STUDIES**

**MARTIN INDYK, EXECUTIVE DIRECTOR, WASHINGTON INSTITUTE FOR  
NEAR EAST POLICY**

**EDWARD LUTTWAK, ARLEIGH BURKE CHAIR IN STRATEGY, CENTER FOR  
STRATEGIC AND INTERNATIONAL STUDIES**

**RICHARD MURPHY, SENIOR FELLOW, COUNCIL ON FOREIGN RELATIONS**

**LAURIE MYLROIE, VISITING FELLOW, WASHINGTON INSTITUTE FOR  
NEAR EAST POLICY**

**CHAIRMAN'S OPENING STATEMENT**

Mr. OBEY. Good morning.

Let me apologize for being late. The full committee chairman called a meeting of subcommittee chairmen and made us an offer we couldn't refuse. So we had to finish that meeting first.

Let me simply say that this is the second day of hearings by the Committee. We are in the process of beginning to assess just what we ought to do with the Administration's foreign assistance request for the coming fiscal year.

Yesterday's hearings consisted of testimony from three witnesses, giving us an historical perspective on the Middle Eastern region.

Today we will be looking forward, rather than backwards.

As everyone understands, we have well over 500,000 Americans in the Gulf region at this point, who are being asked to perhaps make the ultimate sacrifice. The question has never been, in my judgment, how well we would do in the war, but how well we could manage events after the war.

We are going to be asked on this Committee by all kinds of people for all kinds of money for all kinds of purposes. The question, in my mind, is whether dollars will flow as a substitute for policy, or whether they will flow to buttress an agreed upon policy.

The question, furthermore, is what that policy ought to be.

I do not expect miracles from this region. My favorite philosopher is "Archie the Cockroach," and Archie said once that an optimist is a guy who hasn't had much experience.

When it comes to the Middle East, I think Archie had it right on target. So, I don't expect a lot of miracles in this region.

History tells us to be thankful for small steps. But, nonetheless, I believe that we have crossed a threshold. The United States indeed does owe the world its leadership. But, I think the world, and especially forces within the Middle East, also owe us their cooperation

when this is over in trying to design an approach to the region which will create some more stability than we have seen in the past.

Yes, the Saudis are going to be paying quite a bit when all of the costs are totalled up. But the fact is that without the United States action, Saudi Arabia might very well not even exist.

Yes, the Kuwaitis are going to have to pay a lot of attention to rebuilding their own country. But it seems to me, given what the rest of the region and the rest of the world is in the process of doing for them, that they also have an obligation to try to assist in rebuilding the region.

Yes, the Israelis have shown commendable restraint under very difficult circumstances. But we have, in fact, removed the principle military throat to the Israelis in the region. And I think, therefore, that all parties have an obligation to look not just at their own needs, but at the needs of the region. I think, frankly, that they have an obligation to take a look at our needs in managing what is going to be a very difficult set of circumstances.

Tom Freedman wrote an article in *The New York Times* Sunday which I think is sobering, because it reminds all of us that the odds for dramatic change in this region are very slim indeed. He raises a question of whether tomorrow in the region is going to look like yesterday.

All I can say is that, while I recognize the odds, I think we have an obligation to try to overcome those odds. I am not an optimist by nature when it comes to dealing with these issues. But I don't think we can afford to be an absolute naysayer, either, because we have crossed this threshold.

I think the American people will be willing to pay whatever price is necessary to see to it that we do this right when the war is over. But I don't think they are willing to simply pay if they believe that everyone is going to go back to business as usual, and I don't think they are going to be very interested in paying if they believe that their own leaders do not have the subtlety or the determination or the tenacity to insist on a different set of arrangements in a very tough part of the world.

Today, we have five people with us who can tell us what they think our policy ought to be and what principles ought to guide that policy. We were scheduled to have six people, but Mr. Simes could not be with us. We will have this morning Mr. Robert Hunter, Vice President of Regional Programs, Director of European Studies, Center for Strategic and International Studies; Mr. Martin Indyk, Executive Director, Washington Institute for Near East Policy; Mr. Edward Luttwak, Arleigh Burke Chair in Strategy, Center for Strategic and International Studies; Mr. Richard Murphy, Senior Fellow, Council on Foreign Relations, who has testified before this Committee many times in his previous incarnation; and Laurie Mylroie, Visiting Fellow, Washington Institute for Near East Policy.

Let me simply ask that Mr. Richard Murphy, in light of his most recent seniority before the Committee, begin. Then we will take people in the order they are listed on the witness list.

## MR. MURPHY'S OPENING STATEMENT

Mr. MURPHY. Thank you, Mr. Chairman.

I appreciate the opportunity to be with you this morning, and it is a particular pleasure not to be here asking you for money.

Mr. OBEY. Don't worry. Somebody else will. [General laughter]

Mr. MURPHY. There will be somebody else, I am sure, very soon.

You have asked us to focus on what expectations the United States should have of the Arab countries, of Israel, and of ourselves in the wake of this war. I have submitted a statement for the record. It starts and it ends with an encouragement that we take the lead in Middle Eastern diplomacy. If we fail to aim high, if we start with Mr. Freidman's modest expectations, we are going to get something less than modest. So I am urging that we aim high and that we move quickly because, based on the history of the post-war situations in that area, there have been windows of opportunity in the past that have not been exploited.

In 1967, three weeks after that war, Levi Eshkol, then the Prime Minister of Israel, said that Israel was ready to return every inch of the territory that it occupied in exchange for peace.

Two months after that war, the Arabs gathered in Khartoum and gave their famous three no's: no negotiation, no accommodation and no recognition of Israel.

The window closed pretty quickly.

In 1973, we were there and very active when the firing was still going on, and within 2 months had organized the Geneva Conference. It took 6 years after that to successfully negotiate the Egyptian-Israeli Peace Treaty. But if we had not moved that quickly, I'm not sure we ever would have had a peace treaty between Egypt and Israel.

## NEW ARAB RELATIONS

Again the window is there. I think the window is wide, given the destruction of so many assumptions caused by Saddam Hussein's invasion, so many assumptions both on the Arab side and in Israel.

What can we expect from the Arabs? Well, the Iraqis are coming out of this badly battered militarily, possibly heading toward a change of regime. But whether Saddam stays or is put aside, his message will still echo in Baghdad, his national message, that Iraq had historic rights and a mission to liberate Kuwait, to respond to the (ostensible) "cry of revolution" which was nonexistent, and to break the rule of despotic rulers and to arrange a more equitable distribution of wealth in the Arab countries. He spoke to the Arab audience rather late in the day, as an afterthought of his invasion, that he was there to lead the eventual liberation of Palestine.

All of these are cards that he played with some effect, in terms of his Iraqi audience and the mass audience in the Arab streets. All of these questions are going to have to be dealt with— some of them by ourselves, some of them in conjunction with the United Nations. I think it is just warning that he had some potent messages and they are not going to die with the death of his rule in Iraq.

Jordan tilted toward Iraq, had seen it as its defender, had very strong economic ties with Iraq, and was listening to its Palestinian

population and to the Islamic fundamentalists who had supported Sad<sup>am</sup>. The Palestinians, once again, made a wrong choice of heroes. But it was a mark of their frustration that they cheered on the SCUD missiles landing in Israel.

Syria before the war had started moving back to center stage in Arab politics. It had restored its relations with Egypt. When the war started, it quickly committed troops to help defend Saudi Arabia, and they have been there since late August/September. There is a new Syrian relationship, then, with Egypt and with Saudi Arabia.

Saudi Arabia and Kuwait, restored to independence and sovereignty, are going to be charged by the Arab radicals in the wake of this war with having complied in the destruction of an Arab military force, and possibly of the entire infrastructure of Iraq. I think this will encourage the Saudis and the Kuwaitis, perhaps others in the Gulf Cooperation Council, to step forward, and urge that something be done diplomatically on behalf of the peace process, and on behalf of the Palestinians. That has long been a cause in the Arabian peninsula, that I think they will sense some vulnerability to the charge of what they did in cooperating with the West against Iraq.

Egypt was restored to its normal position of leadership in the Arab world in the years following Camp David. It will be keenly interested in expanding the normalization of ties between Israel and other Arab countries so that it is no longer isolated diplomatically in terms of having relationships with Israel.

So, on the Arab side, the kaleidoscope has shifted. There are new relations—I hesitate to call them “alliances”—but there are new relations on the Arab side, and this is a target that we should be paying very close attention to, how we can use that new dialogue, particularly between Saudi Arabia, Syria, and Egypt.

Israel is very pleased with the administration's support of Israel's security, delighted with the elimination of the strategic threat that Iraq posed, but is apprehensive about the revival of tensions between Washington and Jerusalem over the political issues in the peace process. Israel is very hopeful that there will be major economic American assistance to cover, in part, the costs of the war to Israel, but much more for the costs of settling Soviet Jews in Israel.

I see little interest in Israel in Palestinian-Israeli dialogue. In fact, I see very little interest in the Palestinian side to sit directly, one-on-one, with the Israelis.

But I see a great interest in Israel in state-to-state dialogue and trying to expand the normal relationships between governments. The Prime Minister of Israel has gone on record in arguing that an early first step should be taken toward negotiating a nuclear and chemical weapons free zone in the Middle East.

The Gulf States are thinking through their economic relations with the rest of the Arab world. Whether there is going to be a new Arab Fund under Gulf leadership, particularly Saudi leadership. I don't think that decision has been made. At least it has not been revealed that a decision has been taken. But there is ferment among the Gulf States, a new interest in, to some degree, broadening the participation in government. I think you can expect to see the parliament restored in Kuwait before too many months have

passed. There is discussion in Saudi Arabia and Oman about a type of consultative assembly to advise the government.

#### U.S. POLICY

We can certainly encourage and should encourage both such developments. I do not see an economic price tag for the United States on either of those.

As far as we are concerned, we want to get home, get our troops home the day after it is no longer necessary that they be there, as the President has said. That desire will coincide with the desire of the peninsula states once they are sure that the Iraqi military capability, offensive capability, has been eliminated.

They would like us back over the horizon, on the ships. I think they will be reluctant to see a major ground presence. I'm not even sure that they will want to see an American air presence.

We can join in an effort to set up a United Nations peacekeeping force that most logically would be placed straddling the Iraqi-Kuwaiti border. It is up to our military, but I would think they would be studying the costs of repositioning much of the equipment that they have in Saudi Arabia, putting it there and leaving it there, rather than bringing it home. That is the type of contribution I can see, perhaps a beefed up naval presence in the Gulf, something beyond the five or six ships that have been there for the last 40 years.

In terms of our diplomacy, we should work very hard to revive the Arab-Israeli peace talks, hopefully broadening them so as to include the Israeli-Palestinian dialogue, which is going to be very hard to get started in the early stages.

We should move to encourage arms control, something we have never done in the Middle East, especially, arms reduction talks between the several countries that possess weapons of mass destruction, that possess intermediate range missiles, the delivery systems.

As to what categories of arms to start talking about, I would hesitate to pronounce on. We might try the idea of a moratorium on all arms deliveries to the region for a period of time and freeze it in order to get people focused on the need to construct a framework for negotiations.

I think the American public has been badly jolted by the sights it has witnessed on television these last several weeks and months. We were not engaged in a simple Third World side show. We were amazed at the amount of equipment and the high technology that the Iraqis possessed on their side. They proved unable to use it. But the fact is that they were overloaded with some excellent equipment from Western as well as Soviet and Chinese sources.

There is a trauma in Israel today because of the SCUD missiles and in Saudi Arabia as well. I think there would be receptivity to that kind of effort in the region and in the American public. I hope that the administration will be encouraged to think big and think new in those areas.

Thank you.

Mr. OBEY. Thank you very much.

[Prepared statement of Mr. Murphy follows.]

February 27, 1991

THE GULF AFTER THE WAR

Statement by Richard W. Murphy,

Senior Fellow for Middle East

House Committee on Appropriations

Subcommittee on Foreign Operations

Thank you, Mr. Chairman, for the opportunity to appear before this subcommittee to discuss issues which will command the attention of the United States in the near future.

#### DIPLOMATIC WINDOW OF OPPORTUNITY

Before dealing with expectations, let me state my basic assumption: a new window of diplomatic opportunity will open in the Middle East following the war. This was the case during the period immediately following the 1967 war and, to an even larger extent, after the 1973 war. The invasion of Kuwait polarized the Arab world. The threat of posed by scud missile and chemical weapon attacks, allegations of numerous Iraqi atrocities, and even the possibility of Israeli retaliation has further destabilized this historically volatile region. However, before people settle back into long established patterns, the United States and our allies should undertake vigorous diplomatic efforts to reinvigorate the Arab-Israeli peace effort and, to construct new security arrangements to lessen regional tensions.

A strong American diplomatic lead will be needed to exploit the unique opportunities. The window of opportunity is larger than many observers think, however, if history is a guide, timing is crucial. We have earned credit with the Arab members of the coalition for countering Iraq and with the Israelis for effectively degrading the Iraqi offensive military capability. In one sense, both Arabs and Israelis owe us one; more basically, they owe it to their own future security not to let the chance for a fresh approach to the area's problems go unexploited. Unfortunately there is little evidence that the Administration has done the diplomatic homework necessary to pursue vigorous diplomacy.

A NEW REGIONAL SECURITY STRUCTURE?

If the post-war assessment reveals that the Iraqi offensive military capability has been severely reduced, the Gulf countries will not want America to play a visible security role. Iran will likely continue to demand that the United States, indeed all non-Gulf powers, leave regional security issues to the local powers. This demand will be echoed by Syria. Saudi Arabia and its fellow members in the Gulf Cooperation Council (GCC) will be much more polite but they will feel more comfortable with a United States security relationship which has our forces "over the horizon" as in the past, i.e. primarily a naval presence in the Gulf, Arabian Ocean and the Red Sea.

The GCC prefers that any foreign ground forces in the Middle East be Muslim and Arab. Egypt would seem a logical source for a quasi permanent supplemental force. Kuwait may request a United Nations Peace Keeping Force to be stationed on both Iraqi borders to symbolize world concern about Kuwaiti territorial integrity and sovereignty. We should weigh the desirability of both US and Soviet participation in such a force. There would seem no compelling reason for either of us to participate. In fact, such overt presence would exacerbate anti-west feelings.

The United States should consider the prepositioning of a substantial amount of the equipment lifted to Saudi Arabia and neighboring states for "Operation Desert Storm". Presuming the U.S. military custodial force would not be too large, the Saudis would welcome such prepositioning, which would obviously cut down the lead time for any future US military deployment.

Otherwise, it is difficult to visualize any GCC state agreeing to more in terms of formal cooperation with the U.S. beyond signing Executive Agreements granting access to their ports and airfields and providing for joint exercises with their national forces. There is likely to be little interest either in Washington or Gulf state capitals in more formal security relationships such as mutual defense treaties would constitute.

#### POLITICAL STRUCTURE OF THE PARTICIPATION IN GULF STATES

The six member states of the GCC will likely want to preserve, with little variation their traditional political structures. The ruling families have led these states for more than a half century and in some cases for over two hundred years.

The Iraqi invasion, however, has stimulated fresh thinking in some GCC countries about broadening popular participation in governmental decision making. Kuwait announced plans to restore its Parliament once it has regained its independence. Saudi Arabia and Oman have spoken of appointing some type of consultative assemblies to provide counsel to their governments.

Although Washington, for many years, maintained reasonably close relations with leaders in the Gulf, we never actively advised them to change their political structure to facilitate more democratic participation in the decision-making process. It would be desirable to engage the Gulf leaders in such discussions, but just how to enhance the democratic process will not be obvious. The indigenous population, for example, in the United Arab Emirates amount to only 20% of the overall population. In pre-war Kuwait it was 40%. Foreign workers have been imported in great numbers for jobs ranging from the menial to the professional classes. It will not be a matter of pressing for "one man, one vote" in the Gulf countries where the foreigners by and large have been content with working in the oil countries for a limited number of years, earning wages which they remit abroad to support families and prepare for retirement. But as Americans we should not hesitate to explain why we consider it essential that the governed share as fully as possible in the decisions of their governors.

#### A SUMMARY DESCRIPTION OF THE POST-WAR REGION

Iraq will be battered militarily and possibly heading for a change of regime. Significant damage has been done to Iraq's military equipment and infrastructure. A determination of how much, if any, offensive capability it retains must await the war's end. As long as Saddam survives in power, the message will continue to be heard from an unrepentant Baghdad that it had fought for Iraq's historic rights to Kuwait, for an equitable distribution of Arab oil revenues and for the Palestinians.

These have been powerful messages to the Iraqi people, the Palestinians, and to the street in many Arab countries. The United States should view these issues as cards which we and our allies can and should take from Iraq's hands in the post-war period in order to play them in a more constructive fashion.

Contrary to the opinion of some observers, I believe that the likelihood of Iraq's neighbors moving to divide it up is low:

Turkey has cautioned Syria and Iran to keep their hands off of post-war Iraq. But in Ankara, President Ozal has been criticized by his own party and the Turkish military, witness the resignations of the Turkish foreign minister and the Chief of Staff, for involving Turkey too deeply in the affairs of the Arab world. Turkey will be deeply uneasy should the war stimulate a resurgence of Kurdish nationalism in Iraq which could threaten to spread into Turkey and Iran.

Iran, while unlikely to harbor territorial gains, may harbor the hope that in the post-war period it will be possible to foster an Islamic Republic of Iraq under Shiites' leadership. Such a development would arouse deep concern in Saudi Arabia and in the GCC states generally. Tehran's February offer of mediation between Baghdad and Washington was the clearest public signal in several years that the Iranian leadership might become confident enough of its position to seek improved relations with the United States. While Tehran would like Washington "out of the Gulf" in terms of a security role, it also wants to benefit from U.S. support, or at least America's benevolent indifference, when it approaches international financial markets seeking loans to rebuild its war damaged economy. It will be in the U.S. interest to encourage any further Iranian approaches to improve our bilateral ties.

Syria well before last summer's Iraqi invasion of Kuwait had moved to restore its diplomatic relations with Cairo, a capital it had condemned for the past ten years as a traitor to its fellow Arabs ever since 1977 and particularly after the signing of the Egyptian-Israeli peace treaty. Having also sent its troops to help defend Saudi Arabia, Syria obviously expects to gain a position of greater political influence in Arab circles. Some dissent has emerged in Syrian intellectual circles for having joined the coalition but Damascus has been remarkably steadfast. Syria will, predictably, prove a tough negotiator in any future peace process but may be more open to move into the peace process and to better relations with the United States than it was before the war.

Jordan must abandon its strategy of depending on Baghdad to defend it against what Jordan is convinced is an expansionist Israel. Since he stood with Iraq, however, King Hussein should be able to enjoy a larger measure of favor among the Palestinian community after the war's end. The King is keenly aware that the Palestinian cause, if not the PLO leadership, will retain its power to stir Arab emotions and may seek a new role for Jordan in any revived Arab-Israeli peace process.

Both Jordan and the Palestinians must be involved in Arab-Israeli talks. The Palestinian problem will not improve with neglect but it may be time to encourage Jordan and the Palestinians to revive their own initiative of 1983 to form a joint Jordanian-Palestinian delegation. How the Palestinians representatives are to be selected has agonized previous U.S. administrations. One thing is clear: there is little evidence that the Palestinians in the Occupied Territories will be ready to sit down alone with Israel in the post-war period when the frustrations which led to their supporting Saddam will probably give way to deeper bitterness and despair at his military defeat.

SAUDI ARABIA will be accused by Arab radicals of having been complicit in the destruction of an Arab military force. The Saudis will be more receptive to a negotiated Arab-Israeli peace treaty than ever before, in fact, they may welcome an American diplomatic initiative for which it can claim at least partial credit in Arab circles.

Israel has brooded since the invasion that resolution of the Gulf crisis would end up somehow being at its expense. Jerusalem, while delighted with the elimination of Iraq as a strategic threat, anticipates a renewed American effort to advance the Arab-Israeli peace process. Prime Minister Shamir reportedly believes that Washington distorted his 1989 initiative to launch both state to state negotiations and Israeli-Palestinian talks by overly focusing on the latter. The Israelis deeply appreciate the close and supportive American posture towards Israel's security needs but are nervous about what the Bush Administration's may expect from it regarding the peace process.

#### THE "HAVE/HAVE NOTS"

Saddam Hussein has impacted Arab World opinion by calling for more equitable sharing of Arab oil wealth. Studies are reportedly underway among the GCC states to reorganize foreign assistance programs to emphasize local concerns. New criteria governing their future assistance to other Arab states have not yet been revealed. The United States should encourage new thinking about Arab economic assistance to other Arabs, recognizing that in the final analysis we cannot entirely direct the flow of their monies.

The economies of the GCC countries have been sorely strained by the expenses of "Desert Storm" and Kuwait will have massive expenditures for reconstruction. Whether Iraq can be forced to contribute to that reconstruction or pay reparations remains to be seen. In any event there should be no need to call on governments outside the Arab world to help finance new Arab assistance programs for fellow Arabs.

#### ARMS CONTROL TALKS

This war has shown just how badly out of control the arms race has become in this volatile, passionately divided region. The Administration is expressing a welcome and unprecedented interest in arms control talks for the Middle East. Former American administrations only paid lipservice to slowing the regional arms race; Washington repeatedly described itself as the only arms supplier which carefully weighed its arms sales against considerations of maintaining a regional arms balance. Yes, we have been more conscientious than other nations, but more often than not we seemed to be making pro forma arguments when cautioning against major sales. The competition of the cold war, the security of Israel, and the need to confront Iran were, to date, more compelling arguments.

With the easing of the Cold War, Moscow's rejection of Syria's goal of gaining strategic parity with Israel and its probable hesitation to resupply Iraq at anything near its former level of sales, the area situation is more promising for an effort on behalf of arms control/arms reduction than at any point in the past generation. It will be an extraordinarily difficult set of negotiations to organize particularly since it will have to bring together states which still lack normal relations. We should note that the Israeli Prime Minister personally endorsed a nuclear free zone in the Middle East.

There will be an opportunity after this war which should be seized to eliminate development of non-conventional weapons, slow down the acquisition of conventional weapons and commence the long process of reducing the levels of weaponry in all categories. We should consult soonest with our coalition partners, NATO and other arms supplier nations about an international moratorium on all sales or transfers of weapons of mass destruction and their delivery systems to the region. Such moratoriums would be in place until we are able to organize the appropriate framework and process for arms control in the Middle East.

In sum, Mr. Chairman, the war will create promising opportunities to improve the security situation in the Gulf and to initiate direct negotiations between Arabs and Israelis. The Administration should be encouraged to aim high in pursuing its peace-making efforts and to move rapidly in the period following a ceasefire. Put in not so diplomatic terms; we should strike while the Middle East iron is hot.

Thank you again for allowing me to appear before this subcommittee and I will be glad to answer any questions.

## MR. HUNTER'S OPENING STATEMENT

Mr. OBEY. Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

I have a prepared statement which I would like to summarize and submit for the record, if I might.

Mr. OBEY. It will be received.

Mr. HUNTER. May I say at the outset, Mr. Chairman, that there is some good news with Archie about the Middle East. Mehitabel, after all, was a reincarnation of Cleopatra. So perhaps he could get some advice from her. [General laughter]

Mr. HUNTER. I welcome the opportunity to appear before your committee this morning. We meet at a time when all Americans hope and pray that this war will end quickly, and that it will end successfully with a minimum loss of life.

If the nation is to redeem the sacrifices of our fighting men and women, we have to be as courageous and intelligent in building the peace as the nation has been in prosecuting the war.

When the conflict is over, much is going to be different in the Middle East. In my judgment, the old system, much of it, has been shattered. Much of what will follow is not yet known, especially about the precise way in which the conflict will end, the nature of Iraq's future leadership, whether we will have Saddam Hussein to deal with or not, and whether Iraq is going to try to continue the battle after the immediate objective, securing the freedom and independence of Kuwait, is secured.

## BATTLE OF IDEAS

Mr. Chairman, in the limited time available, let me just say something only about one issue, what I call the "battle of ideas."

For us in this country, much of what Saddam Hussein has said and done in the crisis and war seems mystifying. This has been particularly true of his willingness to defy what we would call rational behavior regarding his political and military situation. But let me advance the following proposition, in two parts.

Throughout this crisis and war, Saddam Hussein has had an audience very different from the one to which we have addressed ourselves, and in his particular battle he has achieved signal successes. This is the battle of ideas.

His effort was to portray his struggle as reflecting adherence to at least four propositions—that this is an imperialist war, deriving from past colonial practice; that regional regimes being supported by the United States are illegitimate, in part for this very reason; that the Palestinian issue and Jerusalem are somehow at the heart of the struggle; and that the oil rich countries have unfairly deprived the oil poor Arab countries of a share in the common wealth. We have heard these themes almost from the beginning of the crisis in August until now. To us they seem bizarre.

But, in my judgment, they have considerable resonance within the Arab world and, beyond it, among other Islamic and Third World peoples.

Of course, the fact that Saddam Hussein is a clear loser and the United States is a clear winner is going to have some impact, especially with governing elites. We have to hope that, after this con-

flict and the long-standing miseries visited on the Iraqi people by Saddam Hussein, he will be viewed as a false prophet, who has squandered the chance to bring his people the benefits of political and economic progress that have come to so many others.

But I think we would fool ourselves if we believe that this victory will be greeted throughout the Arab world as liberation, the way the Europeans did at the end of the Second World War.

Mr. Chairman, if we are not going to lose the battle of ideas, there are at least four areas where we have to be sensitive.

The first relates to the building of new security relationships. All regional countries must be involved, both Arab states and Iran, which, incidentally, has shown a remarkable willingness to start reaching to the outside world.

#### U.S. LEADERSHIP

We may have to exercise leadership. But I believe it is clear that those security arrangements are likely to work best, such as the Gulf Cooperation Council, augmented by Iran, that involve the United States least. Clearly, I think we should support President Bush's instinct to reduce and then remove U.S. ground forces as soon as possible.

#### REGIONAL DEVELOPMENT BANK

Second, I welcome the suggestion by Secretary of State Baker for a regional development bank. Of course, other instrumentalities already exist. But I think there is value in creating a new institution under the leadership of Persian Gulf states that will underscore two points. First is a greater sharing of oil wealth and a commitment to productive investment within the region, in part for modernization and in part to help a process of moving states and peoples beyond a preoccupation with political grievances, instead of improving societies.

I am both a realist and an optimist. This is not going to be easy to do, but it is worth the "college try."

#### DEMOCRATIZATION

Third, I don't think that anybody can give an accurate prediction of the political future of the Gulf Arab regimes we have been defending. I think a strong case can be made, however, that their basis of legitimacy will be severely questioned, both because of the impact of outsiders on relatively closed societies, particularly Saudi Arabia, and because of the interaction between the West and Islam.

I believe that, in general, this interaction can be positive, and I fear a stigmatization in the United States of Islamic states following this war. Indeed, a confrontation between the West and Islam could be the ultimate tragedy.

It is not clear, however, that these regimes can survive and hope to provide a basis for U.S. policy or for regional stability unless they go through a process of profound reform. For many years, the Arabian Peninsula states were effectively fenced off from many of the major currents in global politics, most notably the press for human rights and democracy. That was wrong.

In the post war period, it is my judgment that such a special status is neither desirable nor possible. Let's use the word. The word is "democracy."

#### ARAB-ISRAELI CONFLICT

Finally, there is the issue of the Arab-Israeli conflict, as Secretary Murphy has already mentioned. This remains perhaps the most vexing issue in the region. But even here there is potential change, and several developments stand out.

The PLO has been discredited and, at the same time, regional states will owe the United States a different kind of hearing than we received in the past. If we are inclined to pursue a peace process, we have the right to expect not just forbearance by other Arab states but also their active support, including their direct engagement with Israel. That is the good news.

The bad news is that Israel has been traumatized anew by its experience during this war. Even when the memories of the SCUD attacks fade, Israel must recall that its security has been seen to be more directly vulnerable and more dependent on direct U.S. support than at any other time since the Yom Kippur War.

Yet, in the interests of both the United States and Israel, as well as Palestinians and others in the region, I think it is important after the war for the administration to begin creating a basis for moving forward. As always, in my judgment, it should begin with an effort to coordinate U.S. and Israeli approaches, along with firm evidence of U.S. support for Israel's security—a point, incidentally, strongly underscored by the victory in this war, demonstrating U.S. steadfastness.

The details of peace-making are going to be different. But the methodology has been established for a long time. What is needed, as always, is political motivation, to seek a better way of organizing relations in the Middle East.

Finally, Mr. Chairman, let me say that, in my judgment, after the war we are going to face new challenges in the region. But it is important that we do not try taking upon ourselves the task of reforming the entire region. We cannot do that. The peoples of the Middle East must accomplish basic tasks for themselves, and we have a lengthy agenda as well in other parts of the world, as well as at home.

We had to respond on August 3 to Iraq's aggression. With that task nearing accomplishment, I think we have to put the region back into perspective.

Thank you, sir.

Mr. OBEY. Thank you.

[Prepared statement of Mr. Hunter follows.]

Prepared Statement of Robert E. Hunter  
Foreign Operations Subcommittee  
House Committee on Appropriations  
February 27, 1991

Mr. Chairman:

I welcome this opportunity to appear before your committee this morning. We meet at a time when all Americans hope and pray that the war will end quickly, with the minimum loss of life.

If the nation is to redeem the sacrifices of our fighting men and women, it must be as courageous and intelligent in building the peace as it has been in prosecuting the war.

When the conflict is over, much will be different in the Middle East. Clearly, all is not yet known, especially about the precise manner in which the conflict will be terminated, the nature of Iraq's future leadership, and whether it will try continuing the battle after the immediate objective -- restoring the freedom and independence of Kuwait -- is secured.

But we can already reach some general conclusions. By way of illustration, let me list only ten:

- o 1. The United States has proved that it is a reliable partner. Many countries in the region will owe it a debt of gratitude, and it is possible to forge positive relationships based on this shared experience.
- o 2. Much of Iraq's future military capability -- conventional and unconventional -- has been crippled. That will reduce somewhat the difficulties of building a viable security structure in the region.
- o 3. During the crisis and war, it has become likely that Iran will end its decade-long isolation and be prepared to play a more constructive role in the Persian Gulf region.
- o 4. The Arab states belonging to the coalition have shown a high degree of willingness to work together. Whether this can be sustained in the post-war period is unclear -- for instance, the proposed creation of a peacekeeping force involving three traditionally disparate states of Egypt, Syria, and Saudi Arabia -- but at least there is a chance of greater cooperation than in the past.
- o 5. The United States' engagement in the war will give it considerable economic leverage in the region, relating, for

example, to energy markets and reconstruction.

o 6. The leadership of the Palestine Liberation Organization has been thoroughly discredited in the United States, in Israel, and in several of the Arab states that have traditionally provided it with strong support.

o 7. There is widespread recognition, both in the region and among concerned outside countries, that the old practice of simply dumping arms on Middle East states is no longer tolerable.

o 8. Even with the defeat of Iraq in Kuwait and the crippling of its military capability, it must be reckoned with in the future. There is no advantage in trying to remove it as a viable nation in the region, or in letting it become prey for its neighbors.

o 9. The development of new security structures in the region will need American leadership, but their success will depend in part on American restraint. President Bush has recognized this point by repeatedly stressing that U.S. ground forces will come home as soon as possible.

o 10. To succeed in the region, the United States must pay particular attention to the battle of ideas. At this level, Saddam Hussein has already had considerable success.

Mr. Chairman, in the limited time available to each of us here, let me say something further about this last issue, rather than focusing on a general agenda that must include many other issues, including arms control, security structures, and political relationships.

For us in the United States, much of what Saddam Hussein has done in the crisis and war has seemed mystifying. This has been particularly true of his willingness to defy what we would call rational behavior regarding his political and military situation.

Without making a case for his rationality, let me advance the following proposition, in two parts: that throughout the crisis and war, Saddam Hussein has had an audience very different than the one to which we have addressed ourselves; and that in his particular "battle", he has so far achieved some signal successes.

This is the battle of ideas -- the effort to portray his struggle as reflecting adherence to at least four propositions: that this is an "imperialist" war, deriving from past colonial practices; that regional regimes being supported by the United States are illegitimate, in part for this very reason; that the Palestinian issue (along with Jerusalem) is somehow at the heart of the struggle; and that the oil rich countries have unfairly deprived the oil poor Arab countries of a share of common wealth.

In the United States, these formulations may seem bizarre. But they clearly have considerable resonance within the Arab world and, beyond it, among other Islamic and Third World peoples. To be sure, the fact that Saddam Hussein is a clear loser -- and the United States is a clear winner -- will have

some impact, especially with governing elites; and it is to be hoped that, after this conflict and the long-standing miseries visited on the Iraqi peoples by Saddam Hussein's rule, he will be viewed as a false prophet who has squandered the chance to bring his people the benefits of political and economic progress that, for anyone who can have access to the outside world, has come to so many others.

Yet we would fool ourselves if we believe that this war will be greeted by the general Iraqi population, and more particularly by people in the Arab world who have not suffered under Hussein's leadership, as liberation, in the manner of the Europeans and the Japanese (the latter for reasons of imitative adaptation) after the Second World War.

If we are not to lose the battle of ideas, there are at least four areas where we need to be sensitive.

The first relates to the building of new security relationships. All regional countries must be involved, both Arab states and Iran. The United States may need to exercise leadership. But I believe it is clear that those security arrangements are likely to work best -- such as through the Gulf Cooperation Council, augmented by Iran -- that involve the United States least. Certainly, I believe we should support the president's instinct to reduce and then remove U.S. ground forces as soon as possible.

Second, I welcome the suggestion by Secretary of State Baker for a regional development bank. Of course, other instrumentalities already exist. But there will be value in creating a new institution, under the leadership of Persian Gulf states, that will underscore two points: a greater sharing of oil wealth and a commitment to productive investment within the region, in part for modernization and in part to help a process of moving states and peoples beyond a preoccupation with political grievances instead of the improvement of societies. I am both a realist and an optimist. This will not be easy to do; but it is worth a "college try."

Third, I do not believe that anyone can give an accurate prediction of the political future of the Gulf Arab regimes that we have been defending. A strong case can be made, however, that their basis of legitimacy will be severely questioned, both because of the impact of outsiders on relatively closed societies during this crisis and the interaction between the West and Islam. I believe that, in general, that interaction can be

positive -- and I fear a stigmatization in the United States of Islamic states following this war. Indeed, a confrontation between the West and Islam would be the ultimate tragedy.

It is not clear, however, that these regimes can survive and hope to provide a basis for U.S. policy or for regional stability unless they go through a process of profound reform. For many

years, the Arabian peninsula states were effectively fenced off from many of the major currents in global politics -- most notably the press for human rights and democracy. This was very likely an error; in the post-war period, it is my judgment that such a special status is neither desirable nor possible.

Finally, there is the issue of the Arab-Israeli conflict. This remains perhaps the most vexing issue in the region. But even here there is potential change, and several developments stand out. As I have noted, the PLO has been discredited and, at the same time, regional Arab states will owe the United States a different kind of hearing than we received in the past. Thus if we are inclined to pursue a peace process, we have the right to expect, not just forbearance, but also active support, including, under the right circumstances, their direct engagement with Israel.

This is the good news. The bad news is that Israel has been traumatized anew by its experience during the war. Even when the memories of Scud attacks fade, Israel must recall that its security had been seen to be more directly vulnerable, and more dependent on direct U.S. support, than any other time since the 1973 Yom Kippur War.

Nevertheless, in the interests of both the United States and Israel -- as well as the Palestinians and others in the region -- it will be important after the war for the administration to begin creating a basis for moving forward with Arab-Israeli peacemaking. As always, this should begin with an effort to coordinate U.S. and Israeli approaches, along with firm evidence of U.S. support for Israel's security -- a point underscored by U.S. steadfastness in the current conflict.

The details of peacemaking will be different from the past. But the methodology has been established for many years. What will be needed, as always, is political motivation to seek a better way of organizing relations in the Middle East. If anything, the Persian Gulf War has increased the incentives to try.

Mr. Chairman:

In the aftermath of war, the United States will face new challenges in the Middle East. But it is also important that we do not try taking upon ourselves the task of reforming an entire region. We cannot do it; the peoples of the Middle East must

accomplish basic tasks for themselves; and the United States has a lengthy agenda in other parts of the world and at home. It was necessary for us to respond on August 3rd to Iraq's aggression; but with the task accomplished, it is critical to put the region back into perspective.

Thank you.

## MR. INDYK'S OPENING STATEMENT

Mr. OBEY. Mr. Indyk.

Mr. INDYK. Thank you very much, Mr. Chairman, for the opportunity to address the committee on a matter of such importance.

We stand, as you have said in your opening remarks, on the brink of a momentous victory in the Gulf War. The liberation of Kuwait is almost completed. Allied forces are in the process of breaking the back of Saddam Hussein's occupying army.

When the dust of battle settles, there will be no doubt that Saddam Hussein is the loser, and the Arab world will, therefore, be in a profound state of shock at his failure to live up to the promise of "Salahdin." He not only failed to achieve a victory; he failed to even put up much of a fight.

## OPPORTUNITIES FOR THE U.S.

This will open a window of opportunity for the United States, as you, yourself, have suggested. In the post-war environment we will be able, I believe—in this sense I am an optimist—to demonstrate to the people of the Middle East that if they are willing to look for a better way, there is a better way than the one that Saddam Hussein offered them, with his grandiose threats to destroy Israel, his brutal aggression against a brother Arab country, his totalitarian suppression and murder of his own people, and the squandering of Arab wealth on a massive, but ultimately useless, war machine.

If we are to offer the people of the Middle East who seek peace, freedom and security a different vision of their future, we are going to have to move expeditiously, and I would emphasize again what you yourself said in your opening remarks. We are going to have to expect them to join us in this effort.

But in the process, there are a number of caveats that I think we have to bear in mind. First of all is the nature of the region itself. It is a region of endemic instability. We are not responsible for most of those factors, and we can at best only hope to contain and ameliorate their impact.

Secondly, the antipathy toward the West that is likely to follow this war—and undoubtedly we will hear a great deal about it in our media—is one that has long been present in the Arab world. It cannot be resolved by accommodation.

What matters to U.S. policy is not whether the Arab people like us, but whether they respect our power and are prepared to follow our lead. I would argue that after Saddam's defeat, they are much more likely to do this than if he had prevailed, and are certainly more likely to do this than they have been in the past.

Thirdly, the region was already groping toward political change. The phenomenon of democracy was already beginning to have its impact on the region. We cannot hope to, and should not want to, quarantine the region from this political change. But we must be aware that political change in the Middle East is a double-edged sword.

Greater pluralism tends to weaken relatively benevolent regimes in favor of anti-democratic, Islamic fundamentalist forces who take advantage of whatever openings there are to show their strength. And it leaves repressive regimes essentially untouched.

Therefore, in the wake of the Gulf War, we should start promoting democracy in places where it is needed most, places like Iraq and Syria, where repressive regimes hold sway. Among friendly regimes, which are, by and large, more benevolent, we should try to help them address the basic needs of their people so that they are better able to challenge opposition groups as political change takes its course.

Finally, the crisis was about Kuwait and not about Palestine. Although the crisis has highlighted the need to try to resolve the Arab-Israeli conflict, there was no lack of effort on our part before Saddam's aggression. We have no reason to feel defensive about this.

Whether we can succeed in the aftermath of his defeat depends, as it always has, in much larger part on the willingness of the parties themselves to make peace than on our resolve.

Nevertheless, having made these caveats, I firmly do believe that we will have new opportunities to address the sources of instability in the region and to promote the settlement of the Arab-Israeli conflict.

A number of other points I think need to be borne in mind in terms of our approach.

#### STABILIZATION IN THE GULF

Our first priority must be the stabilization of the Gulf. The war is likely to end with our forces occupying southern Iraq, and much of Saddam Hussein's military capability broken. The President wants to and will be under great pressure to bring the troops home. In these circumstances, we will have a difficult task restoring a balance of power in the Gulf and developing regional security arrangements for that part of the Middle East.

If we forget this in our rush to promote an Arab-Israeli peace process, we will not only fail to protect our interests in the Gulf, but we will also fail to achieve a breakthrough on the Arab-Israeli front.

#### MULTINATIONAL APPROACH

Secondly, we must avoid the impression that the United States is out to impose a "Pax Americana" on the region. We will be the dominant power in the region, and the regional powers, as well as all the other external powers, will look to us to take the lead in post-war arrangements.

However, just as we prosecuted the campaign against Saddam as a multinational effort, so, too, must we maintain the image of a joint enterprise, particularly with our allies in the region—a joint enterprise to deal with the region's post-war problems.

Third, there will be many forces in the region who will want to go back to business as usual, and this will be no more evident than in the rush to engage in a renewed arms race and the building up of standing armies. This arms race already involves both conventional and unconventional weapons.

And so, at the time that we are pursuing the other policies of regional security arrangements and promoting an Arab-Israeli peace process, we will need to move urgently on the arms control

front, first to secure some arrangements and agreements between arms suppliers, and then to promote the more complicated objective of regional arms control talks.

#### REDISTRIBUTION OF WEALTH

Fourth, there already is a tendency to think in grand terms about economic development funds, Marshall Plans and the redistribution of oil wealth. The reality, however, is that the "haves" will not have the wherewithal and are therefore unlikely to be in a generous mood, except toward those "have-not" countries that have joined them in their alliance. The Gulf States have already indicated that, to the extent that they have any money to spare, it will be for Egypt and Syria; that the "have-not" countries that sided with Iraq, because of Saddam's false prophecy, are going to be very much left out in the cold in any post-war redistribution of the wealth. They will not be the beneficiaries. This, in itself, will create serious problems and will be a major source of instability that we, as I do not need to tell you, will have very little ability to do much about.

But it seems to me that with the Europeans in particular, and the Japanese clamoring for a role in Middle East post-war arrangements, it seems to me that we can at least look to them to help out in this process.

Finally, as you, yourself, made very clear, we do not owe states in the region that joined our efforts to defeat Saddam Hussein a debt of gratitude. We will have removed the most serious threat to their interests as well as our own. They, in fact, owe us a debt of gratitude, and we have earned the right to expect from them post-war behavior which helps facilitate a more stable Middle Eastern order.

#### ARAB-ISRAELI CONFLICT

Let me conclude by making a few remarks about what I think is possible in the Arab-Israeli conflict arena.

On the face of it, the war against Saddam appears to have made a solution to the Palestinian problem more necessary and yet less likely. Israel, as Dr. Hunter has suggested, is traumatized and fearful of Arab intentions. The Palestinians are bitter and frustrated.

There is on the Arab side no clear Anwar Sadat to lead them to peace with Israel. Egypt is already at peace. Saudi Arabia is not a front line confrontation state. And Syria's President Hafez al-Assad would like to be the focus of a peace process, but it is by no means clear to anybody, I would say even to Hans Dietrich Genscher, that he wants actually to make peace with Israel.

And so, although we have an opportunity here, it is questionable just what we are going to have to work with.

On the other side, I would point to a few positive developments that I think are important to bear in mind.

First of all, the Israelis have been reminded of the horrible costs of war at a time when they are confronting a huge and much more positive challenge of absorbing perhaps a million new immigrants from the Soviet Union. I know that you are very much aware of the price tag for that. It comes at something like \$35 billion. Israel

simply cannot afford a new arms race when it has that kind of priority.

The choice between seeking peace and preparing for the next war has also been eased, as you suggested, by the removal of the Iraqi army as a major eastern front threat to the Jewish State. And the total discrediting of Arafat has provided Israel with a golden opportunity to deal with an indigenous Palestinian leadership in the territories before the PLO phoenix rises again.

It is true that the government in Israel is a right wing government and an unruly conglomeration of right wing parties and religious parties. But Yitzak Shamir has shown during this crisis that he can deliver in the most extreme circumstance, and he will be in a much better position after this war to deliver of the peace process if the process is structured in a way that encourages him to be responsive.

On the Arab side, the Gulf crisis has produced a new dominant axis between the largest Arab state, Egypt, the richest Arab state, Saudi Arabia, and the most pan-Arab nationalist of Arab states, Syria. This is an unassailable coalition were it to sit down and negotiate peace with Israel. There is nobody in the Arab world that would be able to criticize this coalition.

King Fahd and President Mubarak, as Assistant Secretary of State Murphy has suggested, do have a huge incentive to show that their way is a better way of settling Palestinian grievances than the way of Saddam Hussein.

Can they bring Syria along? Well, with Hafez al-Assad, I think it is a question of whether the price is right. He knows that Syria, will be the swing state, and in the wake of the war, the radical alternative will look unpromising. But whether he actually is prepared to make peace is simply a question mark that bears testing.

If Saudi Arabia, with our protection, is now prepared to refuse to fund a renewed Syrian effort to seek strategic parity with Israel, and if the Soviet Union is prepared to cooperate, as it has in the past, with this effort to deny Syria the means of confronting Israel, then it is possible that Assad might be persuaded to engage in negotiations with Israel.

On the second track of Israeli-Palestinian negotiations, I think also there is more promise than might appear. First of all, as I suggested, with the PLO out Likud ministers, and not just the foreign minister, are already discussing the idea of municipal elections in the West Bank and Gaza to produce a Palestinian leadership that Israel could negotiate with on interim arrangements.

Will the Palestinians cooperate? I believe that there is a good chance, despite their bitterness and anger. Nationalists in the territories already believe that the movement would be better led by people rooted in the land, who would be more responsive to the needs of the local population. And there is good reason to believe that the Islamic fundamentalists would grab the opportunity for elections to show their strength.

Finally, Egypt and Saudi Arabia can play a role in this regard by lending vital Arab legitimacy to the municipal elections process if they were to provide their political and financial support.

So I believe that there is an opportunity here, that the logic goes something like this, and it is fairly simple.

We need to encourage the Arab states—Egypt, Syria, Saudi Arabia, and the Gulf Cooperation countries, led by Kuwait—to make a genuine offer of peace to Israel, a peace which includes its acceptance, clear acceptance, as a state in the region, and in that way ease Israel's security concerns so that it, too, can make a generous offer to negotiate a territorial agreement on the Golan Heights and an interim agreement with Palestinians in the territories, which leaves the final status of those territories open. I think, as I have said, there will be a window of opportunity. The region will be looking to our lead. We will be able to begin a process if we focus on getting the process going, rather than hoping to achieve a complete solution.

Thank you very much.

Mr. OBEY. Thank you.

[Prepared statement of Mr. Indyk follows.]



**The Arabs, Israel and U.S. Strategy for the Post-War Middle East**

**Testimony before a Hearing of  
the Subcommittee on Foreign Operations  
House Committee on Appropriations**

**February 27, 1991**

**by Dr. Martin Indyk**

**Executive Director, The Washington Institute for Near East Policy**

Thank you for the opportunity to address the Committee on a matter of such importance to this great nation.

We stand on the brink of a momentous victory in the Gulf war. The liberation of Kuwait is almost completed; allied forces are in the process of breaking the back of Saddam Hussein's occupying army. When the dust of battle settles, Saddam Hussein will have no opportunity to claim some perverse victory. Instead, he will be the clear loser and the Arab world will be in a profound state of shock. This will open a window of opportunity for the United States and its allies to demonstrate to the people of the Middle East that there is a better way.

Saddam offered them a false hope based on grandiose threats to destroy Israel, brutal aggression against a brother Arab country, totalitarian suppression and murder of his own people, and the squandering of Arab wealth on a massive, but ultimately useless, war machine. In the wake of his defeat, we can offer those people of the Middle East who seek peace, freedom and security a different vision of their future and we can promote practical means for achieving those ends.

#### CAVEATS

But before embarking on the ambitious enterprise of restoring the balance of power in the Middle East and promoting peace and political change, it is essential to bear in mind the realities of the region that remain unchanged by our victory over Saddam Hussein:

- \* The Middle East is a region of endemic instability generated by manifold conflicts between states, ethnic groups and religious sects, compounded by the rapid modernization of traditional, tribal societies and reinforced by the prolonged failure of unrepresentative regimes to meet the basic needs of their people. We are not responsible for these factors and we can at best only hope to contain and ameliorate their impact.

- \* The antipathy towards the West that is likely to follow this war has long been present in the Arab world. It cannot be resolved by accommodation. Our policy in the region needs to be based on the most effective methods for protecting and promoting American interests; it cannot be based on some "applause meter" in the Arab street. What matters to U.S. policy is not whether the Arab people like us but whether they respect our power and are prepared to follow our lead. After Saddam's defeat they are more likely to do this than if he had prevailed.

- \* The region was already groping towards political change. Elections in Algeria, Tunisia, Jordan and Egypt had already provided channels of legitimate expression for opposition groups, predominantly Islamic fundamentalists. After the war greater pluralism in Kuwait will have a ripple effect in much of the Arabian Peninsula. If Saddam is overthrown, the Iraqi political system might also undergo liberalization. In the West Bank and Gaza, Israel might sponsor municipal elections for the Palestinians designed to generate a political leadership responsive to the needs of the residents of the territories. In short, the phenomenon of democracy is already spreading to the Middle East. We cannot hope to and should not want to quarantine the region. Nevertheless, we must be aware that political change is a double-edged sword in the Middle East. Greater pluralism tends to weaken relatively benevolent regimes in favor of anti-democratic, fundamentalist groups, while leaving repressive regimes untouched. In the wake of the Gulf War we should start promoting democracy in places like Iraq and Syria, where repressive regimes hold sway. Among friendly regimes, we should try

to help them address the basic needs of their people so that they are better able to challenge opposition groups as political change takes its course.

\* This crisis was about Kuwait, not "Palestine." Although it has highlighted the need to try to resolve the Arab-Israeli conflict, there was no lack of effort on our part before Saddam's aggression. Whether we can succeed in the aftermath of his defeat depends, as it always has, in much larger part on the willingness of Arabs and Israelis to make peace than on our resolve. In this regard, the crisis has revealed the continued, deeply felt antipathy towards Israel on the part of the Palestinians and Arab masses.

Nevertheless, I firmly believe the end of the war will provide us with new opportunities to address some of the sources of instability in the region and promote the settlement of the Arab-Israeli conflict. But to ensure that we win the peace, some other caveats need to be borne in mind:

1. Our first priority must be the stabilization of the Gulf. The war is likely to end with our forces occupying southern Iraq and much of Saddam Hussein's military capability destroyed. The President wants to, and will be under great pressure to, bring the troops home. In these circumstances, we will have a difficult task restoring a balance of power in the Gulf and developing regional security arrangements. If we forget this in our rush to promote an Arab-Israeli peace process, we will not only fail to protect our interests in the Gulf (for which we just fought a war), but we will also fail to achieve a breakthrough on the Arab-Israeli front. Instead, Saddam will be able to claim that he forced us to follow his "program," and he will be able to accuse any Arab leader who engages in negotiations with Israel of selling out the Arabs to the "imperialists and Zionists."

This is not to suggest that we should necessarily delay our efforts to promote a viable Arab-Israeli peace process. But it is to underscore the importance of securing peace in the Gulf first. A failure to do so will squander our victory, damage our interests and ultimately doom our chances of making progress on the Arab-Israeli front.

We should remember the experience of the 1982 Lebanon crisis when we jumped immediately from the successful withdrawal of the PLO from Beirut to the promotion of the Reagan Plan for Middle East peace. In the process, we failed to stabilize the situation in Lebanon and only provided Syria and Israel with an incentive not to cooperate with us in the peace process so that they could secure their own interests in Lebanon.

2. We must avoid the impression that the U.S. is out to impose a *Pax Americana* on the region. We will be the dominant power in the region after the war, and the regional powers as well as the external powers will look to us to take the lead in post-war arrangements. However, just as we prosecuted the campaign against Saddam as a multinational effort, so too must we maintain the image of a joint enterprise to deal with the region's post-war problems. Drawing down our ground presence in the Gulf will help to bolster this image and undermine the perception of "neo-imperialism." However, we should remember that we have maintained a force presence in the Persian Gulf for forty years and will need to continue this presence to protect our interest in the free flow of oil at reasonable prices. What we need is a "low profile" not "no profile."

3. There will be many forces in the region, the international community and in this country who will want to return to business as usual in the Middle East. This will manifest itself most quickly in the form of new arms sales to the region. And after this war there will be no end of justification for regional powers to engage in a renewed arms race in conventional and unconventional weapons.

Iran is already rebuilding its army with advanced Soviet weapons; Saudi Arabia is talking about expanding its army to six divisions; all the lesser Gulf states will seek to acquire

weapons to balance both Iran and Saudi Arabia; Syria will seek to use Saudi money to resume its efforts to attain "strategic parity" with Israel; Egypt may seek more weapons to play its security role in the Gulf; and Israel will find it necessary to respond to all of these developments. Thus, at the same time as we are pursuing these other policies, we will need to move urgently on the arms control front first to secure some agreement between arms suppliers and then to promote the more complicated objective of regional arms control talks.

4. There already is a tendency to think in grand terms about economic development funds, Marshall Plans and redistribution of oil wealth. The reality, however, is that the "haves" will not have the wherewithal and are therefore unlikely to be in a generous mood. The Saudis are already borrowing on the international capital markets to finance the war; the Kuwaitis will have to spend most of their assets rebuilding their country; oil prices are likely to plummet in the wake of the war; and we will expect them to pay our war costs before taking care of regional problems. We no longer have the means to pay for this economic enterprise and the European powers have priorities closer to home.

These realities give greater weight to the argument for arms control to ensure that the scarce resources are devoted to economic development rather than squandered on a new arms race. They also argue for downplaying expectations about the economic benefits that might flow from renewed interest in this issue which has been generated by the Gulf crisis.

5. We do not owe states in the region that joined our efforts to defeat Saddam Hussein a debt of gratitude. We will have removed the most serious threat to their interests as well as our own. They, in fact, owe us a debt of gratitude, and we have earned the right to expect from them post-war behavior which helps facilitate a more stable Middle Eastern order.

With these considerations in mind, how can we hope to move ahead on the Arab-Israeli peace process in the wake of the Gulf War? On the face of it, the war against Saddam appears to have made a solution to the Palestinian problem more necessary and yet less likely. The war has made the Israelis even more sensitive to the security threat posed by Arab armies, the zero-sum intentions of the Palestinians and the strategic value of the depth afforded by retaining the West Bank and Golan Heights.

The Palestinians, in the despair and frustration generated by their failed dependence on yet another perfidious pan-Arab leader, are expected to be too bitter, divided and leaderless to engage in reconciliation with the Jewish state. Indeed, it is ironic that while the Gulf crisis has highlighted the Palestinian issue, it has also delegitimized the PLO -- the supposed "sole legitimate representative" of the Palestinians. This leaves no obvious answer to the perennial question, "Who, in the wake of the decline of Arafat and the PLO, will have the authority to represent the Palestinians in negotiations with Israel?" Surely not Jordan now that King Hussein has become the mouthpiece for the anti-Western, anti-Israeli sentiments of the Jordanian mob.

If we were pinning our hopes on a new Sadat emerging from the ashes of the Gulf war to lead the Arab states to peace with Israel, we may also be disappointed. Egypt is already at peace, rendering President Mubarak's role more limited. Saudi Arabia is not a front-line confrontation state. And Syria's President Hafez al-Assad would like to be the central focus of any post-war peace process but the Bush Administration has so far received no clear indication of his actual willingness to make peace.

Finally, the Soviet Union looks intent on complicating rather than facilitating American post-war diplomacy. President Gorbachev's efforts last week to gain credit at the expense of our objectives may be the harbinger of an unhelpful Soviet role in the Arab-Israeli peace process. The Soviets were expected to play a constructive role by leaning on their Arab clients. Instead, they appear to prefer to outbid us in a competitive effort to enhance their influence in the Middle East.

But if on the surface the post-war trends look unpromising, the subterranean currents are moving in a more positive direction. First, in the aftermath of the Gulf war, new realities are bound to intrude on the comfortable calculations of all the players.

Israelis have been reminded of the horrible costs of war at a time when they are confronting the huge challenge of absorbing a million new immigrants from the Soviet Union. Israel simply cannot afford a new arms race when the immigrant absorption price tag is put at \$35 billion. The choice between seeking peace and preparing for the next war has also been eased by this war's removal of the Iraqi army as a major eastern front threat to the Jewish state. And the total discrediting of Arafat has provided Israel with a golden opportunity to deal with an indigenous Palestinian leadership in the territories before the PLO phoenix rises again.

True, Prime Minister Shamir leads an unruly coalition of right wing and religious parties unwilling to countenance territorial compromise in the West Bank. But if there is a genuine offer of peace from the Arab side, Shamir is capable of delivering a territorial deal on the Golan Heights and an interim deal for Palestinian self-government which leaves open the final status of the territories. His Labor Party opponents might be more flexible and creative in negotiations. But they are no more capable of delivering a distrustful electorate than they would have been able to maintain a policy of restraint in the face of the Iraqi scud attacks.

On the Arab side, the Gulf crisis has produced a new dominant axis which combines the largest, the richest and the most pan-Arabist states. This unprecedented alignment of Egypt, Saudi Arabia and Syria would be unassailable if it chose to sit down and negotiate peace with Israel. In this crisis, they have faced a common threat with Israel and should have come to appreciate the contribution Israel's restraint made to their interests. After the crisis, President Mubarak and King Fahd certainly have a huge incentive to demonstrate to the Arab street that, through peace with Israel, they are better able to secure Palestinian rights than Saddam could with his grandiose claims and aggressive behavior.

Can they bring Syria along? That depends on whether Assad will view the package of incentives -- territory on the Golan, stability in a Syrian-dominated Lebanon, an interim arrangement for the Palestinians, improved relations with the U.S., and Saudi subventions -- as more attractive than the potential of a radical alliance with Iran, a post-Saddam Iraq and a post-glasnost Soviet Union. Assad knows that Syria will be the "swing state" and that in the wake of the war the radical alternative will look unpromising. That means he will at least be prepared to receive offers and exploit the naivete of Western leaders only too willing to make the pilgrimage to Damascus to warrant him a man of peace.

Assad knows that Syria will be the "swing state" in the post war regional balance of power and that the radical pole looks less attractive for the moment than staying with the winning side. That means he will at least be prepared to receive offers and exploit the naivete of Western leaders only too willing to make the pilgrimage to Damascus to warrant Assad a man of peace. If Saudi Arabia, emboldened by the protection we have afforded it, refuses to fund a renewed Syrian effort to achieve "strategic parity" with Israel, and if the Soviet Union -- in return for a seat at the table -- refuses to provide the weapons, then Assad might be persuaded to engage in negotiations with Israel.

The second track of Israeli-Palestinian negotiations also holds more promise than might at first appear. Shamir's principal objection to the last effort to launch an Israeli-Palestinian dialogue was that the U.S. was trying to force him to negotiate with PLO proxies over a Palestinian state with Jerusalem as its capital. With the PLO out, Likud ministers are now discussing the idea of municipal elections in the West Bank and Gaza to produce a Palestinian leadership with which Israel would negotiate an interim arrangement for self-government.

Will the Palestinians boycott free and fair elections, seeing in them an effort to exploit their weakness? There is clearly a powerful self-destructive urge in the Palestinian national movement. But in the post-war environment other factors may come into play.

First, the Palestinian leadership will be up for grabs. Nationalists in the territories already believe that the movement would be better led by people rooted in the land who would be more responsive to the needs of the local population. Second, Hamas -- the Palestinian fundamentalist movement -- is likely to seize the opportunity of elections to demonstrate its strength, much as its brother organizations have done wherever elections were offered in the Arab world. Other Palestinians will then have to participate for fear of non-representation at the negotiating table.

Third, Egypt and Saudi Arabia are capable of lending vital Arab legitimacy to the municipal elections process if they provide their political and financial support. The Arab states were responsible for creating the PLO in the first place. Now that the Arab allied foreign ministers have dropped any reference to the PLO in last week's Cairo communique on post-war arrangements, it should be relatively straightforward for them to support an elected Palestinian leadership in the territories.

The United States will also be in a better position to wield its influence on the peace process. In the wake of Saddam's devastating defeat, the U.S. will be the dominant power in the region. All the local powers will take their cues from us. There will be a great temptation to launch a "Bush Plan" for Middle East peace; there will be immense pressure to agree to a UN-sponsored international conference; and there will be much unfinished business in the Gulf to secure post-war stability and bring the troops home. And yet, if we do not move expeditiously to the launching of a viable Arab-Israeli peace process, the opportunity will be lost and the endemic instability of the region will be fuelled.

We will therefore need some guidelines for productive engagement:

1. Avoid the temptation to launch a "Bush Plan." In the wake of victory, the Arab world will tend to view the U.S. as the new imperialist power. In this context a "Bush Plan" will generate unnecessary opposition. Better to work with Israel, Egypt and Saudi Arabia on initiatives that they can propose and we can support.
2. Avoid the UN-sponsored international conference. Israel's government is allergic to this idea. Egypt also has reservations and Saudi Arabia is no longer insisting upon it. Any effort to promote it will result at worst in stalemate, at best in endless wrangling about the modalities. The opportunity will then be squandered. Instead, the focus should be on regional talks between the Arab states and Israel, perhaps under superpower auspices if the Soviet Union is prepared to play a constructive role. Regional arms control talks might provide the "back door" into the peace process.
3. Engage the Arab states. Previously, the Bush Administration had ignored the Arab state dimension of the Arab-Israeli conflict in favor of an Israeli-Palestinian negotiation. Now the opportunity exists to engage the Arab states and ease the risks of peacemaking for an Israel which has always been more threatened by Arab armies than by Palestinian rock-throwers. The logic of the process should be to encourage the Arab states (Egypt, Syria, Saudi Arabia and the GCC) to make Israel an offer of genuine peace and full recognition in return for an Israeli offer to negotiate on the Golan Heights and an interim arrangement in the territories. The more generous and comprehensive the Arab offer of peace, the more forthcoming Israel might be.
4. Avoid the "codewords." Arab-Israeli peacemaking has accumulated a great deal of codeword baggage over the last decade. Terms like "territories for peace," "Camp David," Palestinian "homeland," "autonomy," and "self-determination" have all been invested with

political meanings that render them obstacles to quick progress. What we need is a new, positive vision of peaceful coexistence between Arabs and Israelis articulated by the parties to the dispute themselves.

5. **Get the process started.** The Arab-Israeli conflict is far too complex to lend itself to quick-fix solutions. If too much attention is paid to the outcome, our efforts will be diverted from getting the process underway. After almost a decade of false starts, what is now needed is a breakthrough to a viable negotiating process that builds confidence among very distrustful partners.

All wars in the Middle East have presented opportunities for making peace. But few wars in this volatile region have actually resulted in peace agreements. It is too much to expect that the war in the Gulf could produce peace between Israel and its Arab neighbors. But it will provide an opportunity for Arabs and Israelis to pursue a better vision of coexistence than the dark, false prophecy of Saddam Hussein. If they have the will, we can help them find their way.

## MR. LUTTWAK'S OPENING STATEMENT

**Mr. OBEY. Mr. Luttwak.**

**Mr. LUTTWAK.** Thank you, Mr. Chairman.

I am going to attempt to approach this perhaps from a somewhat different angle. But this does not mean that I disagree with anything that we heard so far. I share in this general consensus that we have heard.

First, we must remember that August, 1990 marked perhaps the first anniversary, or a year and a half, of the disengagement of the United States from the Cold War. From the time when the Cold War was our highest priority, we have entered into this new period in which all geopolitical endeavors have ceased to be imperatives of survival for the country and civilization, and where geoeconomics is pressing on us. In the future, whether more Americans will be the blue collar workers of the world economy or will be the white collar workers will not depend ultimately on anything we do in the geopolitical arena, including the Middle East.

In a new era in which capital is displacing firepower, product development, the ability to make things that people want displaces military R&D and market control displaces garrisons and bases, there are very high penalties for remaining engaged in classical diplomacy. When you go down to the marketplace with your helmet, sword and shield, it does not affect whether people buy your goods or not.

That tells us one thing in regard to everything we have heard so far, and that is that there is something more important than the optimum Middle East policy, and that is the kind of Middle East policy that can be conducted by assistant secretaries of state.

I hope Mr. Murphy will not object violently to this notion. In other words, you give me a Middle East policy that requires the full time attention of the President and which engages what all that this truly implies because, let's face it, since August of last year, we have not had a President; rather, we have had a full time Persian Gulf crisis manager, with no President to report to. I would prefer, therefore, a sub-optimal Middle East policy, a second best Middle East policy, so long as it enables us to focus on the new requirements of the joint economic era.

We have before us the awful example of Britain, which maintains a sequence of geopolitical successes. There was a dry period, but there was the Falklands, and now the Middle East—all splendid stuff, "Desert Rats" and such. In the meantime, it's all a "curio shop" economy in Britain. It's declined. It's not a question of money. It's a question of the social roles available in society. You can be design engineers, as opposed to working in the hotel as waitresses. It degrades the country and degrades the culture.

This having been said, and recommending that the policy should be entrusted to the likes of Mr. Murphy and others of his kind, and with all that implies, we all understand that to achieve heroic things, we do need the President to be the "desk officer", and to be there pushing with his weight. We know that. I am just saying that I deliberately go for a sub-optimal Middle East policy. I realize how serious that sacrifice is, but I think there is something else which is more important.

## ARAB SELF IMAGE

Now, turning to the Middle East, I know you have heard testimony from eminent experts and such. But I would just like to bring you back to contemplate the nature of the cultural problem we face in the area.

If Saddam Hussein had won, that is, if he had retained control of Kuwait, he would have been a hero to the Arab world, and all of the consequences that we could visualize we would be left to visualize. But there are also consequences from having defeated him, because the chief cultural problem in the Middle East is often described by journalists as the "Arab sense of humiliation." This has to be understood in historical terms.

The Arab self image is a supremacist self image. The basic self image available from the predominant religion of the region is a supremacist self image. The reality, of course, is weakness.

The gap between self image and reality causes permanent humiliation. Imagine if the Portuguese believed that they were Germans, and every day they would feel humiliated by the proximity to Spain, which simply is a larger country.

Now this is a very important issue. We have Pakistan, which refuses to accept the fact that India is just going to be bigger and stronger. It simply refuses to accept that. This is the Islamic dimension.

The Arabs were historically the heroes of Islam. They are the ones who created and made it. Therefore they suffer from the same disability even more. That is a fundamental problem.

## CULTURAL DETERMINANTS

Now what does it mean? It means if you let Saddam Hussein win, he becomes a hero and therefore all your radical forces are there, all your interests will be attacked with great vigor, every American and Western position is in danger, and so on. If you knock him down, you aggravate this sense of humiliation, which is what drives everybody to absolutes at the very least.

It was one of the journalistic clichés of the television Middle East experts that we saw, who said all the way up to the war that there would not be a war because it would all go to the bazaar. We heard a lot about "going to the bazaar." Middle Easterners apparently haggle. They haggle. They are all carpet merchants and they go to the bazaar and they haggle, we heard.

Actually, the cultural determinants are precisely the opposite. The problem with the Middle East is that everybody is very intransigent. Nobody haggles. There is no bazaar. This is a sort of racist conception of the Middle East, or culturalist conception, or whatever the right term is.

One of the things I find most amazing about this is that it is perpetuated by the people who are known really as "Arabophiles" and "Arabists" themselves.

I think there is a meaning to this error, and the meaning is in a way an inspiring one. It is that the highest ideal in the Middle East is precisely pragmatism. When we have Arabophiles on television saying that there won't be a war before January 16, they will go to the bazaar and haggle, this is hope speaking, the hope that,

after all, the region will be pragmatic. And, indeed, pragmatic versions of Islam, traditional, calm versions of Islam, we have known them—you know, the Malasian in his “campon” being Muslim in a quiet and tranquil way, or the Bedouin. There is that kind of pragmatism in religion and pragmatism in international affairs is precisely a hope.

But I am afraid that we are not at the bazaar. There is an aspiration that it will become like the bazaar, though.

They don't haggle. Therefore, I am saying two things.

The first thing I said is the United States has something more important to do than getting the Middle East right or perfectly right. Second, it is going to be very, very difficult. I know you've heard how difficult it is going to be. I would like to tell you that the current war will not make it any easier.

Of course, it was essential to do it. There was no choice. This type of difficulty is more manageable than the other type of difficulty created by Saddam being a hero, and our having knocked him down.

We now have today, as we speak, American soldiers, British soldiers, French soldiers—in other words, Christian soldiers—in the heart of the Muslim world, in the heart of the Arab world, soundly thrashing an Arab army, soundly defeating this last attempt, this further attempt by some Arabs to field combat forces that do not make the world laugh.

#### SAUDI RULERS

Now this is not only the problem. I have one more remark, and then I will go to my simple recommendations.

You have heard a great deal about the Saudis and Islam and about legitimacy. All governments, even such as Albania, need a claim to power, some reason to claim power. The Al Saud family of Saudi Arabia's, claim to power was not traditional. As you know, Saudi Arabia is not something ancient and traditional and respected, like the Standard Oil Company of New Jersey, which is 120 years old. [General laughter]

Mr. LUTTWAK. They are a new creation. They are aliens, these Saudis, to most people. To most people living in Saudi Arabia these guys are aliens, who have a different conception and who are newcomers. Their only claim to power was the strict orthodoxy of their Islam.

Now we all know that Islam is a political-military doctrine as much as a religion. It is a political-military doctrine that gives you a victory if you follow certain drills and certain rules and have certain devotions.

Rule number one is you can't fight a fellow Muslim. I know that you can procure as many clerics, Muslim clerics as take checks, to write issues saying that you can ally yourself with anybody to do anything. I'm not saying that. I'm just saying that the Al Saud family's claim was their orthodoxy. They violated that. Governments can often survive without a claim to power, and they survive as long as their security services hold out, for as long as they can bribe people. Sometimes they can do it for a long time—but not for all that long. I don't think the United States should base anything,

this committee should not base anything, should not base any expectation on them. We should not be malevolent about them. We should hope they survive. But we should base nothing on their survival, not even by a week. To do so would be unsound. You know, you may have jumped from the second floor time and time again, and landed intact, and made fun of all the doctors and people and experts that tell you you can't jump from second floors. But I still say don't do it unless it has a logical basis.

Having said all this, what would be the policy for somebody who would follow these particular priorities and rules, which I refuse to describe as isolationist, semi-isolationist, quasi-isolationist. Not at all. I'm just saying first things first. It is more important to have an optimum national policy, even if it means a sub-optimum Middle East policy.

#### IRAN

Rule number one: you have to accommodate Iran on account of Iran is a country. It is a real country. It happens to be rather big. It is not particularly well equipped in modern weapons, but it has a lot of strategic depth. It is hard to get to. And the Iranians, from their ancient empire, have clearly retained at least one thing— a sense of statecraft, a great sense of statecraft, an impressive sense of statecraft. The Iraqis made war on them, gassed them, attacked them. The Iraqis did everything. Then the Iraqis turned to them quite abruptly and said well, help us, help us, help us, neighbor. If they had no strategic reason to guide them, they would have acted according to their emotions, the way we often do, the way Arab countries often do, the way a lot of people do. The way of emotions says you made us suffer and not we will enjoy seeing you suffer.

Instead, by acting as if nothing had happened, with their strategic reason dominating resentment and hatred, they have, in effect, made Iraq into a protectorate. It is true that our troops are in southern Iraq. But, remember, that Tariq Aziz goes to Moscow, but stops in Tehran and says what he is going to ask. He comes back from Moscow and says what he has heard. He was stopping not to brief Rafsanjani. This is not like the American Secretary of State stops over in London and says what happened in Moscow. It's quite different.

It is a quasi-protectorate. If you remove the Anglo-American troops from there, the foreign troops, you will have a protectorate.

My recommendation is to accommodate this protectorate, to show a certain deference and such. It is not pleasant, I know. They are not pleasant people. But I would say accommodate Iran.

#### REHABILITATION OF IRAQ

The second thing is don't pay for it, but do think about and encourage the idea of rehabilitating Iraq. I am not recommending that we rebuild their biological warfare laboratories. But I am saying that if somebody volunteers to repair the bridges, have yourself on the right side and at least cheer it on. We won't pay for it, but we should encourage it.

## JORDAN

Thirdly, and this is even more unpleasant—you know, I am trying here to emulate the example of the Iranians; we should do as well as they did in terms of strategic reason first and emotion second—is to rescue Jordan, if possible. They have, of course, behaved terribly. Of course, it does not disappoint me as much as it disappoints the President, because he held the King of Jordan to be his friend and, indeed, advisor on the Middle East. But shil I think we have to rescue them.

## SYRIA

We have to contain Syria.

Assad has always impressed us with his pragmatism and all. But we must remember that his chemical warfare capabilities are much better than Iraq's. He has more missiles and they are better than Iraq's. He is a dangerous character. He has to be contained.

The Iraqis did that for us for free for many years. We never gave them credit for it. Somebody else will have to contain Syria.

If you leave it up to Israel, it ain't fair. It is not fair to let them do it because while Israel contains Syria, that can only be done by a military confrontation in the formal sense, and that causes its own mechanical tensions.

## ARMS CONTROL

The bottom line is arms control. That is great. I endorse the suggestions. The time has come to introduce the two words that the Middle East has been denied all these years—human rights and democracy. That's three words: human rights, democracy.

I think we can even send orders to chaplains in Saudi Arabia that they should put their crosses back on their lapels. I think that might be risked in the circumstance of victory. There is human rights, democracy and arms control.

What does arms control mean? As we heard suggested and as I endorse, it means telling the governments in the area to please sit down and talk about arms control. I agree with that. But I think the arms control of that time should be backed by another type of policy, and that is arms denial.

I think the United States should have one more occasion to deal with Mr. Gorbachev and ask him to enter in an arms denial regime. Since all these countries have these interconnections, it has to be, of course, sweeping in its extent. My formula is Marrakesh to Bangladesh, if you will pardon the slight vulgarism. It has to be Morocco to Bangladesh because there is intercommunication, as we know. Weapons flow from country to country.

Negotiate with the Soviets in order to make it into the proper type of thing. Having made it into a proper bilateral U.S.-Soviet thing, then the next stage is to shame the British and the French into joining it. The French are harder to shame, but they are shameable. [General laughter]

Mr. LUTTWAK. I do remember how President Pompidou at the time contemptuously rejected the idea that France should not sell weapons to South Africa. He said unlike the Anglo Saxons, the French understand the difference between external armaments,

like to protect South Africa from the Soviets and internal. Having made that, the French held out for about two and a half years, and then they joined in.

They do belong to the same moral universe.

Countries like Italy, even without a U.S.-Soviet agreement to legitimize arms sales to the area, the last arms sale passed the Italian parliament by three votes, and that was after a great deal of lobbying.

There is I think a general expectation that the time has come for such an arms denial policy. Arms denial would be the best possible incentive for arms control within the region.

Just tell the guys in the region, "I hate to do this to you, if arms control does not make progress, it is all going to be done by arms denial, which you will like less."

Having had such a regime that you negotiated with the Soviet Union, you have to work to shame the British and the French into it. The British have been quite irresponsible in their arms sales, by the way, quite irresponsible. Then you have to appease the Chinese into it, and you will probably have to bribe the Brazilians into it.

But that is the course of action that I would recommend, to strengthen arms control in the sense of negotiations between the countries of the region, which we all understand, of course, may or may not achieve arms control. But it is an excellent vehicle for them to speak of and to communicate, anyway.

The Israelis have just suffered the SCUD problem. Saudi Arabia has Chinese IRBM's. They don't have hundreds of them, but their warheads are far more formidable. Each of them could kill a great many people, and so on.

So, on this note, thank you very much.

Mr. OBEY. Thank you.

Mrs. MYLROIE.

#### MS. MYLROIE'S OPENING STATEMENT

Ms. MYLROIE. Thank you, Mr. Chairman, for the opportunity to address the committee. I have submitted a written statement and the topic I am addressing is the future of the Arab states of the Persian Gulf, and particular Iraq.

#### REMOVING HUSSEIN

If Saddam Hussein continues to rule, he will be much weaker. If he is overthrown, I believe that the institutions associated with his rule will go with him.

The first step in removing Saddam is to conceive of an Iraq without Saddam. That is what I would like to do here.

The Army is the one institution still respected in Iraq. My impression is that the defeat of the Army will not be held against the Army by the Iraqi population, but against Saddam.

Let me outline an optimistic, although not totally unrealistic, scenario for a future Iraq.

Assume the Army ousts Saddam. Any new regime would need a mandate to rule lest it, too, be overthrown. It could find such a mandate if it were a transitional regime to a constitutional government and explicitly so.

Its function would be to maintain order for a fixed period of time.

Even before the second of August, there was a strong desire among the Iraqi population for relief from the regime's repression or what they called "more democracy."

Now, political life in Iraq has been suppressed for 20 years under the Ba'ath. Still, Iraqi politics continued in exile. But, because to be an opponent of Saddam was a dangerous, quixotic business, those engaged in Iraqi exile politics were necessarily very strongly motivated. It is my impression that Iraqi exile politics are probably more ideological than the bulk of the population is.

Yet, Iraq's politics are changing. With the regime under assault, more Iraqis abroad are becoming politically active. The same would happen in Iraq if the regime fell. New figures, now scarcely known, would emerge. The function of a transitional military regime would be to provide time for the development of political groups accurately reflecting the sentiments of the population.

The Iraqi population has suffered a great trauma: a regime of severe repression, 8 years of war with Iran, and now this war. My impression—and I stress "impression"—is that the Iraqi population does not share the anti-Americanism of some other Middle Eastern populations to which both Mr. Indyk and Mr. Luttwak have eluded. The harshness of life in Iraq has helped deflate the appeal of ideological movements.

The United States was not close to the Government of Iraq, and there is little sense of resentment against the United States for propping up an unpopular regime, as happens elsewhere. In fact, liberal elements in Iraq used to look to the regime's relationship with the United States to soften some of its worst features.

#### TOWARDS DEMOCRACY IN IRAQ

In the optimistic scenario that I have sketched for a transition to a constitutional government, there is an important role for the United States and the international community. The U.N. Security Council that authorized the war to liberate Kuwait would be maintained to support the peace. The influence, prestige, and resources of the international community, united, would support a transition to democracy in Iraq. Reconstruction aid, international recognition could be used to help insure that a transitional regime kept its commitment to hand over power to a civilian government.

The United Nations could provide the legal and constitutional expertise an aspiring democracy would need to avoid the instability of ill-advised electoral systems.

This would assume American and international support for democracy in Iraq. Presumably, the United States would welcome it. But no administration official has said so. Rather, the American position about Iraq's future is vague.

In contrast, the President of Turkey, the President of a Muslim state in the Middle East, has said, "Our wish, and I stress this is a wish and not an aim, is for a democratic regime to be established in Iraq, for if democracy is victorious, this might make Iraq more stable."

I agree with that. But I wonder why the United States can't say the same, say it openly, and then state that it is prepared, to the extent that it is able, to help Iraqis achieve that goal. Such a statement I believe would be welcome by the Iraqi population. It would undercut the view in some Arab populations that this is a war of imperialism. One of the desirable effects—though not necessarily an aim of this war—is to help the Iraqi people secure a government that represents them.

The effort to develop a constitutional government in Iraq would also presume contacts between the international community, including the United States, and Iraqi political groups. However, the United States has apparently not pursued such contacts and they have been left to others.

Congress seems to be the one exception, and I understand several Iraqis in exile have been asked to testify.

But leaving the question of Iraq's political future to others is problematic. Saudi Arabia has contacts with Iraqi exiles. But American interests are not identical with Saudi interests.

Iraq's sectarian politics clash with Saudi sectarian politics. In Iraq, a Sunni Arab minority rules a country which is over 50 percent Shia and 20 percent Kurdish. The Saudis are not sensitive to Kurdish aspirations and discriminate against their own Shia minority.

The Saudis have gathered a number of Iraqi figures. They are largely Sunni Arab military men without a significant political base among Iraqis. Some of them are even notorious, including one who played a prominent role in the public hanging of Jews in Baghdad shortly after the Ba'ath took up power.

Nor are all Iraqis necessarily happy with American aloofness. Liberal elements within the Iraqi polity in exile look to the United States for its liberal values. They dislike and suspect the influence of Saudi Arabia, Iran, and Syria on their country.

Democracy, or at least the question of more political participation, is likely to be an issue in the Gulf States. It was to some extent before, and that will be precipitated and accelerated by this crisis.

Democracy will be an important issue in a liberated Kuwait. There was pressure to reinstate parliament before the invasion, and that pressure is increasing. Those who stayed behind and fought will demand their share of political representation. There will also be demands to liberalize Kuwait's restrictive laws on citizenship and suffrage.

The more liberal system in Kuwait that probably will emerge after this crisis will have implications for Saudi Arabia and other Gulf states. As Mr. Murphy mentioned, the consultative assemblies that are being discussed in Saudi Arabia and Oman would seem to be token of the ruler's anticipation of those kinds of pressures.

What is the conclusion? I have sought to elaborate an optimistic scenario for Iraq's future, though not one that is totally unrealistic, not because it will necessarily come about, but in order, first, to show the direction in which coordinated efforts by several parties not now talking to one another might lead to an outcome less dismal than many anticipate. Second, to suggest that the United States really can't pound a country the way that it has done to

Iraq and then turn passive as if it had no responsibility for what comes next.

Thank you, Mr. Chairman.

[Prepared statement of Ms Mylroie follows:]



After the War: Domestic Politics in Iraq  
and the  
Arab States of the Gulf

Testimony before a Hearing of  
the Subcommittee on  
Foreign Operations, Export Financing, and Related Programs

House Appropriations Committee

February 27, 1991

by Laurie Mylroie

Visiting Fellow, The Washington Institute for Near East Policy

Major wars often have unintended consequence, and this war is unlikely to be an exception. It may well have significant impact on the internal orders of the Arab states, particularly those in the Gulf area. I will address the question of the impact of this war on the internal politics of the Arab states of the Gulf, with a focus on the future of Iraq.

Any government in Iraq--whether Saddam Hussein remains in power or whether he is overthrown--will face tremendous problems. It appears that widespread damage has been inflicted on the country's economic infrastructure, perhaps beyond Iraq's own capacity to rebuild. Although the Iraqi government has, so far, succeeded in maintaining public order, that may not continue indefinitely. The prospect of the outbreak of epidemic diseases exists.

If Saddam Hussein continues to rule Iraq, he will be much weaker internally. He has been struck a grave blow by the demonstrated impotence of his military force, pricking the balloon of the pretensions to invincibility that underlie the regime's terror.

Some of the regime's opponents--the Kurds and Shi'a Islamic groups in Iran--are armed. Reconciliation between them and Saddam Hussein's regime is impossible, and they are in a position to press their grievances by force, if they are not addressed after this war.

The economic reconstruction of the country will be difficult if Saddam remains, as little foreign assistance will be forthcoming. There will be demands for huge reparations. Nor is it clear that if Saddam Hussein remains, the governments of Saudi Arabia and Turkey will allow Iraq to begin using the oil pipelines that pass through those two countries and upon which Iraq is dependent for the export of its oil, particularly if they are backed by an American policy aiming to use the existing U.N. resolutions to overthrow Saddam Hussein, a goal that may appear increasingly legitimate as the full destruction wreaked in Kuwait becomes clearly known.

If Saddam Hussein is overthrown, I believe that the institutions associated with his rule will not survive. That includes the secret police, the Baath party, and the Takriti tribal elite. All are intensely disliked by the population. The Baath party has no more support in Iraq than the communist parties had in Eastern Europe.<sup>1</sup> Even Saddam Hussein does not believe in Baathist ideology, as shown by the alacrity with which he seized

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<sup>1</sup>. This point is argued in the chapter, "No Victory; No Peace," from Saddam Hussein and the Crisis in the Gulf submitted with this testimony.

upon and manipulated the ideology of his last foe, the Ayatollah Khomeyni, in this current crisis.

The army is the one institution that still retains respect in Iraq. Let me outline an optimistic, although not totally unrealistic, scenario for a future government in Iraq.

Assume the army seizes power from Saddam in the name of saving the country. Yet Iraq is not an easy country to rule. After the 1958 overthrow of the Iraqi monarchy, four coups followed in the next decade before the Baath party succeeded in seizing and holding power. Any rump regime that arose by ousting Saddam would face the danger that it would be quickly overthrown. In Iraq, political survival has usually been inseparable from personal survival. However, a military leadership that emerged by overthrowing Saddam could find a mandate to rule if it were explicitly a transitional regime to a constitutional government within a fixed period of time. Its function would be to maintain public order during that transition.

Even before August 2, there was a strong desire among the Iraqi population for relief from the regime's repression, or for what Iraqis called, "more democracy." On the eve of the invasion, the Iraqi government issued a new constitution, supposed to provide for "more democracy." That was a cynical move, as Saddam knew it would be undone by imminent events, but it was indicative of the regime's awareness of the popular mood.

Inside Iraq, Saddam's regime has thoroughly suppressed all political life, more so even than in Eastern Europe or the Soviet Union. However, Iraqi politics has continued in exile--in Tehran, Damascus, and London. To be an opponent of Saddam's was dangerous and quixotic, as the seemingly well-entrenched regime assassinated its most influential foes. Individuals involved in opposing Saddam were necessarily strongly motivated. Most probably, Iraqi exile politics are far more ideological than the bulk of the Iraqi population is.

Yet the nature of Iraqi politics is changing. As the regime's ability to retaliate against its enemies weakens and as the prospect of creating an alternative to the present dictatorship grows realistic, more Iraqis abroad are becoming involved in politics. If the regime were to fall, the same would happen inside Iraq. Entirely new figures, now unknown or scarcely known, would emerge. One purpose of a transitional regime would be to provide for the period of time that would be necessary for the development and articulation of political groups reflecting the sentiments of the population, something which does not exist now.

One of the problematic aspects of democracy, or more accurately, political liberalization, among the Arab states is that at least

in its initial stages, it seems to produce demagogues who seek to mobilize support through a posture of exaggerated hostility to the United States and Israel.

However, that is not universally true among the Arab states. Every country has its own political dynamic, and Iraq may well be different from most Arab states.

The Iraqi population has suffered a great trauma over many years. Saddam's regime is the most repressive in the Middle East, one of the most repressive in the world. The people have endured eight years of war with Iran, and now this war. It is my impression--and I stress that it is an impression--that the population of Iraq does not share the anti-American sentiments expressed by some other Middle East populations. The harshness of life in Iraq has gone far to deflate the appeal that ideological movements have elsewhere in the region. The United States was not close to the Iraqi government, so there is little resentment of the U.S. for propping up an unpopular regime. Rather, liberal elements inside Iraq looked to the regime's relationship with the U.S. to limit some of its worst features.

That attitude, I believe, has been evident in the reporting from Baghdad during the war. The population has not been as angry as circumstances--the fact of being under American attack--would suggest. There were angry crowds in Amman, but such anger seemed rare in Baghdad. Rather, it seems that many Iraqis tend to blame Saddam Hussein for the destruction of their country and they hope that the war will result in the downfall of the regime.

In the optimistic scenario that I have sketched for a transition to constitutional government in Iraq there would be an important role for the United States and the international community. The existing United Nations Security Council consensus that has authorized the war to liberate Kuwait could be maintained to support the peace. All the influence, prestige, and resources that the international community, united, can mobilize could be used in support of a transition to democracy in Iraq.

Reconstruction assistance and international recognition could be used to help insure that any Iraqi regime actually kept its commitment to hand over power. The United Nations could help provide the legal and constitutional expertise that any aspiring democracy would find necessary in order to avoid the instabilities and deadlock that can result from ill-advised electoral systems.

Such a future course would presume American and international support for democracy in Iraq. Presumably the United States would welcome that, but no administration official has said so. The American position about the future of Iraq is vague. In

contrast, the president of Turkey, Turgot Ozal, has said "Our wish--and I stress this is a wish and not an aim--is for a democratic regime to be established in Iraq.... For if democracy is victorious . . . this might make Iraq more stable." I agree with that. Why can't the United States openly say the same state that it is prepared, to the extent that it is able, to help Iraqis achieve that. Such a statement, I believe, would be welcomed by the Iraqi population.<sup>2</sup>

The effort to develop a constitutional government in Iraq would also presume contacts between the international community, including the United States, and various Iraqi political groups, which now exist only in exile. So far as can be discerned, however, and according to the New York Times of February 23 1991, the United States has eschewed any such contacts.

Congress seems to be the one notable exception. I understand that several Iraqis in exile have been invited to testify.

Leaving the question of Iraq's political future to others, including Saudi Arabia which has contacts with Iraqi exiles, is highly problematic. American interests are not the same as Saudi interests. For example, the Saudis have set up an opposition radio. While those broadcasting on it are not allowed to attack the Saudi government, they are apparently allowed to attack the United States.

Another reason why it is unwise to leave this question to Saudi Arabia is that the sectarian politics of Iraq clash with the sectarian politics of Saudi Arabia. In Iraq, a Sunni Arab minority rules a country which is over 55% Shia Arab and 20% Kurdish. The Saudis are not sensitive to the aspirations of the Kurds. Moreover, in Saudi Arabia the orthodox Sunni establishment that provides legitimacy for Saudi rule looks with disdain on the Shi'a minority in the country, which suffers broad discriminations. The Saudis may well be anxious to limit any significant Shi'a role in a future Iraqi government.

The Saudis have gathered a number of Iraqi figures. They are largely Sunni Arabs, military figures, and without a significant political base among Iraqis.

Some are even notorious, such as Salih Omar Al-Takriti, who played a prominent role in the public hanging of a number of Jews in Baghdad in 1969, soon after the Baath took power.

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<sup>2</sup> In fact, extremist elements among the Iraqi opposition have attacked the United States for pursuing this war for its own crass interests rather than to secure the overthrow of Saddam Hussein.

It can also be argued that the Saudi attitude is counter-productive in the long-term. A military government, whether it arises from within Iraq or is assisted to power from the outside, is not likely to be stable. Lacking significant support, it will be tempted to channel its internal problems into external aggression, as Saddam Hussein did.

Nor are all Iraqi elements happy with American aloofness. Liberal elements within the diffuse Iraqi polity in exile look to the United States for its liberal values. They dislike and suspect the influence of Saudi Arabia, Syria, and Iran on their country.

Finally, the Saudis are not great democrats. It is not clear that the optimistic scenario that I described would be considered optimal from a Saudi perspective. The Saudis might view such an outcome with apprehension.

Yet it is questionable whether the genie of democracy, in the Arab states can long remain bottled up. The crisis of authoritarianism is an international phenomenon. Even before August 2, several Arab regimes had been obliged to liberalize in order to contain popular discontent.

Democracy will be a prominent issue in liberated Kuwait. There was popular pressure to reinstitute the Kuwaiti parliament before the invasion, and that pressure has increased since result of Iraq's occupation. Those who stayed behind, fought, and suffered will demand their share of political representation and there will be demands to liberalize Kuwait's restrictive laws on citizenship and suffrage.

The government of Saudi Arabia never liked Kuwait's relative political openness and in the past the Saudis used their influence to limit it. However, it is doubtful that Saudi Arabia will be able to do so as easily in the future.

More liberal governments in Kuwait, and perhaps Iraq, will have implications for Saudi Arabia and the Gulf shaykhdoms. They will have little choice but to adjust in their own fashion. In fact, this war already has had consequences for Saudi Arabia. The protest demonstration by 50 women drivers is probably symptomatic of what will be an intensifying conflict, precipitated by this crisis, between traditional, conservative elements and those that seek a more liberal political environment.

In conclusion, I have sought to sketch an optimistic, although not completely unrealistic scenario for the future of Iraq. I have done so for two reasons 1) to articulate a vision of Iraq without Saddam Hussein is among the first steps toward ending his regime; 2) such a scenario shows the direction in which a variety

of parties, who are not speaking to one another now, might coordinate their efforts in what is increasingly becoming a widely shared goal among the United States, the international community and significant elements within the Iraqi population.

## ARMS CONTROL AND THE SOVIETS

Mr. OBEY. Thank you very much.

With respect to arms control, what strikes me is that every single witness who has been before us both yesterday and today has given that a very high priority. Yet there are those, some of the so-called "wiser heads" in this town, who, in effect, say, "well, that's very nice, but the Duke said to Mozart, Too many notes, and they say to us, Too many leaks."

How realistic is it, do you think, for us to expect at this time that we ought to be able to put together an understanding with the Soviets, and then the rest of the world, to enable us to deal with this region in that way?

Mr. LUTTWAK. May I leave the larger question to the other people and just address the question of leaks?

Mr. OBEY. Yes.

Mr. LUTTWAK. This is my trade, after all.

Mr. OBEY. Leaks?

Mr. SMITH of Florida. No, weapons.

Mr. LUTTWAK. I'm also a good amateur plumber. [General laughter]

Mr. LUTTWAK. If you look at the arms deployments in the Middle East, not only the ones of Iraq, of course, but the ones of Egypt, Syria, and Saudi Arabia, and Jordan as well, they are not the kinds of deployments that are sustainable or sustainable with leaks. What can you get in the world of leaks?

You can get as many North Korean made copies of 40 year old Soviet tanks as you want, T-55's. Those are not the type of armor that we see in the Middle East.

If you field such armor in the Middle East, other than that the Iraqis fielded it as an antitank weapon, you will just get blown away.

What kind of aircraft can you get in the world of uncontrollable leaks? Well, you can buy F-104's, 1960-type fighters. You could probably get some basic fire control systems for them. But they are the type of aircraft that will get blown away by the F-15's and by the MIG-29's, which are current in the Middle East.

In other words, if you were charged with creating an arms denial policy for Latin America, I would say that that is very hard to do. It's true that the Latin Americans have much less money to get things in. But in Latin America, a shipment of North Korean tanks would decisively change the balance between Ecuador and Peru, or any other such balance.

In black Africa, you can equip any national army just with leaks, with whatever you can buy on the international arms trade and whatever you can get from violators, and so on.

In the Middle East, the level of armaments, the sophistication of armaments, the requirement for continuing after-sale support of a very extensive nature, are such that the arms trade basically has been dealt out of the Middle East for a long time. Arms dealers have not made it in the Middle East.

It is true that commission agents have, where you have a deal between the United States and Saudi Arabia and some commission agent interposes himself for a prince, for example. But as far as

the Middle East is concerned, to talk about leaks is a red herring. You can have all the leaks that you want, and when you compare it to the standards of now and the last 20 years, you will have disarmed Middle East, even if you had all the North Korean stuff in there and all the other uncontrollables.

Mr. HUNTER. Mr. Chairman, let me second what Dr. Luttwak has said.

He is right. You will not have to worry seriously in the Middle East about the little things that happen here and there in the flow of arms. This problem will be handled at a much larger level.

I think it is fundamentally a matter of political will and leadership. In fact, it is my regret that we did not start doing this on August 3. When this war is over, as it is likely to be in the near future with a victory, it is not going to be as easy to convince people to work on a regime among sellers of arms, getting them to show forbearance, than it is at this moment and has been throughout this war.

Memories will fade quickly. Checkbooks will come out. We are seeing right now, as happens in every war, a test bed for modern weaponry. We saw it in the Indo-Pak wars. We saw it in each of the Arab-Israeli conflicts.

What the nations of the region and others are seeing is that American arms are, once again, at the top of the list. These are the "Toyotas" of the arms industry, and the stuff the Soviet Union produced is not very good. The Saudis and others are going to get out their checkbooks, and they are going to ask to buy.

In my judgment, if arms limitations are going to work, it has to be something done both by sellers and by buyers, and it has to look into the interests of individual states.

The Soviets did say several months ago, before the war, that they would be interested in seeing some kind of limitations. Whether they will do that in the future, for economic and political reasons, I don't know.

But given the degree to which Gorbachev has been willing to be moved by American policy in this crisis because of his need for access to the Western economy, I think it is worth a try and that it has a reasonable chance of success.

In regard to the buyer's perspective, you cannot separate arms control from conflict; that is, you cannot simply say "why don't you stop buying?" unless also you say "here is the kind of things that is evolving with regard to Persian Gulf security, here is what is happening with regard to the Arab-Israeli conflict." The two factors are inseparable if you want to make arms sales limits work.

There is a piece of good news. Saddam Hussein is the last bully on the block. There aren't any other rogue leaders around the world—maybe North Korea is the exception—with million man armies that could lead to a justification for serious arms races or even for serious American deployments. The middle East region is very rapidly going to be reduced to a much smaller size, politically, than we have seen for some time. That offers some hope, I think.

Mr. INDYK. I would just make one comment on the Soviet Union. I think that certainly before this crisis and before recent developments in the Soviet Union itself, where we saw the military and the KGB asserting themselves more, there was an intense interest

on the part of the Soviet leadership in arms control arrangements for the Middle East. Shevardnadze, when he was Foreign Minister, made this a priority. Indeed, if you look at the Soviet-American Joint Communique between Baker and (Soviet Foreign Minister) Bessmertnykh, you see that there is a direct reference to it there.

But there will be other pressures on the Soviet leadership from those who would like to sell arms to the region for the old traditional reasons, reasons of building influence and getting some hard currency.

So I think it is by no means clear-cut. But if we are prepared to make the effort, then I think that there is a greater chance that they will join us.

It also depends very much on us and what we are prepared to do. There will be a great temptation to sell arms to the region in the wake of this crisis. I think all states in the region will have their own justifications for needing to rearm. I mean, you have the Saudis talking about a six division army. I don't know where they are going to get the men from. But just on the conventional level, six divisions for the Saudis has all sorts of implications for the other Gulf Arab states, let alone for Israel.

Hafez al-Assad has taken the \$2 billion or so that he got from the Saudis for his participation in the war and is now building a new division and buying arms from Korea and China. His Defense Minister was in the Soviet Union, and there is a good chance of a new deal in the works there. If he has the money, he will buy the arms.

And so, in the end, in the region, one of the sources of leverage here is precisely the lack of money for those that might have the urge to do it in the wake of this war.

So, in that sense, if the region's powers have difficulty paying and we can orchestrate the sellers in such a way that they also have difficulty buying, there is a better chance now, in the aftermath of the conflict, than I think there has ever been since the 1950's.

#### DEMOCRATIZATION

Mr. OBEY. I have a second question.

Ms. Mylroie mentioned, and a number of you touched on, the need for democratization.

Mr. Indyk, you approach it in a somewhat different way in your testimony. Well, maybe it's not all that different. You talk about the need to push democratization in areas such as Iraq, not necessarily in Kuwait and Saudi Arabia.

It strikes me that, to the extent that we aim toward eventual democratization in Iraq, that you run into two problems. One is people again suggesting that movements toward liberalization are not necessarily equitable with movements toward stability in Arab regimes. Second is that you run into the fact that the royal family in Saudi Arabia and the royal family in Kuwait are likely to respond with minimum regard to suggestions for democratization anywhere.

## INTERNAL TENSIONS IN IRAQ

First of all, I would like to hear you respond to the skeptics on that proposal. I would then like to know what others on the panel feel about that issue.

Ms. MYLROIE. On the question of the tension between liberalization and stability, on the one hand there is something to it. On the other hand, we do not now have a very stable Middle East. I mean, we have just fought this war.

I believe that what drove Saddam to this kind of risky aggression was Iraq's internal problems. I mean, as a way of overcoming them. To promote or support another military government, military dictator in Iraq is highly problematic.

There are groups now that are armed or potentially armed--Kurds and the Shia in Iran. For them, this is the only opportunity they will have to press their grievances. It's now or never.

I think if their grievances are not addressed after this conflict, there will be, then, armed revolts led by them. Iraq will not be a stable place if one attempts to deny groups within Iraq some of their legitimate demands. It would be a more stable place if they would attempt to incorporate within a looser government elements of the Iraqi polity.

So I am not even sure that military dictatorship is a very practical solution for Iraq. I am not sure that there is enough internal strength in Baghdad right now to maintain the kind of suppression that would be necessary to contain all these centripetal forces. And, in fact, the kind of thing that I sketched, or however you would want to describe it, a government that was more accommodating, more reflective of the popular will in Iraq, would be more practical and more stable, because any other is likely to face civil war.

As for the other Arab states--Saudi Arabia, Kuwait--I do not believe that the Kuwaitis have a big problem with democracy. The Kuwaiti royal family will have to address its own Kuwaiti constituency. But I think it is in the process of doing so.

Before the second of August, in fact, Kuwait's political system was viewed with disfavor by other states in the Gulf--Iraq and Saudi Arabia--who saw the liberalism of Kuwait as a threat to themselves.

It is a problem for the Government of Saudi Arabia, the question of liberalization or democratization. It is not clear that what I have described as an optimal scenario for Iraq would be seen as such by the Saudis.

However, I think they will face those pressures in any case. A crisis of authoritarianism is an international phenomenon. I think one of the consequences of this war will be to increase that Arab sense, a demand for political participation. People are already saying look what one man, Saddam Hussein, did to his country. We cannot afford to have these kinds of regimes.

One might bear in mind as well that Egypt, a key member of the coalition, that the Egyptians will not be threatened at all by any kind of liberalization in Iraq. Syria will, but I don't think there is too much concern for that here.

## U.S. SUPPORT TO DEMOCRACY

Mr. OBEY. Does anyone else want to comment?

Mr. LUTWAK. I apologize, Mr. Chairman, but I will have to leave in a very few minutes, with your permission.

Perhaps in the spirit of not trying to impose a fully defined "Pax Americana," we could at least take some minimal steps. In the official explanations of policy in regard to Africa, Latin America, Asia, Europe, anywhere, it is conventional, customary, for American leaders to invoke democracy and human rights as a sort of add-on to almost anything. I suggest that we should adopt this as a minimum policy. The most minimal thing is that the word processors in the State Department and in the White House, which are now already programmed to remove the words "human rights" and "democracy" when the heading is the "Middle East," should be reprogrammed, so that we will modestly and quietly assert our own belief in these values.

I was impressed by President Ozal's statement about democracy in Iraq. I think this, in itself, would send a very strong, new signal. It wouldn't be that we are planning to impose democracy here or there and this is how you are going to do it, and you will have to have voting machines of this color and so on. But it's simply to quietly reassert that as a value for ourselves and our own modest hopes.

I think this would be highly significant. And, as for the people who don't like it—too bad.

As for the instabilities it would cause, let's see how it plays out in Tunisia and in Algeria, where we have had the experiments conducted so far.

Yes, at this particular time, a time of terrific crisis, it led to mass demonstrations in Algeria. The fact is that they could demonstrate, so they demonstrated. Who did they demonstrate for? They didn't demonstrate for the Al-Saud's and the Americans. They demonstrated for Saddam.

But what did that lead to? Did it lead to violence and overthrow? It led to what demonstrations here lead to. The demonstrations are a substitute for violence.

And so, I think we should not be impressed by the arguments of those who say there will be demonstrations. Of course there will be demonstrations if they are allowed.

The experiment has not been a negative one in North Africa from my point of view.

Mr. OBEY. Thank you.

Mr. HUNTER. Mr. Chairman, to second what has been said, I don't think there is a choice. In my judgment, the legitimacy of regimes will be increasingly challenged by mass politics, some of which could have at least short-term consequences that we don't like, as Mr. Indyk has already said. Many people in this country worry about pressing human rights and democracy when they look at what happened when the Shah fell.

I would argue that we left it too long before we started exerting pressure on the Shah to reform, and the chance of a successful transition was lost by the time we woke up to what was happening.

Secondly, if we want to have a viable policy in the Middle East in the post-Cold War era, we need to play fair with the American people and with American ideals. We did fence off that region for so long because of that three letter word, "oil," and in some ways we are paying the price for it right now.

It would be unseemly of us as a nation, after seeing the validation of the principles that we helped invent in Eastern Europe in Latin America—where there are now more democracies than ever before in history—to be faint-hearted in regard to this particular region of the world.

We got into a habit during the Cold War of making compromises on human rights and democracy because of the enormous issues of avoiding a nuclear war with the Soviet Union, because of the competitions that went on in the name of trying to contain the Soviets.

But we don't face that dilemma now. Mr. Chairman, I admire the leadership that you and others have shown in saying, "Let's get our ship of state back on the course where our ideals help to guide it."

Mr. INDYK. I would just second what everybody else has said in this regard. Obviously we have to be true to ourselves. It would be a major mistake to try to deny that in this region, not just because it would be going against our own values, but also because people in the region expect us, the rulers as well as the ruled, expect us to be promoting democracy.

You may have discovered in your trips to the Gulf how preemptively defensive they are on the question of democracy. They have their talking points out before you even mention the word.

So they understand it. They are already adjusting to what they expect to be our pressure. It is simply our presence there which brings that pressure, automatically.

So, again, it is not something that we can avoid.

What I was trying to suggest in my brief opening remarks was to focus, as Professor Mylroie has suggested, on Iraq. We have a chance there of promoting democracy.

In Kuwait, it is going to happen. The Emir owes the opposition for their refusal to play Sa'adam's game. The fact that no Kuwaiti was prepared to stand up and form a puppet government for the Iraqis in the first couple of weeks of the invasion was very important in terms of the relationship between ruler and ruled in that country.

And so, there is no question that the Kuwaitis are going to have to liberalize their system of government, and that will have an impact on all the other Gulf Arab states, inevitably, just because they live in the same neighborhood.

The problem is that anti-democratic forces benefit most from the democratic changes in the first instance, in the short term. Islamic fundamentalists are not Jeffersonian democrats. They are very pragmatic in seeking to exploit the opportunity to establish their position of power.

Therefore, we have to find a way in the process of promoting democracy to help those governments that are friendly to us to meet the needs of their people, so that the fundamentalists and opposition groups don't have a breeding ground for their kind of politics. That is, of course, easier said than done.

But the reason that Islamic fundamentalism is on the rise in a lot of these places, I think, is precisely because of the failure of regimes over a prolonged period of time to meet the needs of their people. That is the real source of instability.

To the extent that it is possible for them in the wake of this visit to do something about more effectively meeting the needs of the people, I think that then democracy is not necessarily as destabilizing over time, as we might think.

Mr. OBEY. Thank you.

Mr. Murphy.

Mr. MURPHY. It is a very small region geographically, Mr. Chairman, but I think a very diverse one. As we talk now about helping the Iraqis on the road to democracy, let's bear that diversity in mind and keep a little humble and modest in our aspirations as to how much we are going to transfer of our ways to that region.

It is a fact. We have never pushed the Gulf regimes, publicly or privately, to democratize. We have heard them, as Martin was saying, discuss their Majlis system, the openness of communication between ruler and ruled. It does work in many instances.

One of the favored arguments for advocating democracy is that you will never get economic development without political liberalization. That does not really apply in the Gulf States. That's one mark of the diversity. They have spent heavily on their social services, on education, and they do not have, in our sense of the word, "democracy."

Just what do we want to accomplish? Is it one man/one vote? How do you apply that in the United Arab Emirates, when only 20 percent of the people are native citizens of that state? Are we pushing for Sri Lankan and Filipino rights to vote, to become citizens?

I just mention these; there are many other examples. It is not and cannot be one, massive push from the United States to encourage democracy. We have to be realistic and I think a little bit humble about examining the different conditions in those individual countries, while staying true to our value that certainly the more people who participate in the decisions of their government, the better.

Mr. OBEY. Thank you.

Mr. McHugh.

#### AID TO JORDAN

Mr. McHUGH. Thank you, Mr. Chairman.

I would like to express my thanks to all of our witnesses today for giving us the benefit of their observations and experiences. It has been very helpful.

In the limited time available, I would like to address a couple of the specific aid questions which our subcommittee is likely to be faced with. One of them relates to Jordan.

Our friend and colleague, Mr. Smith, I think yesterday expressed the skepticism about providing aid to Jordan effectively. This case is going to be made when we take up our bill.

Obviously, after 30 years of assistance in one form or another to Jordan, we were disappointed when King Hussein took the position so publicly that he did in support of Iraq. We all recognize his deli-

cacy politically because of the large Palestinian population, and we recognize, as well, that ultimately we are going to have to make this judgment based on U.S. interests in the region and not upon our personal pique at what the King has said.

So I would like to give you an opportunity briefly, if you would, to recommend to us what we should do here when, inevitably, an amendment is offered which would strike assistance to Jordan.

Should we adopt such an amendment? Should we adopt it with conditions? Or should we reject it?

Mr. HUNTER. I think, Congressman, that you have put the dilemma very neatly, that King Hussein of Jordan certainly did not earn plaudits in this country for what he did, particularly at a time when young American men and women have their lives at stake.

But, by contrast, in my judgment there is a continuing American interest in the viability of Jordan. Whether that is an interest in the viability of the current government is another question.

Throughout this crisis, before the war, I personally worried about the survival of King Hussein because I saw him to be the Archduke Ferdinand, and, if he went under, the chances of a Palestinian-Bedouin civil war were about 75 to 80 percent.

If that happened, the chances of Israel's being dragged in, something that Saddam Hussein did not achieve, even with his SCUD attacks, would also have been quite high.

Now, in the fullness of time, if there is a Palestinian state on the East Bank of the Jordan, it might, depending on how it comes about, help prompt stability in the region. But we don't have that right now.

Not to be exculpatory for the king, but part of the reason for his behavior was that the Saudis had cut off his water, by which I mean they had cut off his oil. He himself, of course, had revived his ancestral claims to the holy places in Saudi Arabia. He had been calling himself the "Shariff Hussein," which was his grandfather's title. But I found it unfortunate that, during this crisis, when we saw Jordan take a position which we did not like, but were it was still instrumental, to our purposes, we did not prevail upon Saudi Arabia to give Jordan an alternative to relying upon Iraq. It was a "Catch 22" for King Hussein.

I'm not advising you on how to vote on this—but I would prefer that assistance to Jordan come from within the region, and that, as we put together a relationship with the Saudis and others for the future, this will be something that is high on the agenda. This is because if we cannot work on these problems with countries like Saudi Arabia, we will be able to work on other problems, such as its relationship with Israel.

Second, I hope your vote does not come before the administration develops a relationship with Jordan and a process which will, at the very least, clarify where the Jordanians plan to be in the future and, at best, will bring them around to a situation where your decision will to be easy. I don't think that the Congress of the United States should be forced to do the administration's work for it.

Mr. INDYK. If I could just make a few comments first about why Jordan matters to the United States and try to put it into perspec-

tive, Jordan is not a vital interest of the United States. It is too weak and our interests can be protected without Jordan.

But, having said this, Jordan is strategically located and can affect our interests in two respects. First of all, Jordan is the weak buffer state between three more powerful neighbors: Syria, Iraq, though a weakened Iraq, and Israel. Instability in Jordan can have the effect of dragging these larger powers into conflict.

This is on the issue of instability.

On the question of stability, a stable Jordan is important to us as an anchor for any kind of settlement that we would want to promote between Israel and the Arabs, and the Palestinians in particular. As you are very much aware, Jordan shares the longest border with Israel. It shares Israel's dilemma, demographic dilemma, in that it has a Palestinian population much larger, than Israel has, under its control. Perhaps two-thirds of the Jordanian population is Palestinian.

These demographic and geographic factors mean that Jordan will be very important in any kind of settlement to stabilize that arrangement. Any weak Jordan that would allow a new Iraq, let's say down the road, to position forces on the East Bank would create a major problem for Israeli security, and any security arrangements involving the West Bank will also have to include the East Bank.

A stable Jordan in that regard is important to the U.S.

This is why we are in this strange position, where the king has taken a stance which is unhelpful, which is critical of our efforts, but where we have tried to be as tolerant as possible out of the belief that the alternative to the king would be far worse for those interested in stability.

His strategy of survival, I think it is understood that that is what he was basically pursuing here. He was riding the tiger. But I would have to agree with those who say that he went further than was necessary in that regard. Some of the ways in which he criticized us and our efforts were, I thought, in some respects egregious. His brother did not go to the same extent when he came here.

I think there was an alternative.

So, on the one hand we have the principle of wanting to preserve the king for reasons of stability. But in the wake of this war, it competes with the other principle, which is we don't want to reward those who sided with our enemy. That is an important principle, too, a principle which I believe should certainly apply in the case of the PLO. So why shouldn't it apply in the case of Jordan?

I think, therefore, we come to the kind of middle road that you suggested, and that is conditional aid.

Now, of course, conditioning aid, particularly in the Middle East, is a very problematic thing. I would suggest that the condition not be a formal condition. It should be conditioned on his behavior now that Saddam Hussein is being defeated.

I don't know whether you have the luxury of time to observe this, but I would say, let's wait and see. If the king is interested in moving back in the wake of this crisis, then we should not slam the door in his face.

That is where I would agree with my colleague, Bob Hunter. If what you're talking about is \$55 million, that really is not much,

compared to Jordan's desperate economic straits. It helps, but it is not going to make that much difference.

What the Saudis do will make a great deal of difference. They are much angrier than even Congressman Smith with the king's performance. They feel very personally that his behavior has been perfidious. Some of them will even say they prefer a hostile Palestinian state than a perfidious king.

We have tried, I believe, to persuade the Saudis to be forthcoming with the Jordanians, and we have failed in the midst of this war.

So I think that, in the first instance, it's up to the king. If he shows a willingness to adopt a different kind of behavior, the kind of behavior that we have seen in the past, at least in terms of being a pro-Western source of stability in the region who has articulated a policy of peace with Israel, although he has never been prepared to follow through on it, but if he is prepared to move back in that direction, I think we then should be prepared to say okay, we'll be magnanimous in victory.

But it is really going to depend on him first.

Mr. McHUGH. Thank you.

Mr. MURPHY. That brings up part of our earlier discussion, Congressman, on democracy. What the king has said publicly since the start of the invasion is that he saw himself as speaking for and articulating some of the views of his people.

He has been criticized for not being more the leader of his people in enunciating Jordanian stands. But he said I was encouraged to democratize this kingdom over the last several years by Washington and a number of other capitals. There was an election in November of 1989; out of that election came 32 fundamentalists, out of I think a body of 90-plus. He has a 60 percent Palestinian population, probably getting closer to 70 percent these days. Both those groups were very ardently supportive of Saddam Hussein.

Public opinion creates pressures on the king, obviously. The election was not faulted by any observer, as far as I know, as to the fairness of the election. So a third or about a third came out on the fundamentalist side.

Why fundamentalists supported Saddam is a puzzle. I still don't understand it myself. He is the most secular of Arab leaders. But maybe it was opportunistic. They saw him as a winner, or a rising star.

But there are those pressures on the king, or there were those pressures. Now the strategy has failed. Iraq will not be the one to counter what the king sees as a worrisome, expansionist threat out of certain Israeli circles. Iraq will not have the economic ties with Jordan that it had. Iraq is rather heavily in debt to Jordan, curiously, as a result of trade during the war.

But I would say if we are going to encourage and keep encouraging the Saudis to have another look at Jordan, I would urge that we do put our own money down, because that is one way to encourage them that we think there is a future there. I think the king certainly is interested in playing a role in the peace process if we can help get that restarted. I don't think there is any question.

Mr. McHUGH. Thank you.

Let me, if I may, Mr. Chairman, ask one other question and then give Mr. Smith some time.

#### AID TO ISRAEL

A second issue we are going to be facing, if not immediately, then certainly down the road, is a request or an amendment, at least, to help Israel.

There are two areas beyond the continuing assistance we provide to Israel which will be issues. The first, and perhaps more immediate one, is to provide some assistance to help Israel with some of the costs it incurred as a result of the current conflict. I think there was a story yesterday indicating that a request was made of our government for approximately \$1 billion to help Israel pay some of the costs of this alert that they were under. Of course, we were very grateful to Israel for its restraint, which was difficult for them to do.

That is one question. But I think the more difficult one perhaps ultimately will be in assisting Israel with housing guarantees and perhaps more broadly economic development assistance related to the enormous influx of Soviet Jews into Israeli society. This is something, of course, which we encouraged for many years and pressed the Soviets quite hard on.

We are all grateful and delighted that that flow is significant now, and it does pose an enormous economic burden to Israel.

At the same time, there will be objections raised at some level about the settlement policy in Israel in the context of whatever prospects there might be for a political settlement between Israel and the Palestinians and between Israel and their Arab neighbors more generally.

What should the position of the Congress be with respect to any request we may receive or any amendment that may be offered to provide significant assistance, perhaps in the form of guarantees, to Israel to help them with this influx of refugees in the context of the political issues which all of you in one sense or another have touched upon, relating to the stability of this region and specifically with regard to Israel and Palestinian issues? I say this specifically relating to the question of settlements.

Mr. INDYK. Well, I think in terms of the costs of the current conflict, it is important to bear in mind that Israel, unlike many of the other front line states—and Israel became a front line state by virtue of the Iraqi missile attacks—Israel, unlike those states, has not received any help from any other quarter, including the United States. There is a major issue of debt forgiveness for Egypt. The Europeans have paid some money to Syria, to Egypt, to Turkey, some effort at some money to Jordan as well.

Israel is now getting some support from the Europeans. They have recognized the need there. The Germans are leading the way in that regard, and I think it is somewhere around \$160 million from the Germans, and perhaps \$200 million, though I'm not sure of the figure, from the European Community. So they have acknowledged that Israel has that need.

I believe that the administration has also. The question really is how to do it and not whether to do it, because of the damage in-

flicted by the SCUD missiles, the costs of maintaining a very high state of alert.

So I would just say, recognizing that it is very difficult to do, I think that it definitely is something that is necessary to do in that regard, if only from the point of view of equity, leaving aside our long-standing commitments to Israel.

On the absorption guarantees, I think you make a very important point that has to be borne in mind. The Congress was very active in pressuring the Soviet Union to open the gates to Soviet Jewish emigration. It is fair to say that, had it not been for that activity, the gates probably would not have been opened. Therefore, I think it is reasonable for the Congress to want to be involved in the humanitarian effort of settling them, not just in this country but obviously in Israel, where the vast majority of them are going.

We are talking here not about huge amounts of money, although we don't know exactly what the amount is. But the Israeli Government has taken the attitude that it will have to borrow on the international capital market to settle these people, and, therefore, it is a question of loan guarantees.

And so, I think that has to be borne in mind when we look at that. It is not that much money.

The question about settlements is a legitimate one, but it also has to be kept in perspective. Number one, there is an understanding now, negotiated between the Secretary of State and Foreign Minister Levy, which I think provides the basis for the initial \$400 million in housing loan guarantees, and I believe that will establish principles that should satisfy the Congress as far as the question of this money not going to settlements.

Soviet Jews do not want to settle in the territories. To the extent that they are settling there, it is because either there is a lack of housing, partly as a result of our holding up the \$400 million loan guarantee, partly because a few of them may have settled there in the first place and they go where their families are. But the numbers are very small, less than 1 percent, I believe. Therefore, I think one has to keep it in perspective.

There is the thorny problem of Jerusalem. I shudder to raise the word because of its implications. But there the Israeli Government and the Israeli people are agreed, there is no division in Israel on this issue. Jerusalem is seen as the united capital of Israel. Housing in Jerusalem, in the Jerusalem municipality, is regarded as entirely legitimate because of the very strong commitment to Jerusalem as the united capital of Israel.

So, if you want to try to restrict housing going up in Jerusalem, and you have been there, so you have seen where the housing has been going up since the very early days of July, 1967, it is too late now, I think, to try to exercise control on that. And I would say that it is counterproductive to even think of trying. After all, can one really imagine any kind of settlement in which Israel were to give up Jerusalem. I just don't think that is realistic.

Mr. HUNTER. I concur with what Martin said. I think, given what Israel has done in this war, that should be recognized—not just the SCUD attacks, as he says, but in its having to maintain a military in a high state of readiness, which was critical not just for defense, but also to reassure the Israeli public of this fundamental break

that they have made with their security doctrine. This was instrumental in keeping this war contained and helping us to prosecute it in the way we did.

By contrast, let me say a few words about the settlement activity.

Again, I think that this issue should not just devolve upon the Senate and House of Representatives. It has to be addressed by the administration. Under circumstances in which it is prepared to prosecute Arab-Israeli peacemaking—which, regrettably, the last administration did not do for seven of its eight years—it is then perfectly legitimate to present concerns about settlements and to talk about and work with Israel, about the issue. The burden should not be placed on the absence of a peace process, in a political vacuum, to decide up or down on a particular item.

So the administration, I think, has to take the lead on that. Otherwise, I agree with everything Martin said.

Mr. MURPHY. The figure \$35 billion was mentioned earlier in the hearing. Is that purely guarantees?

Mr. INDYK. No, that's the cost of absorption. That's not what's being proposed.

Mr. McHUGH. The figure that we have heard, and there is no formal request, has been \$10 billion in guarantees over 5 years.

Mr. OBEY. Let me add a procedural point here.

If Mr. McHugh would yield—and I won't take this out of your time or out of Mr. Smith's—the issue, in my view, is not whether Israel ought to get assistance. The question is how, through what process, and when.

With respect to the costs associated with Israel's war effort, the question we really face is should the Congress appropriate money for Israel absent an administration request or ought we move in concert with the administration on the policy. To me that is the issue.

The issue with respect to housing is whether, again, we ought to move with the administration in concert, after they have had an opportunity to put together their plans, or whether we ought to take away the administration's ability to participate by making a unilateral decision in this committee, before the administration has had an opportunity to put together its approach, both on these specific questions and its approach in the region.

So that's really the issue that we face.

Mr. MURPHY. Well, personally, I would hope it would be done in full consultation with the administration. I'm still wearing some old stripes on that. [General laughter]

It was said earlier in the hearing, I think in your own comments, Mr. Chairman, in leading off, that we had done an enormous thing, action, in support of the Arab states in this war, and that they should not feel that we owed them something in a sense. I don't mean to be pejorative about this, but it is also true that we did an enormous service to Israel in this war in eliminating the Iraqi strategic threat. So as to how much are we owed by anybody, I think we have to ask the same question about Israel as well as the Arabs.

On the Soviet Jewry matter, it is absolutely true. Between the Congress and the administration—and I don't know whether you'll want to claim more credit than you will give to the administra-

tion—I think both have tried extremely hard over the years, over the decades, to get the doors open to Soviet Jewry. Before we hit our upper limits on immigration—and I think it reached 70,000 Soviet Jews last year—we were absorbing nine out of ten of those who were able to get out of the Soviet Union. When the floodgates opened, and thank heaven they did, it was judged that we could not absorb nine out of ten of those that were coming.

I would hope that we would, and from the conversations with the administration, it would be possible to encourage another look at limits in our own absorption of Soviet Jews, because I have no reason to assume that their desires to come here have changed. The principle of freedom of choice I would hope could be observed. But it is far less than nine out of ten that are able to come today, or are able to get to other countries.

Mr. McHUGH. Thank you.

Thank you, Mr. Chairman.

Mr. OBEY. Mr. Smith.

Mr. SMITH of Florida. Thank you, Mr. Chairman.

Firstly, I would like to submit for the record a statement and some accompanying documents which I think are relevant for creating a record, at least from this Member's point of view of what the post-war will look like and where we have arrived from whence we started a number of years ago. So I would ask unanimous consent to put them in the record.

Mr. OBEY. The Chair will review them for submission.

[The prepared statement of Congressman Smith of Florida follows:]

~~WHERE ARE WE GOING?~~

STATEMENT  
CONGRESSMAN LAWRENCE J. SMITH  
SUBCOMMITTEE ON FOREIGN OPERATIONS  
FEBRUARY 27, 1991

I AM HOPEFUL, BY NOW, THAT THE BUSH ADMINISTRATION HAS GIVEN CONSIDERABLE THOUGHT TO POST-WAR PERSIAN GULF SECURITY ARRANGEMENTS AND AN EFFECTIVE MEANS BY WHICH TO SECURE U.S. INTERESTS IN THE REGION. IN THE SHORT-TERM, DISARMING THE IRAQI MILITARY AND REBUILDING KUWAIT WILL BE THE OVERRIDING CONSIDERATIONS. HOWEVER, WHAT WE DO NOW TO BUILD AN EQUITABLE, AND STABLE POLITICAL ENVIRONMENT IN THE REGION WILL ALSO BE CRUCIAL TO ACHIEVING U.S. INTERESTS IN THE LONG-TERM.

THE BUSH ADMINISTRATION AND THE AMERICAN PUBLIC HAVE MANY LESSONS TO LEARN FROM THIS CONFLICT. ONE OF THE KEY MESSAGES WE GET FROM THIS CRISIS IS WHO STOOD WITH US AND WHO DID NOT. IN FACT, IT WOULD BE INSTRUCTIVE TO KEEP A "SCORECARD" DETAILING THIS INFORMATION. POSSIBLY THE BIGGEST DISAPPOINTMENT HAS BEEN THE BEHAVIOR OF KING HUSSEIN OF JORDAN. AFTER 38 YEARS OF U.S. ASSISTANCE AND SUPPORT, JORDAN VERY WELL COULD BE THE LARGEST AIDER AND ABETTER OF SADDAM HUSSEIN. I BELIEVE THE ADMINISTRATION SHOULD GIVE CAREFUL CONSIDERATION TO A FUNDAMENTAL REEVALUATION OF OUR RELATIONS WITH JORDAN. OUR OWN BUDGET CONSTRAINTS ARE MUCH TOO SEVERE TO CONTINUE TO AID THE GOVERNMENT OF A COUNTRY THAT CAME TO THE ASSISTANCE OF OUR ENEMY.

FURTHERMORE, I AM PARTICULARLY ANXIOUS TO SEE THE ADMINISTRATION FINALLY PUT TO REST THE ILLUSION THAT THERE IS A PLACE AT THE MIDDLE EAST PEACE TABLE FOR THE PLO. BESIDES THE POLITICAL SUPPORT YASSIR ARAFAT HAS LENT TO THE IRAQI REGIME, PLO FIGHTERS HAVE BEEN DEPLOYED ON THE FRONT LINES IN KUWAIT AGAINST AMERICAN AND COALITION FORCES. IT IS UNFORTUNATE THAT LESS THAN TWO YEARS AGO, THE BUSH ADMINISTRATION UNDERTOOK A POLICY OF GROOMING THE PLO AS A PARTY FOR PEACE NEGOTIATIONS. AT THAT TIME, MANY OF US VIGOROUSLY ARGUED THAT THE PLO IS NOTHING LESS THAN A TERRORIST ORGANIZATION WHOSE INTERESTS ARE IRRECONCILABLE WITH THOSE OF CIVILIZED NATIONS. CLEARLY, THERE IS WIDER SUPPORT FOR THIS VIEW AS A RESULT OF THIS WAR.

ISRAEL, ONCE AGAIN, HAS PROVED IT IS THE UNITED STATES' MOST DEPENDABLE ALLY IN THE MIDDLE EAST. THE GOVERNMENT OF ISRAEL SHOULD BE COMMENDED FOR ITS FORTITUDE IN SUPPORTING U.S. WAR OBJECTIVES EVEN IN THE MOST DIFFICULT OF CIRCUMSTANCES. ISRAEL HAS BEEN THE TARGET OF 37 SCUD MISSILE ATTACKS AND, YET, AT THE REQUEST OF THE UNITED STATES, HAS STAYED OUT OF THE GULF WAR IN AN OFFENSIVE MODE. ON THE OTHER HAND, ONLY KUWAIT CAN CLAIM GREATER SUFFERING FROM IRAQI AGGRESSION THAN ISRAEL. THIS IS A CRITICAL POINT: ALL VICTIMS OF IRAQI AGGRESSION, INCLUDING ISRAEL, ARE PARTICIPANTS IN THIS WAR.

I WANT TO RECOMMEND TO THE ADMINISTRATION, IN THE STRONGEST

POSSIBLE TERMS, TO TAKE ADVANTAGE OF THE GOODWILL WE HAVE BUILT UP WITH OUR ARAB ALLIES, TO URGE SAUDI ARABIA AND KUWAIT, IN PARTICULAR, TO RECOGNIZE ISRAEL. THERE CAN BE NO SATISFACTORY SOLUTION TO OTHER REGIONAL PROBLEMS UNTIL ALL OF ISRAEL'S NEIGHBORS PUBLICLY AND UNEQUIVOCALLY ACCEPT ISRAEL'S RIGHT TO EXIST IN PEACE.

WHILE I WAS GLAD TO SEE THE PARTICIPATION OF THE SYRIANS IN THE COALITION, I WANT TO CAUTION THE ADMINISTRATION NOT TO MAKE THE SAME MISTAKE WE MADE WITH THE IRAQI DICTATOR IN THE EARLY 1980'S. ASSAD IS A BRUTAL DICTATOR FROM THE SAME SCHOOL OF RADICAL ARAB POLITICS THAT GRADUATED SADDAM HUSSEIN.

ON A MORE GLOBAL SCALE, WE NEED TO EXAMINE THE PARTICIPATION OF OTHER INDUSTRIALIZED STATES IN THE COALITION. I AM JUST A LITTLE TIRED, MR. CHAIRMAN, OF THIS EXCUSE WE ARE GETTING FROM SOME OF OUR ALLIES THAT THEIR PLEDGED CONTRIBUTIONS ARE "IN THE MAIL." I DON'T NEED TO REMIND ANYONE IN THIS BODY THAT PLEDGES OF SUPPORT ARE WORTH ONLY THE PAPER THEY ARE WRITTEN ON. IT WOULD BE AN UNDERSTATEMENT TO SAY THAT I HAVE BEEN DISAPPOINTED BY JAPAN'S PARTICIPATION IN OPERATION DESERT STORM. FRANKLY, I DON'T UNDERSTAND THE LACK OF ENTHUSIASM IN JAPAN FOR THE ALLIED EFFORT BUT I'M WILLING TO PREDICT THAT THEIR LACK OF SUPPORT IS GOING TO BE TRANSLATED INTO A LACK OF ENTHUSIASM IN THIS BODY FOR THE EASING OF TRADE RESTRICTIONS ON JAPANESE GOODS.

Lack of  
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I HAVE ALSO BEEN SORELY DISAPPOINTED BY THE RESPONSE TO THIS CRISIS OF GERMANY AND BRAZIL. ALTHOUGH I COMMEND THE GERMANS FOR THEIR PLEDGES OF MONETARY SUPPORT, THESE TWO COUNTRIES HAVE PLAYED A SUBSTANTIAL IN ROLE IN ARMING SADDAM HUSSEIN. THESE TWO COUNTRIES, IN THEIR EXPORT POLICY, MUST LEARN TO STRIKE A MORE REASONABLE BALANCE BETWEEN INTERNATIONAL SECURITY CONCERNS AND THE PURE PROFIT MOTIVE.

FINALLY, AT HOME, I WANT TO URGE PRESIDENT BUSH AND SECRETARY BAKER TO GO FURTHER BACK THAN AUGUST 2, 1990 TO REVIEW EVENTS THAT LED UP TO THIS WAR. WE CLEARLY NEED TO REFORM OUR EXPORT CONTROL LAWS ON PRODUCTS THAT HAVE DUAL-USE APPLICATIONS. MORE THAN THAT WE NEED TO REEVALUATE OUR OWN ARMS SALES POLICY. WEAPONS SALES TO UNSTABLE REGIMES INEVITABLY COME BACK TO HAUNT US. SELLING WEAPONS TO COUNTRIES THAT HAVE NEITHER THE TECHNICAL CAPACITY NOR THE MANPOWER TO TAKE ADVANTAGE OF THOSE SYSTEMS IS BOTH WASTEFUL AND DANGEROUS TO OUR OWN INTERESTS. I AM CONVINCED, HOWEVER, THAT AS MUCH AS WE DO TO CONTROL THE UNNECESSARY EXPORT OF ARMS, WE WILL MAKE VERY LITTLE PROGRESS UNTIL WE MANAGE TO GENERATE SOME INTERNATIONAL COOPERATION ON CONTROLLING SALES OF CONVENTIONAL ARMS.

THESE ARE THE CHALLENGES AND OPPORTUNITIES FACING THE BUSH ADMINISTRATION IN THE WAKE OF THIS CRISIS. I WANT TO REITERATE WHAT I SAID YESTERDAY WHEN I WARNED THE PRESIDENT TO NOT GET CARRIED AWAY WITH THE EUPHORIA OF MILITARY VICTORY. VICTORIES IN

THE FIELD OF DIPLOMACY ARE JUST AS DIFFICULT TO WIN AND REQUIRE THE SAME KIND OF ORGANIZATION AND COMMITMENT THE ADMINISTRATION HAS JUST DISPLAYED IN THE PERSIAN GULF. THE CHALLENGE OF OPERATION DESERT STORM HAS JUST BEGUN.

Mr. SMITH of Florida. Now, let me just say with reference to the question of Jordan, before I begin my questions, Mr. Chairman, I am not as mad at Jordan, using Mr. Indyk's comment, as I am saddened and frustrated, quite honestly. I am saddened because Jordan failed us at a time which was very difficult for this country, being at war, and frustrated because I wanted to believe that Jordan would not do exactly what I knew it would do which was to side with Saddam Hussein.

For Mr. McHugh, let me say that it is 38 years worth of aid.

I am saddened because for 38 years we have been trying to help Jordan create stability, create an economy that would operate for the benefit of the people of Jordan, and create a friendship. I'm saddened because in those 38 years, even if some of the money was viewed as a bribe to be Western-oriented, the reality is that it has not worked.

I also understand the exigencies of his situation and understand why the King did what he did. But it seems as though 38 years of U.S. support did not count for much. That seems to be the problem I have with Jordan.

I do not believe that the King's continued existence will be detrimental to U.S. interests. I have a problem, however, if we learn no lessons whatsoever from what the past 38 years, just with reference to Jordan alone, would have taught us. That is what I want to jump off into, the matter of lessons vis-a-vis the post-war.

First of all, I would like to hear the comments from all of you or any of you who choose to comment about the role of the Soviet Union in the post-war era, given the role that it played just recently. It seems fairly obvious to me that Gorbachev is not only playing a role as a leader of a major super power, but also is catering to a domestic problem that he has with the military—seeking to gain more control because his domestic agenda is losing significant favor with the average man on the street.

Of course, it is rather disingenuous for Gorbachev to call for the continued existence of Saddam Hussein when he will not allow the existence of a popularly elected leadership in any of the three Baltic republics. But be that as it may, if, in fact, the Soviet Union is so equivocal at this moment in terms of complete dedication to perestroika or glasnost, why should we believe that the Soviet Union will not resume its former role in selling arms to the region? Why should we believe that the whole history of the Soviet Union has been completely washed away?

Secretary Cheney at one point said all of the progress and all of the newfound freedoms were irreversible. We found out that this is not exactly the case. Apparently, they are not all completely irreversible.

I would like to hear from all of you about how you view the Soviet Union vis-a-vis Iraq. It was Iraq's principal patron, Iraq's principal arms supplier, a significant market both ways for Iraq. Also, how do you view the possibility of the Soviet Union renewing its relationship with Syria? After all, we seem to believe, at least diplomatically, that Syria emerged in a slightly different frame of mind after it was cut off by the Soviets back in late 1988/early 1989. Should we believe that the Syrians and/or the Soviets would

not want to renew that relationship prior to any possibility of the United States pushing Syria for direct negotiations with Israel?

#### ARMS SALES AND THE SOVIETS

I happen to think that history teaches us many lessons, most of which we disregard. But at least for historical purposes and the purposes of the record, we should discuss the fact that history plays a very controlling part in what will happen in the future. In our euphoria over the fact that we have won, we should not disregard the fact that we have had this feeling in the Middle East now many times. It is like a bad marriage that goes for counseling every 30 or 40 years. The same holds true for the Soviet Union. Can we expect the Soviet Union to refrain from patronizing Iraq and Syria and not to sell weapons into the region?

I might add, Mr. Chairman, that I know the Javits list is classified, but we all know that there is such a list in existence. Well, I can tell you, having seen the list, it isn't going to be all that easy to dissuade a whole bunch of people from selling arms into the region. It is a long list, a long one, for the coming year.

That is my first question.

Mr. HUNTER. Should I take a stab at it?

You have put your finger on something, Congressman, that is vital to us. In fact, I think what happens between the old inter-German frontier and Vladivostok is immensely more important to our future than what is happening in the Middle East.

We have seen a fundamental transformation in the Soviet Union, especially in what it has been prepared to do in Central and Eastern Europe. Much of our applause for what has happened has related to the internal transformations—glasnost and perestroika—in the hope that these are generating a change in society so fundamental that Soviet foreign policy will change.

Now, the reactionary movement in the Soviet Union—and that may be a mild word for what is happening—has to give us pause about where that society may be going and what our hopes will be.

In the recent crisis, we have to consider a couple of factions. I don't think there is any question that the Soviet Union would like to have significant influence in the middle east after the war is over. Whether it can have the influence it had in the past is doubtful, given its economic circumstances, but the Soviets have been playing the Great Game.

Mr. Primakov is an able statesman in regard to the Middle East, and he is a strong supporter of Soviet interests. He has certainly not been following a design made in the United States. This is a tough guy to reckon with.

But the fundamental factor that overshadowed that Soviet interest began on the fourth of August, I guess it was, when Mr. Baker showed up in Moscow and got the pledge of Mr. Shevardnadze in regard to the role in the crisis. This point was reinforced at Helsinki when President Bush met President Gorbachev.

If we think back only two years: the idea that the Soviets would be standing by while we pick to pieces their client state—as they adhere formally and to a degree in practice to U.N. resolutions

which they could have vetoed—why, this is nothing short of an historic miracle.

In my judgment, the Soviets are not doing this for free, for nothing. They are doing it because there is a major, strategic bargain, that was sealed at Malta in December, 1989. In exchange for the most massive strategic retreat in all of peacetime history, the Soviet Union was granted access to the global economy. That is the overriding perspective of Gorbachev and of anyone who might succeed him—namely, how do you restructure that economy? You can only do that if you can deal with the West.

Now there has been a problem in this current conflict, and this is one of the things we have to wait and see. You have put your finger precisely on a couple of touchstones. Will they start rearming? What role will they play? We will be able to watch that pretty clearly.

The idea of an American expeditionary force of half a million people and 2,000 modern, Western aircraft only 500 miles from the Soviet frontier has played into the hands of those military leaders who were already humiliated by the collapse of their position in Central Europe. The Soviet army has gone from being the second most formidable military force on earth to being on the dole and combing through garbage cans in Germany.

Mr. SMITH of Florida. Excuse me, Mr. Hunter, but didn't they also basically equip and train the Iraqi Army and have suffered, therefore, a second, significant humiliation?

#### U.S.-SOVIET COMPETITION

Mr. HUNTER. Yes. They led the arming of Iraq. In this war we have seen a competition between American arms, and Soviet arms, and theirs lost. The humiliation of Soviet arms and doctrine and training is part of what is happening as the Soviet military looks on. It leads many experts to reevaluate what might have happened in Central Europe had there been a conflict.

So the Soviet humiliation is complete.

We will have to see after the war whether the Soviet Union will lean in the direction of playing the Great Game assiduously at the risk of losing access to the global economy. Which way will they come out?

We will have to see the reaction in this country to what happens in the Baltic States, as we see the erosion of progress toward reform in the Soviet Union. In Western Europe and Japan—especially in Germany—there will be a strong compulsion to continue productive relations with the Soviet Union. That may not be true, here, and serious divisions are possible across the Atlantic.

These matters you are raising are of a deep, consequential nature, I believe dwarfing the Middle East situation, but from which we will be able to see a certain number of signs in the near future, one of which will be whether Jewish emigration to Israel continues.

Mr. INDRK. I would say that the lesson here is an old one, not a new one: that in all the years, basically since the Second World War, of our relationship with the Soviet Union in the Middle East, there have always been elements of competition for influence and

elements of cooperation. For the most part, the elements of competition have dominated the relationship between the two super powers in the Middle East.

As Bob Hunter has suggested, the cooperation during this crisis was unprecedented in its scope.

But the urge to compete is still very much there, and it has some powerful advocates now in Moscow. I think that is where we have seen it manifest itself in this kind of end-game.

I was on an international television program with the former Soviet spokesman Gennady Gerasimov yesterday, and he was extremely candid on this subject. He said we, the Soviet Union, are in a no-lose situation. Through our efforts to broker a ceasefire, we have demonstrated to the Arab world that we are interested in peace, and what they will remember is that we sought peace, even if we failed, and that it was the United States who killed Arabs. That will be the lesson of this war, he argued.

Now I think he is wrong about that. But it is clearly their calculation. It is a competitive calculation, very candidly expressed.

And so, again, I would back Bob in saying that we have to wait and see. But I would not be too worried about this.

First of all, the Soviet Union is playing a very weak hand in the Middle East, not just because the image of the Soviet Union as a super power has declined so dramatically; not just, as you have pointed out, that their weapons have been defeated yet again; but also because the Arab world, the way that they perceive the Soviet Union, is very much as Saddam Hussein expressed it before this war, and that is that there is only one super power left and that is the United States. This war has demonstrated to them the truth of that proposition far more lastingly than anything else could have done.

So I don't see the Arabs rushing to the Soviet Union in this case. They are going to be much more interested in currying favor with us.

But there is the potential there, if you want to put it in dramatic terms, of a Soviet led bloc that would include Syria—

Mr. SMITH of Florida. Yemen.

Mr. INDYK [continuing]. A post-Saddam Iraq, Iran—after all, the Soviet Union is engaged in the military buildup of Iran's armed forces at this very moment—and, as you suggested, Yemen.

It looks formidable on paper. But I would not be alarmist about it. I really think, if it is going to come to competition, that we have far more advantage on our side than the Soviet Union does. And the Soviet Union, for precisely the reasons that Bob Hunter has suggested, has a great deal of interest in cooperating with us. It is not a straight zero-sum game anymore.

If they fail to cooperate with us, we can be very polite about it, as the President was. But in the end, we don't have to be too worried because, as we saw when the President rejected the Soviet effort with due appreciation, the Soviet Union sided with us and not with Saddam.

I think the bottom line is that they would rather be with us than against us, even in the Middle East.

If you want to cooperate in these post-war arrangements—arm control, peace process—you are welcome at the table. But there is no free ride here. You have to do things that are constructive, not destructive. I think that has been our policy in the past and we have every reason to believe that we can be successful with that with the Soviet Union in the future.

Mr. MURPHY. I would just add two brief comments.

The suspicion on the part of people like, Chief of Staff, Moiseyev that we are there in order to create, to achieve this long-standing CENTCOM ambition to create an American base in Saudi Arabia is about to be disproven, even in the eyes of a very hard-nosed Soviet general.

I think it is also important to keep in mind that, as far as arm sales, it is my understanding that the Soviets made the first initiative on this just about a year ago with us. We did not start it. They did. They pitched it.

They are going to be at the table one way or the other, positively or negatively. They are a Middle East power. I think one of the changes in our attitude, which has been useful to us in the last few years, is to acknowledge that they are a Middle Eastern power and they have to show their hand to be a constructive hand, as Martin is saying. But they are going to be there. They are going to be a player, and we should not start by assuming it is sinister that they are going to be playing for Soviet interests. They have national interests in the Middle East which are not entirely congruent with ours. But so far so good. Certainly the voting record was extraordinary in the period of last fall.

Ms. MYLROIE. I would just like to underscore three points made by the other members of the people giving testimony.

The Soviet Union is going to be weaker for this in the Middle East, not only as the question of the American arms versus the Soviet arms, the PATRIOTS versus the SCUDS, but also their diplomacy proved ineffective.

The second point is the Soviets, for whatever their motives, tried to save Saddam's regime. That essentially is what they were doing.

I don't think that that is going to necessarily do them well with the governments in the Middle East, because Saudi Arabia, Turkey, Egypt and Syria to some extent all want to see Saddam go.

Now the Soviets have been in the process of cultivating good relations with the Saudis partly for money. The Saudis are going to see that you can't really trust these guys. That is going to reinforce that inclination of theirs. So there may be aspects in which that Soviet move to save Saddam backfires.

But at the end of the day, it was not a high enough priority for them and they went along with the United States.

As for the Syrians, they also are going to take a lesson, one more lesson, about the limits of what the Soviets can do for you.

Mr. SMITH of Florida. Thank you.

## U.S. MILITARY PRESENCE

Mr. Chairman, I know you probably want to leave, but I just want to ask a question which will involve just a little bit of speculation on the part of all of the panelists.

Let me just say in advance that I agree with Mr. McHugh in the way he described the possibilities of aid to Israel. Mr. Chairman, I agree that if this could be done in concert with the administration, it would be much better for everyone concerned because of all of the questions and ramifications arising out of this. There is no question about that.

There has been a lot of speculation in the last few weeks about the role of the United States post-war, in terms of the on-the-ground forces that will be necessary to remain in the region ala NATO, ala Korea, et cetera. [General laughter.]

## BRINGING U.S. TROOPS HOME

Mr. SMITH of Florida. I would like you to ask the panelists about what they think the United States may have to do before we could see all of our troops coming home and what you envision as to the possibility of a real Arab alliance force put together with diverse countries like Syria, Saudi Arabia, Egypt, Morocco, et cetera, and some Gulf GCC states actually being militarily capable of enforcing whatever peace arrangements there are in the region.

Mr. HUNTER. Let me just start with a couple of comments.

I think the President was wise to make his first comment about the post-war region to say that he wants to bring American troops home as soon as possible. On every ground that makes sense.

Mr. SMITH of Florida. Yes. But then, yesterday, the administration used the term "phased transitional" something or other, invented obviously out of the State Department.

Mr. HUNTER. Let me tell you what could happen, which I suspect is what you are getting at, Congressman.

Let's say that we complete the surrounding of the Republican Guards and destroy them, but Iraq does not stop the war. We are in Iraq, but Saddam Hussein is still prosecuting the war to the extent he can, daring us to come after him in Baghdad and we don't want to. Under those circumstances, it becomes very hard to disengage.

Second, I don't make much book for the survival of the Egyptian-Syrian-Saudi peacekeeping arrangement that was put together in Cairo. This is not a natural alliance.

Martin has said that it would be great if it worked. I think it would be. Let's try to make it work. But I don't think it will.

In the final analysis, the largest regional power has been seriously reduced in its military capability beginning with what we did in the air campaign, which I call "sanctions by other means" or "accelerated sanctions." This campaign systematically picked apart everything we could get our hands on from the air that would help Iraq put a new military force together.

That leads me to conclude that the real issues will not be about containing a regional rogue elephant—as with the Soviet Union for 40 years—but about how the local countries put their politics to-

gether so that the chances of having to send troops again by anybody go way down.

Mr. INDYK. I would say, in terms of your first question about how quickly it can be done, that it's relatively quickly.

What do I mean by that? I would say it is a kind of 6 to 12 month timeframe, but hopefully in a 6 month timeframe.

There is one problem here and that refers back to Edward Luttwak's point about Iran. Iran will be the dominant power in the region, and Iran wants us out of there. We have announced, I think correctly, that we want to be out of there. But our leverage with Iran in terms of coming to terms with Iran—I would not say to accommodate her, but coming to terms with Iran—depends on our presence there. When we exit, we lose our leverage. Our leverage is while we are there. We need to use that time while our troops are there to try to get some understandings with the Iranians about security arrangements with the Gulf States so that they won't present a threat to the Gulf States.

That may be easier said than done. But I think that is the concept. While the troops are there, we should use them to good effect.

I am less pessimistic than Bob is about the Egyptians certainly. I think that the Egyptians have adjusted to the idea, which is not a new idea for the Egyptians, by the way, of being on the Arabian Peninsula, and that a two division Egyptian presence, mostly in Kuwait and perhaps in Saudi Arabia, under an Arab League and perhaps a U.N. umbrella, is something that will be very useful for helping to secure the region. It will be very useful for Egypt because there will be aid from the Gulf Arabs to compensate Egypt for this expense at a time when we are much less able to meet the usual demands of the Egyptian economy. Therefore, I think that is the kind of role that we should be looking at, with an Arab League-U.N. kind of presence in Kuwait, a residual American presence that provides a kind of tripwire, prepositioning, as Dick Murphy has suggested, for our use, and a low profile presence in Saudi Arabia.

Interestingly, the Saudis have suggested privately that 50,000 to 60,000 troops would not be so bad, provided that it is dispersed on training missions and other kinds of things. I am not sure that we would need anything like that number.

Mr. SMITH of Florida. Is that to protect them from without or from within?

Mr. INDYK. Both. [General laughter.]

Mr. INDYK. One should not forget the tremendous symbolic power of a squadron of F-15s after this war. So a naval and air presence can do a great deal to maintain our influence and stabilize the security of the region, provided that we have the means to get back in there quickly.

Mr. MURPHY. I would think we need time, and I don't know how long that is going to be, to make a solid assessment of the extent to which Iraqi power remains.

The television coverage of this hit, that kill, this tank gone, I don't know what it all adds up to. I gather it took a year's assessment after the Second War to get a solid view of what actual damage had been done.

So some time will be needed—presumably months—to see the limits of Iraqi power, in which time there may well be a change of regime in Iraq. We cannot predict that.

Just as an aside, I think admirals are supposed to know about Marines, by the way.

Mr. SMITH of Florida. Yes. That's why I said "Army" afterwards.

Mr. MURPHY. Yes, you did. So, he was within his brief, then.

I don't know whether the Saudis will want 60,000. It would not be just to protect themselves from Congressional pressure, I'm sure.

Mr. SMITH of Florida. Prince Bandar does not feel there is any problem anymore with Congressional pressure.

Mr. MURPHY. But I think they would prefer a Muslim Arab force, and the most logical one, as Martin has said, would be the Egyptians in a perhaps quasi-permanent status. They are supplementing GCC forces, including the Saudis.

It isn't just Iran that wants us out. I think the image of continued Western presence on the ground, a very visible dependence upon the United States, is not sought by any of the countries, with the possible exception of Kuwait at this moment of crisis. But I believe they would be satisfied with a U.N. peacekeeping force.

Ms. MYLROIE. There is a question which precedes the question of regional security, the outcome of the war. I just wanted to raise the prospect, which is unclear, whether the U.S., as a result of Saddam Hussein's unwillingness to reach a ceasefire, or surrender agreement, would end up in possession of some large part of Southern Iraq. I think that would set the stage for the unraveling of whatever successes have been achieved. I want to caution against a prolonged occupation of Southern Iraq. In that case, it is almost better to do the job quickly and reach Baghdad and get out again quickly.

There is a scenario which is similar to Israel's occupation of Lebanon in 1982, and it does not work in the long run.

Mr. SMITH of Florida. Thank you.

Thank you, Mr. Chairman.

Mr. OBEY. Thank you.

I have just one last question.

#### OCCUPIED TERRITORIES

We have talked a lot about King Hussein's, to be kind, "ill advised" statements. We have also seen some other ill advised statements from time to time. I guess if Hussein can make them, other people can, too.

Mr. Shamir made one statement yesterday which I think I would make in the same circumstances were I he, at least until the dust settled and I knew what the realities were. He said that the occupied lands would not be given up, period.

I don't know whether that is exactly what he said. I don't know to what extent that is simply boiler plate, as any Israeli prime minister would be likely to provide until he saw what his real possibilities were.

But let us assume for the moment that, in fact, that statement represented the final position on the part of the Israeli Government. Let's take it at face value for the moment.

I ask this in concurrence with another question because there are a number of people who say well, after all, it was not the Palestinian issue which caused the United States to be in the Middle East, and that is certainly correct. So, therefore, we can back burner that issue and deal with other issues, and the Palestinian issue can be dealt with at another time.

I happen fundamentally to disagree with that. But, nonetheless a lot of people make the argument.

Let me ask you this. If we did take that statement at full value what would that mean in the wake of these events, if there were not to be any land for peace agreement reached some time down the line with all of the concurrent security arrangements, recognition by the Arab world, et cetera, what would it mean in your judgment for a democratic Israel? What would the economic and military costs be for Israel, and what might they come looking to the United States for to address those additional costs? What would the human rights situation be and what would that do to U.S. public opinion and public support for Israel long-term?

How would it impact the situation in the region? How would it impact our ability to knit together what we would like to see happen in the Middle East? If there were to be no movement on the Golan Heights, no movement on the West Bank and no movement on Gaza, why would that be bad?

Mr. INDYK. Well, to answer you in five seconds or less—

Mr. OBEY. Oh, no. Take whatever time you want.

Mr. INDYK. I think that if the premise of your question is correct, then the implication of the rest of your question is serious. This is to say a prolonged stalemate would not be good for Israel's future in all the respects that you suggest—its relationship with the United States, its relationship with its neighbors, its relationships with the Palestinians, with whom it has to find a way to co-exist.

But I do not accept the premise of your question. Let me suggest why. There are a number of reasons.

First of all, what the prime minister says to his associates behind closed doors which then leaks is always very hard line. What we have seen is that the practice of the Prime Minister is something other than his rhetoric.

So, for instance, the famous "a big Israel for a big immigration" in practice resulted in an agreement on his part to restrict, to severely limit activity in the territories, so as to insure that he could absorb the Soviet Jews inside the 1967 borders plus Jerusalem. That is the essence of the issue here. It is ideological commitment to "Judea and Samaria" versus the pragmatic requirements of governing a state which faces tremendous problems.

I think the war has highlighted the kind of difficult and dangerous enemy that Israel faces both without and within. But, on the other hand, I think that it has also, as I suggested in my opening statement, provided an opportunity for Israel that I don't believe this government is going to miss. They are very much aware that they are behind the eight ball, that if they don't take an initiative, an initiative that they will find far less desirable will be forced upon them. And, therefore, they have expressed an interest in negotiating with Syria. Indeed from the very beginning of this gov-

ernment, long before the war, they sought to negotiate with Syria. And, increasingly, they talk about settlement and negotiation with the Palestinians.

Again, one has to weigh statements up, weigh actions up, and see. We will have to judge them by their actions afterwards.

But I can say that the Defense Minister is very much focused on the idea of municipal elections. The Foreign Minister has similarly advocated that. And there are a number of other Likud ministers who support the idea because of their sense, their understanding now, after three years of the intifada, that the Palestinian problem is not going to go away. The Likud has an Achilles Heel in its argument that all of the land of Israel belongs to Israel, which is what do you do about the Palestinians, the people on the land?

There are some on the right in Israel who argue that the answer is to get rid of them. But the Prime Minister has made strong statements in that regard rejecting that notion of transfer.

So the alternative that has been koshered by the rabbi, Menachem Begin, is an interim arrangement for autonomy as a first step toward a subsequent negotiation on the final status of the territories.

It is that combination of some kind of move to allow the Palestinians to elect representatives in the territories at this moment, when the Palestinian leadership is discredited and in disarray, to elect a leadership that can negotiate with Israel for an interim arrangement, combined with the possibility of a negotiation with Syria, within the framework of an Arab state willingness to recognize and accept Israel, that I think holds promise here.

So I would just say in this regard that the import of what you have to say is very well taken. There is a gloomy future for an Israel not prepared to make peace. But I believe that this government, like governments before it, will be prepared to make peace, provided that there is a partner on the other side.

Mr. MURPHY. I would just go back, Mr. Chairman, to the comment I made at the beginning, reminding that in the post-war 1967, we did not get very far because the Arabs closed the door at Khartoum. But that had been preceded by the statement of Levi Eshkol that every inch of that land would go back in return for peace. No Israeli prime minister has ever said that since.

Time is an enemy to a settlement. I think personally a settlement is going to have to have a territorial component, and I hope that Martin's view is accurate, that behind the rhetoric there is a readiness to move, to probe, to explore all possible ways to get to peace. But it does not help to have that coming out in public. These statements always have a way of leaking out.

We should not be surprised as we talk, and as Congressman Smith I think mentioned about getting to direct bilateral negotiations, that some old habits die slowly in terms of Syrian attitudes. I think there is a chance for moving on that side of the line toward negotiations. But don't be surprised if there is still an insistence on some kind of framework, international framework, for the negotiations.

Mr. OBEY. Thank you all very much.

I appreciate your time.

[The following information was submitted for the record by Congressman Smith of Florida:]

[From *Defense & Diplomacy*, March/April 1991]

## THE SAME OLD SYRIA

(By John S. Lang, Managing Editor)

It is a glaring irony of George Bush's Gulf policy that, before raising his fists against Saddam Hussein, he wrapped a comradely arm around Hafez Al-Assad.

Both Assad and Hussein have similar records as plotters of terrorism, as repressors of their own people, as regional bullies with designs on the lands of weaker neighbors. Assad's occupation of Lebanon, though slower and not as complete, is just as bloody as Hussein's seizure of Kuwait.

How is it then that the U.S. president could liken one to Hitler and embrace the other as his ally in Operation Desert Shield?

That is one of the conundrums of politics in the Middle East that divided the American public on the merits of going to war in the Gulf.

If standing up to aggression were cause enough for war, why didn't the U.S. actively oppose Saddam Hussein's invasion of Iran back in 1980? (On the contrary, the U.S. quietly supplied Iraq with arms in that conflict.) Why not force Israel back out of the West Bank? Why not rally against the Soviet Union's half-century occupation of the Baltic states? And why not fight Syria's ongoing takeover of Lebanon?

To see one such action as international outlawry that must be fought, and not the others, further confused Americans asked to wage a war on moral grounds.

It is a double vision—pragmatic, say Bush's supporters; cynical, say his critics—that may misdirect the U.S. down dangerous paths ahead. Especially with Hafez Assad at the American elbow.

Over the years, the hard hand of Syria's Assad has been seen in scores of terrorist operations—aimed at other Arab regimes, at Israel and at the U.S. as well.

The West's intelligence agencies have ample evidence that Syria operates terrorist camps within its own borders, in Lebanon and throughout Europe. They are staffed by Ba'th party members and Syrian security personnel, who recruit additional manpower from among Syrian students at universities abroad. The network is controlled by the Syrian embassies, which allow terrorists to pass as diplomats and use diplomatic pouches for the transfer of arms. Seeing itself as guardian of the "legitimate rights of the Palestinians," Syria was the first Arab state bordering Israel to offer Palestinian terrorists a sanctuary.

Syria backed its own puppets in the PLO, notably Ahmad Jibril's Popular Front for the Liberation of Palestine-General Command, blamed for the explosion aboard Pan Am 103 in December 1988, which killed 270 people.

Syria has been involved in mass murder of civilians for the past decade. Examples: In February 1982, the Syrian Army massacred residents of Hama, more than 10,000 of them, according to Amnesty International; agents linked to Assad bombed the U.S. Marine base, the U.S. embassy in Beirut and the U.S. embassy in Kuwait in 1983; Bashir Gemayel, president-elect of Lebanon, was assassinated in 1983; and bombing attempts were made on El Al aircraft in London and Spain in 1986.

Terrorist groups are tools of government policy inside Syria, as well as in other Arab nations. Turkey, Western Europe and the United States. Syria has provided support to groups that follow general guidelines formulated by Syrian intelligence. These groups include Abu Nidal, the Lebanese Armed Revolutionary Faction and Nizar Hindawi. Syria has at its disposal the 4,500 strong Palestinian Liberation Army (PLA) in Syria and Lebanon, which has some Syrian officers.

To date, little public attention has been focused on Syria's involvement in narcoterrorism. Syria is deeply involved in the cultivation, production and distribution of illegal narcotics, including heroin and hashish. According to American sources, the Syrian government funds some of its terrorist activities primarily with money generated by drug trafficking.

In 1989, the U.S. Drug Enforcement Agency estimated Syria's profits from drug trafficking at about \$1 billion. The Syrian-controlled Bekaa Valley in Lebanon is a major source of hashish and opium. Intelligence sources reported that Syrian Army trucks and naval vessels are used routinely for the transportation of drugs from the Bekaa to exit points along the Turkish border and Syrian ports.

Rifaat Assad, Syria's vice-president and minister of the interior, and younger brother of President Assad, is the most prominent official involved in drug trafficking. According to law enforcement officers, there are numerous connections between Rifaat Assad's operations, the Sicilian Mafia and the Colombian Medellin drug cartel.

American narcotics agents estimate as much as 20 percent of the heroin illegally distributed in the U.S. comes from the Bekaa Valley. Many of the terrorist groups sponsored by Syria in Lebanon or headquartered in Damascus derive much of their income from drug trafficking.

With Syria a part of the alliance in the Gulf, the U.S. could test Assad's willingness to cooperate in strong propaganda campaigns that incite terrorism against civilians; obtaining the release of hostages in areas under Syrian control; stopping the

cultivation and distribution of illegal narcotics; closing down terrorist bases in Syria and Lebanon, and arresting and prosecuting terrorist leaders.

That Assad could become an invaluable ally in combating terrorism is an intriguing prospect. The question is whether he really will. Or will he use the figure of George Bush at his side to shadow his own designs for terror? And will George Bush learn that a friend in need is a foe indeed?

[From the Washington Times, Feb. 17, 1991]

#### DAINGEROUS LIAISONS WITH DESPOTS

In 1941, after Adolf Hitler invaded the Soviet Union, Winston Churchill was asked to account for his own suddenly benign attitude toward Josef Stalin. "I have only one purpose," he replied, "the destruction of Hitler, and my life is much simplified thereby. If Hitler invaded Hell, I would make at least a favorable reference to the Devil in the House of Commons."

Churchill had no choice. Great Britain was engaged in a battle for her very life, and every other interest had to be sacrificed to that over-riding goal.

But President Bush is not, thank God, in such desperate straits. The question then presents itself: Why is he behaving as if he were?

On Feb. 7, The New York Times ran a story recounting one of the hidden costs of the international coalition against Saddam Hussein.

According to sources, two or three well-placed Western agents who had infiltrated a terrorist organization in Syria were unmasked and executed last fall. Their discovery, a closely held secret until now, followed hard on the heels of the meeting between Secretary of State James A. Baker and President Hafez Assad of Syria.

The story alleges that when Mr. Baker met with Mr. Assad in September 1990, he denounced Syria's role in sponsoring terrorism, apparently citing chapter and verse. The intelligence people had warned the secretary against compromising "sources and methods," with the emphasis on sources, but Mr. Baker apparently plunged ahead.

The Syrian government, according to the Times, passed along the American information to the terrorists, who were then able to deduce who the informers were and shoot them. (It is highly doubtful whether the agents, who worked either for the Israeli Mossad or for the United States, were able to die without first enduring torture.)

I asked a former military intelligence official if he could imagine a Secretary of State committing such a deadly faux pas. "Sometimes senior government officials are not very astute about the kinds of intelligence they may be revealing in what they say," he told me. "And Americans are always hopeful people, believing that others will change their ways."

Agents like those who had infiltrated the terror network in Syria take years to establish, but minutes to lose. Their worth can be measured in innocent lives spared from terrorist attacks.

Assuming the New York Times story is true, it's difficult to imagine what Mr. Baker thought he was gaining by his overly frank discussion with Mr. Assad. Was it meant to flatter Mr. Assad with the assumption that he was ignorant of terrorist activities? (Inconceivable.) Was it meant to embarrass him? (Why bother?) Or was it the willingness to believe, characteristic of this administration, that despotic regimes are on the path to reform? In the name of preserving the international coalition against Iraq, this administration has soft-pedaled its response to the Soviet crackdown in the Baltic States. Also in the name of the coalition, we have permitted Syria to swallow Lebanon. And now it seems that we may have wittlessly blown the cover of key agents.

President Bush deserves full credit for not succumbing to appeasement in the face of overt aggression—as a majority of the Democratic Party would have done. Yet his secretary of state seems slow to get the message. It was only one year ago that Mr. Baker rebuked the Voice of America for including Iraq among countries denounced for their use of secret police. And it has still not been established whether Ambassador April Glaspie was acting on instructions from Mr. Baker when she assured Saddam that the United States had no interest in Iraq's border dispute with Kuwait.

Even meeting with Syria's president, and thus granting him a certain moral stature, was a mistake. Syria wanted a part in this action for her own, mostly pecuniary, reasons. We should have accepted here cooperation—from afar—and urged Syria to mass troops on her own border with Iraq, thus creating a second front. We are not fortress England fighting for survival. We can afford to be choosy about our friends.

And besides, as much as we may try to sanitize a despot, they don't polish so easily. Saddam should have taught us that.

**ADL  
INTERNATIONAL  
REPORT**

**MIDDLE EAST**

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**PLO Terrorism 1989-1990:  
Violating the Terms of the  
U.S.—PLO Dialogue**

March 1990

ANTI-DEFAMATION LEAGUE OF B'NAI B'RITH/823 UNITED NATIONS PLAZA/NEW YORK, NY 10017

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Burton S. Levinson, National Chairman; Abraham H. Foxman, National Director; Ronald B. Sobel, Chairman, National Executive Committee; Justin J. Finger, Associate National Director; Joel Sprayregen, Chairman, International Affairs Committee; Lucille Kantor, Cochair, International Affairs Committee; Kenneth Jacobson, Director, International Affairs Division; Irving Shapiro, Chairman, Middle Eastern Affairs Committee; Janice Ditchek, Director, Middle Eastern Affairs Department

This issue prepared by Blama Zuckerbrod, Assistant Director, Middle Eastern Affairs Department, under the supervision of Kenneth Jacobson, Director, International Affairs Division and Janice Ditchek, Director, Middle Eastern Affairs Department.

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## I. Introduction

Following PLO Chairman Yasir Arafat's pledges at a December 1988 Geneva press conference to recognize Israel, accept UN Resolutions 242 and 338 and renounce terrorism, the United States initiated a dialogue with the PLO. At the time, the U.S. stipulated that Arafat was responsible for the terror operations of all PLO affiliated factions, and would be expected to publicly condemn such activities and discipline those responsible for them.

Since the initiation of the dialogue, terror activities on the part of the PLO have continued. These have consisted of cross border attacks from Lebanon and Jordan directed at Israeli civilian centers, firebombs and Molotov cocktails directed at Israeli citizens, and violence against fellow Palestinians. Arafat and the PLO leadership have refused to denounce such activities, much less discipline those responsible for them.

Concerned about continued PLO-sponsored violence, U.S. Senators Connie Mack (R-FL) and Joseph Lieberman (D-CT) sponsored legislation requiring the Administration to report on the PLO's adherence to Arafat's December 1988 commitments. In February 1990, the PLO Compliance Act was signed into law as part of the State Department Authorization Act.

Despite evidence of continuing PLO involvement in violence directed at civilians, the State Department concluded in its first report submitted to Congress in March 1990 that the PLO has adhered to its December 1988 commitment to renounce terrorism.

The State Department report is flawed on many counts. Among other things, it excuses PLO acts of violence because they were not formally authorized by the PLO Executive Committee; it cites PLO compliance with the political program passed at the November 1988 Algiers Palestine National Council meeting but fails to mention that the Algiers program was not considered sufficient by the U.S. to initiate a dialogue with the PLO; it is selective in its list of PLO rhetoric, omitting numerous statements which contradict Arafat's Geneva pledges; it acknowledges that PLO leaders have not denounced PLO violence but overlooks that this was a condition for continued dialogue; it fails to recognize that "armed struggle" has long been a code word for terror operations; it ignores the 12 PLO-sponsored grenade attacks against Israeli civilians since December 14, 1988 and additional PLO-sponsored cross-border attacks and it omits evidence of PLO involvement in the execution of fellow Palestinians.

The following analysis attempts to address the many deficiencies in the State Department report by documenting repeated PLO violations of Arafat's December 1988 pledge to renounce terrorism. It clearly demonstrates that the PLO is still continuing its decades-old campaign of terror and violence.

## II. Background

At his news conference in Geneva on December 14, 1988, Palestine Liberation Organization Chairman Yasir Arafat made a number of statements which were read to mean a willingness on the part of the PLO to move away from its long-standing policy of the rejection of the State of Israel. In response, the United States government announced that the PLO had met the three American conditions for the initiation of a U.S.-PLO dialogue: Recognition of the State of Israel, acceptance of Resolutions 242 and 338, and renunciation of terrorism. On December 16, U.S. Ambassador Robert Pelletreau, Jr. began formal talks with a PLO delegation in Tunis.

At the time, President Reagan indicated that the PLO was expected to translate its verbal commitments into meaningful actions: "The Palestine Liberation Organization must live up to its statements. In particular, it must demonstrate that its renunciation of terrorism is pervasive and permanent." (New York Times, 12/15/88)

Also at that time, Ambassador Thomas Pickering outlined a set of guidelines for the dialogue which included the provisions that "no American Administration can sustain the dialogue if terrorism continues by the PLO or any of its factions" and "in the event of a terrorist action by any element of the PLO or one or more of its members - we expect that you not only condemn this action publicly but also discipline those responsible for it, at least by expelling them from the PLO."

U.S. Ambassador for Counterterrorism L. Paul Bremer reiterated the American position: "Our interpretation is that he spoke as chairman of the PLO Executive Committee...he made certain commitments on behalf of the PLO, not just on behalf of parts of it, or the parts that he controls, or the parts that he wants to have identified with it...If members of the PLO, or groups in the PLO, now conduct acts of terrorism, we expect him not only to publicly denounce that, distance himself publicly from that, but also to discipline these people, at least by expelling them from the PLO." (Washington Post, 12/17/88)

State Department spokesman Charles Redman reaffirmed the guidelines in March 1989: "When the PLO renounced terrorism last December, we assumed Mr. Arafat spoke in the name of the PLO's executive committee and its constituent groups, and that the PLO could exercise control over these constituent groups." (New York Times, 3/4/89)

Despite these conditions for continued U.S. talks, the PLO has continued to engage in violent activity directed at Israeli civilians, and has persisted in its inflammatory rhetoric challenging the state of Israel's right to exist in security. In particular, the PLO has continued to affirm its long-standing

doctrine of "armed struggle." Yasir Arafat's faction, Fatah, has been linked to terror activities directed against Israeli and Palestinian civilians. Other PLO factions are responsible for the many cross-border attacks launched from the Lebanese and Jordanian borders. Arafat has refused to publicly denounce and disassociate himself from these attacks.

Despite American policy articulated in December 1988 regarding Arafat's responsibility for the activities of the entire PLO, evidence of continued PLO involvement in terror operations, and the American recognition of such evidence, the U.S. has refused to acknowledge that the PLO has violated Arafat's December 1988 pledges. Due to Congressional concern about continued PLO-sponsored violence, an amendment to the State Department Authorization Bill requiring the State Department to regularly inform Congress of the PLO's compliance with Arafat's 1988 commitments was enacted in February 1989. (PL 101-246) On March 19, 1990, the State Department submitted to Congress its first report finding that, "It is the Administration's position that the PLO has adhered to its commitment undertaken in 1988 to renounce terrorism." (State Department Report, March 19, 1990, p.3)

The State Department report omits evidence of continued Fatah-sponsored violence against civilian targets inside Israel including grenade attacks and a cross-border infiltration into the Negev. It mentions mounting Palestinian internecine violence but fails to assign responsibility to the PLO for its involvement in intra-Palestinian attacks, stating only that "This is a new and very worrisome development and could bolster the influence of radicals." (Ibid, p.4)

The report does acknowledge that factions included under the PLO umbrella have launched cross-border attacks into Israel. It further recognizes that senior PLO leaders have not publicly condemned these activities. Yet, the report fails to note that these activities contradict the guidelines enunciated by Ambassador Pickering and other U.S. officials requiring Arafat and the PLO leadership to condemn terror operations by constituent PLO factions and to discipline those responsible. Instead, the State Department downplays such activities on the grounds that, "We have no evidence that these actions were authorized or approved by the PLO Executive Committee or Arafat personally." (Ibid, p.3)

The recent State Department report is not the first instance in which the Administration has overlooked the guidelines for the dialogue. On several occasions since the initiation of the dialogue, the U.S. has recognized that various PLO factions are opposed to Arafat's December 1988 statements and have launched cross-border attacks against Israel. Responding to Congressional questions about such attacks in July 1989, Assistant Secretary of State John Kelly said: "The activities that you described happened, absolutely." Kelly, however, denied that they violated American

conditions for the dialogue with the PLO because, "We do not believe that these were the directed operations of the PLO high command." Mr. Kelly also acknowledged that the PLO had not denounced any of the attacks. (Testimony, Europe and Middle East Subcommittee, House Foreign Affairs Committee, July 12, 1989)

Testifying to Congress in March 1990, Secretary of State James Baker also acknowledged the deviant activities of various PLO factions without holding Arafat accountable for their actions: "We are satisfied that the commitment that was undertaken, I think it was in December of 1988, has been adhered to, and is being adhered to. We are quite conscious of the fact that Yassir Arafat does not control all elements of the Palestine Liberation Organization and there are some elements that are quite hostile to him that are engaged, from time to time, in terrorist acts. But we do not think and we have not received or seen evidence of complicity or encouragement or acquiescence by him of terrorist activity." (Testimony, Foreign Operations Subcommittee, House Appropriations Committee, March 1, 1990)

Below is documentation of PLO-sponsored terrorism and inflammatory rhetoric since December 14, 1988 which clearly demonstrates PLO violations of Arafat's December 1988 commitments.

### III. Composition of the PLO

The following Palestinian factions participated in the November 1988 Palestine National Council (PNC) meeting in Algiers: Fatah, Popular Front for the Liberation of Palestine, Democratic Front for the Liberation of Palestine, Palestine Liberation Front, Popular Struggle Front.

Popular Front for the Liberation of Palestine (PFLP): Under the leadership of George Habash, the PFLP is the second largest faction after Fatah. It voted at the 1988 PNC meeting, and has representatives on the PLO Executive Committee. The PFLP has been opposed to Arafat's December 1988 statements. Most recently, Habash called for a meeting of the PNC to take a stand on Arafat's "strategy of compromise." (New York Times, 3/9/90) Speaking from Damascus last April, Habash pledged the continuation of attacks "across the borders." (Paris Radio Monte Carlo, 4/9/89 in FBIS-NES, 4/10/89)

Democratic Front for the Liberation of Palestine (DFLP): Under the leadership of Nayef Hawatmeh, the DFLP rejoined the PLO umbrella in 1987, voted at the 1988 PNC meeting, and is represented on the PLO Executive Committee. Yasser Abd al-Rabou, head of the PLO delegation to the talks with the United States, is Deputy Secretary General of the DFLP and a member of the PLO Executive Committee. Referring to the infiltration attempts carried out by his faction, Hawatmeh declared: "We have recently launched a series of attacks against Israel and we will launch more. Such attacks

are a sacred right for our people." (Reuters, 5/21/89, as reported by Office of Consulate General of Israel, May 1989)

Palestine Liberation Front (PLF): The PLF consists of three factions, two of which are currently under the PLO umbrella and headed by Abu Abbas, a member of the PLO Executive Committee. Yasi Arafat formally united the Abbas faction with the Tal'at Yacub faction in November 1989. Prior to its formal integration into the PLO, the Tal'at Yacub faction participated in the November 1988 PN meeting and coordinated terror operations with the PLO following Arafat's pledge to renounce terrorism. According to a Lebanese press report, Arafat ordered commanders of the PLO in Lebanon not to claim responsibility for operations against Israel launched from southern Lebanon and to coordinate such activities with the PLF so that announcements of operations can be made under its name. (Ash-Shiraa, 2/12/89, as reported by Israeli Ministry of Foreign Affairs, February 1989)

Popular Struggle Front (PSF): Under the leadership of Samir Ghosha, the PSF is based in Damascus. It participated in the November PN meeting and was party to the decisions taken there.

#### IV. PLO Cross-Border Attacks

Since Arafat's renunciation of terrorism, there have been numerous cross-border attacks, including infiltration attempts from the Lebanon border and Katyusha rocket attacks from Lebanon and Jordan.

The PLO has historically considered violence directed against civilians under the rubric of "armed struggle." Since the first Fatah terror operation in 1965, the PLO has failed to distinguish between civilian and military targets in Israel, describing its assaults on civilians as "military operations." According to the Palestine National Charter -- which remains unamended -- "Armed struggle is the only way to liberate Palestine and is, therefore, a strategy and not tactics." (Palestine National Charter, 1968, Article 9)

With regard to current PLO cross-border attacks, despite evidence indicating that the terrorists were on their way to attack civilian communities in northern Israel, PLO spokesmen have continued to describe these incidents as military operations. PLF leader Abu Abbas, for example, called these kibbutzim and towns in northern Israel military targets: "So how can we be asked to stop fighting...If what is meant is the network of Israeli settlements in the north of occupied Palestine, everyone knows that these settlements are military camps and bases. That is why we consider them military targets, with the emphasis that we primarily target traditional military positions." (London, al-Majallah, 3/1-7/89)

No one in the PLO, including Arafat and his senior aides, has denounced the cross-border attacks into Israel. Most recently, Salah Khalaf, chief deputy to Arafat, when asked by western journalists if the PLO tried to stop the many cross-border attacks since Arafat's December 1988 Geneva pledge to renounce terrorism, replied: "As for the issue of military action on our part, it must be clear that we have not forfeited our right to resort to arms and that we consider this one of the many means by which we can rightfully confront the Israeli occupation." (Foreign Policy, Spring 1990)

December 28, 1988: Three gunmen from the Palestine Liberation Front (PLF) were killed by Israeli soldiers while they were cutting a hole in the Israel-Lebanon border fence 500 yards from Kibbutz Manara in northern Israel. (Washington Post, 12/29/88)

February 5, 1989: Five gunmen, four from the Popular Front for the Liberation of Palestine (PFLP), and one from the PLF, were killed by Israeli troops inside the security zone in southern Lebanon. (New York Times, 2/26/89). Maps, leaflets and other material found on the bodies of the terrorists indicated their intention to infiltrate Israel and carry out a terrorist attack. (Tel Aviv IDF Radio, 2/5/89 in FBIS-NES, 2/6/89 and Jerusalem Post, 2/7/89 in FBIS-NES, 2/7/89)

February 23, 1989: Three gunmen from the Democratic Front for the Liberation of Palestine (DFLP) were killed by the South Lebanon Army in southern Lebanon. Documents found on the terrorists indicated their intention to attack the civilian settlement of Zarit in northern Israel. (Washington Post, 2/25/89)

March 2, 1989: Four gunmen from the DFLP were killed by Israeli troops in south Lebanon. Documents found on the terrorists indicated their intention to attack Zarit. (New York Times, 3/3/89)

March 13, 1989: Three gunmen from the PLF were killed by Israeli troops less than one mile from the Lebanon-Israel border. A statement issued by the PLF claimed that the squad had breached the border fence and gone deep in the direction of Manara, a kibbutz in northern Israel. (Washington Post, 3/13/89)

April 8, 1989: Gunmen from the PSF drowned north of the Rosh Hanikra border between Lebanon and Israel when their rubber dinghy was shot and sunk by an Israeli naval patrol vessel. A PSF spokesman claimed responsibility and said the attack had been aimed at an Israeli town. (Paris, Agence France Presse, 4/9/89 in FBIS-NES, 4/10/89)

May 28, 1989: Four gunmen from the PFLP and the PLF were intercepted by the Israeli army in the security zone, four miles from the northern Israeli city of Metulla. Two terrorists were

killed and two were captured. Spokesmen for the two groups claimed the squad had reached Metulla. (New York Times, 5/29/89)

May 28, 1989: The PFLP, PLF, and Hezbollah launched two Katyusha rockets at the Israeli city of Metulla which wounded an eight month old baby. (New York Times, 5/29/89)

June 4, 1989: Three armed gunmen from the DFLP were killed by the IDF as they were cutting the border fence near Kibbutz Misgav Am. (Washington Post, 6/5/89). A DFLP spokesman claimed that the squad had actually reached Misgav Am. (Paris Radio Monte Carlo, 6/5/89 in FBIS-NES, 6/5/89). Following the infiltration attempt, Arafat was reported to have said in a June 6 press conference in Kuwait: "The PLO Chairman praised the participation of Kuwaiti martyr Fawzi Abd al Rasul al Majadi in Sunday's commando raid on Israeli targets in occupied Palestine, saying Fawzi's blood has mixed with that of the two Palestinian martyrs, who died with him in the operation." (Gulf News Agency)

August 1, 1989: Three armed gunmen from the PLF were killed by the South Lebanon Army. Documents found on their bodies indicated their intention to attack Israeli kibbutzim in the Galilee. (New York Times, 8/2/89)

August 7, 1989: The PFLP launched from Jordan a Katyusha rocket aimed at Kibbutz Ma'oz Hayim in Israel's Jordan Valley. (Advisor on Terrorism, Office of Prime Minister of Israel, December 1989)

August 12, 1989: A squad from the DFLP was intercepted two kilometers from Kibbutz Misgav Am. One terrorist was captured and admitted that the aim was to carry out a massacre in one of Israel's northern communities. (Consulate General of Israel, New York, August 1989)

September 6, 1989: The PFLP launched from Jordan a Katyusha rocket aimed at Kibbutz Tel-Katzir in Israel's Jordan Valley. (Jerusalem Post, 10/6/89)

December 5, 1989: Five armed gunmen from Fatah were killed by Israeli troops after they crossed into Israel's Negev desert from Egypt. According to military sources, the type and quantity of the weapons they were carrying indicated their intentions to kill as many Israelis as possible. (Jerusalem Post, 12/6/89 and Washington Post, 2/21/90)

January 26, 1990: Armed gunmen from the DFLP were intercepted in the security zone two kilometers from Kibbutz Misgav Am. One terrorist was captured by the IDF the following day and admitted that the squad planned to reach and attack Misgav Am. A DFLP spokesman said the group was on its way to carry out an attack on the northern border. (Jerusalem Domestic Service, 1/26/90 and 1/28/90, in FBIS-NES, 1/26/90 and 1/29/90)

### V. Fatah Attacks Within Israel

According to the office of the Prime Minister of Israel, as of the end of October 1989, there had been 79 attacks against Israeli civilians carried out by Fatah operatives since December 1988. (New York Times, 10/24/89)

In July, Israeli security authorities apprehended two Gaza Arabs, members of a local Fatah terror cell, who were responsible for the July 14, 1989 murder of an Israeli construction company owner. (Office of Prime Minister and Jerusalem Post, 7/26/89)

Fatah is believed responsible for at least 12 terrorist attacks within Israel's pre-1967 borders since February 1989. Israeli authorities have apprehended three Fatah terror cells responsible for these operations, which involved the use of explosives and Molotov cocktails against civilians and civilian-populated areas. It is believed that the Fatah terrorists were recruited and trained by Fatah operatives in Amman, Jordan. In recent months, Israeli authorities have uncovered Fatah terror cells within Israel's pre-1967 borders as well, including one exposed in July 1989 that they believe to be responsible for firebombing attacks and the murder of Arabs suspected of cooperating with Israel. (Jewish Telegraphic Agency, 7/26/89)

- February 24, 1989: Molotov cocktail thrown at public bus near Nazareth.
- March 20, 1989: Explosive device placed at Petach Tikvah bus station near Beilinson Hospital.
- March 21, 1989: Explosive device detonated at same location.
- March 23, 1989: Molotov cocktail thrown at civilian car near Kfar-Hachosh in the lower Galilee.
- March 29, 1989: Hand grenade thrown at public bus near Nazareth.
- March 31, 1989: Device exploded at entrance to a synagogue near Petach Tikvah.
- April 16, 1989: Explosive device detonated outside an apartment building near Bnei Brak.
- April 30, 1989: Explosive device exploded near Ramat Gan diamond exchange.
- May 15, 1989: Explosive device went off at the industrial zone near Petach Tikvah.

- May 16, 1989: Explosion at Liberty Bell Park in West Jerusalem.
- June 5, 1989: Explosive device placed on Tel Aviv street.
- June 22, 1989: Jewish cemetery caretaker assaulted and critically wounded in Rosh HaAyin.

(Source: Report prepared by advisor on terrorism to the Prime Minister of Israel)

#### VI. PLO Attacks on Fellow Palestinians

Palestinian acts of violence directed against fellow Palestinians have assumed enormous proportions. As of mid-December 1989, 161 Palestinians had been executed by fellow Palestinian militants. (Washington Post, 12/21/89). Uprising leaders in the territories, senior PLO officials in Tunis, and Chairman Arafat himself, have all confirmed that the PLO headquarters in Tunis give the final decision for the execution of fellow Palestinians. Palestinians on the West Bank and Gaza have said that the conclusions of "trials" are sent to Tunis for final approval. (Los Angeles Times, 5/1/89)

Palestinians have been punished for a number of "crimes." These include: meeting with Israelis and foreigners who seek Israeli-Palestinian negotiations; cooperating with the Israeli Civil Administration in the territories; failing to participate in the violence of the uprising; failing to adhere to uprising strikes and boycotts.

Chairman Arafat recently declared: "All decisions on the issue of dealing with collaborators must come from the leadership unanimously...and as President of [Palestine], I have to be informed. They must send me a report on every case." (Radio Monte Carlo in U.S. News and World Report, 12/25/89)

Top political advisor to Arafat, Bassam Abu Sharif, recently justified violence against fellow Palestinians: "A Palestinian convicted by his peers of collaboration receives three warnings. If the warnings are ignored, lethal force is often used because our people in the occupied territories have no means of incarcerating traitors." (Newsweek, 2/19/90)

Senior deputy to Arafat, Salah Khalaf, explained that: "The Uprising deals with collaborators with Israel in the most cultured manner in the history of revolutions. It allows them to come to mosques or churches in order to repent. However, lately, some of those who have repented have harmed Palestine, so the uprising dealt with them with severity." (al-Ittihad, 5/11/89 in Daily

Survey of the Arab Media, Israeli Ministry of Foreign Affairs, 5/18/89)

Fatah is believed responsible for at least 21 attacks against Palestinians. In March 1989, Israeli security authorities apprehended two Fatah terror rings responsible for the murder of a hospital patient on suspicion of cooperation with Israel and the killing of a nurse in a Gaza hospital. (Jerusalem Domestic Service, 3/15/89 and 3/16/89 in FBIS-NES, 3/15/89 and 3/16/89)

Yasir Arafat's personal military commando unit, Force 17, is believed to be deeply involved in the "shock committees" which force the Palestinian population to participate in the violence of the uprising. On May 15, 1989, the body of an 18 year old man from Gaza was found hanging from a telephone pole. Attached to him was a note which read: "Death sentence carried out against a 'Collaborator-Traitor' by his own confession, and according to Force 17 lists. Signed, Force 17." (New York Jewish Week, 8/4/89). In November and December 1989, Israeli authorities apprehended members of the Fatah-affiliated Black Panthers and PFLP-affiliated Red Eagles, local terror squads responsible for numerous attacks against fellow Palestinians. The Black Panthers were reported to have killed 16 suspected "collaborators." (Washington Post, 12/3/89)

Leading West Bank Palestinians have been harassed and threatened by the PLO for their meetings with Israeli and foreign officials. Prior to the visit of British Minister of State William Waldegrave in March 1989, Fatah and the PFLP circulated a letter in Nablus threatening to kill Palestinians who attended such meetings. Also in March, armed members of the PFLP burst into the homes of prominent Palestinians in Nablus warning them that they would be executed if they continued to hold dialogue with Israelis and foreigners. (Washington Times, 3/22/89)

VII. Appendix: Recent PLO Inflammatory Rhetoric

- Comparing the February 1990 attack on an Israeli bus in Egypt with Palestinian casualties of the uprising, Arafat asked: "If what happened to the Israeli bus was a terrorist act, then what would we call the massacres at Rafah?...weren't they an act of terrorism on a state level?" (Arab News, 2/12/90)
- In response to the February 1990 bus attack in Egypt, senior Fatah official Salah Khalaf warned of further operations: "If the deadlock continues in the Middle East, several other similar operations will take place... Israeli extremism will be faced with another extremism, be it Palestinian, Arab or Islamic. Such extremism will not be satisfied with mere words to express itself." (al-Anbaa, Kuwait, as reported in Jerusalem Post, 2/21/90)
- At a press conference in Kuwait, Khalaf stated: "The Middle East peace efforts have reached a stalemate...The PLO now has no alternative but to escalate armed struggle outside the occupied territories in support of the uprising." (Jerusalem Post, 1/23/90)
- According to a leading Boston journalist, "I sat with PLO foreign minister Farouk Kaddoumi in Amman the other day and heard him say that, unlike his boss, he did not accept Israel's right to exist. He said that the two-state solution he envisioned would be defined by the borders suggested by the United Nations in 1947, and not the 1967 lines of which Palestinian moderates speak. Furthermore, Kaddoumi said that 'what we accept today we will not accept tomorrow...'" (The Boston Globe, 1/19/90)
- In his December 1989 speech to the Palestinians on the occasion of the second anniversary of the intifada, Arafat stated: "The land...is being remolded within a creative revolutionary furnace, defying the colonialist executioners and confronting the fascist Nazi terrorism with its Zionist forces and the herds of settlers...There will be no solution, stability, or peace before the achievement of the Palestinian people's national inalienable rights, headed by the right to repatriation, self-determination, and the establishment of their independent Palestinian state with holy Jerusalem as its capital." (Baghdad Voice of the PLO, as reported in FBIS-NES, 12/12/89)
- In January 1990, Arafat and Libyan leader Qaddafi issued a joint declaration in Tripoli "that the state of Israel is one of the outcomes of World War II and must disappear, just as the Berlin Wall and other results of that war are disappearing." (Libyan News Agency, as reported in International Herald Tribune, 1/7/90)
- Bassam Abu Sharif recently called the immigration of Soviet Jews to the territories an "act of war." (International Herald Tribune, 2/23/90)

-- A February leaflet of the Uprising Leadership/PLO instructed: "In confronting attempts to settle new Jewish immigrants in our Palestinian state, the Unified Leadership of the Uprising calls on the strike forces to increase attacks on settlers and to burn the land under their feet." (The Washington Post, 2/15/90)

-- PLO Executive Council member Dr. Assad Abdel Rahman recently declared: "This Palestinian state which is established on part of the homeland will be established on all of the homeland...if even gradually, to cause the disintegration of the Zionist-Jewish framework of the State of Israel..." (Shu'un Palestiniya, Beirut, as reported in JTA Daily News Bulletin, 2/28/90)

-- Fatah Central Committee member Rafik al-Natshe stated the convergence of goals between the PLO and the militant Islamic fundamentalist group HAMAS: "[Hamis says] All of Palestine is ours and we want to liberate it from the river to the sea at one go. But Fatah, which leads the PLO, feels that, a phased plan must be pursued. Both sides agree on the final objective. The difference between them is the way there." (al-Qabas, 12/26/89, as reported by Israeli Ministry of Foreign Affairs, February 1990)

## JORDAN

*Question.* Margaret, one more on Jordan. Jordanian officials are saying that Jordan has an exemption on the embargo for the specific purpose of importing fuel from Iraq and that this fuel was going to refugee camps of which they're not receiving promised funding for, both from the U.N. and other sources. Are you disputing their contention that this is a legitimate transport of fuel into the border with this?

*Answer.* I'm not aware, specifically, that it is going to refugee needs. On Friday we addressed that government officials in Jordan were saying that they had a specific exemption from the United Nations Sanctions Committee and that there was a document to this effect. I said there was not a document and there was no such exemption.

*Question.* Let me try it one more way. You say it is not coalition policy to use military force to enforce the sanctions against Iraq. But it also appears that some oil trucks belonging to Jordan have been bombed on that highway.

Are you saying that the coalition pilots who carry that out were disobeying their orders—

*Answer.* No.

*Question* [continuing]. Or that it was accidental collateral damage, as the phrase goes, or what?

*Answer.* Basically what I said is that it is difficult when materiel that is in other trucks is co-mingled. In other words, mixing military materiel with civilian materiel. I said that it is not our policy to bomb civilian targets, civilian materiel, etc. But I said that we have credible information war materiel, including some related to Scud missiles, has been transported in convoy with civilian oil trucks.

Such materiel contributes to Iraq's occupation of Kuwait and is a legitimate military target.

*Question.* Do we know that it was in the convoys which were hit, specifically? Or do we simply now target convoys because on some occasions, they carry war materiel?

[Transcript of State Department Daily Briefing-Feb. 14, 1991]

*Answer.* I don't know how to be more clear than to say that we have specific, credible evidence that war materiel is co-mingled in a convoy and that, in our view, war materiel going to help Scud missiles is a legitimate military target.

*Question.* Understood. But my question is, are we targeting specific shipments or, because we know that this happens, are we targeting every convoy in case there might be war materiel in it?

*Answer.* That would be better asked at the Pentagon because that gets me into specific targeting, which you know I don't do.

*Question.* Yes, but it has—

*Answer.* I don't know the answer, Bill. I'd be happy, honestly, to call Pete (Williams) and see if they're going to answer that specific a targeting question. My instincts would be they would not.

I have—and I think you all would admit—been pretty forthcoming on what exactly was going on concerning, at least, one convoy. I can't tell you how often this is going on. I can't tell you that the military is targeting every convoy.

*Question.* The question is simple. Do we target convoys now on the suspicion that they may be transporting war materiel, or we do we only target them when we have information about a particular convoy?

*Answer.* Again, I'd have to refer you to the Pentagon, because that gets into their operations in targeting and I don't do that.

*Question.* Have you received complaints from Jordan about this shooting-up of these convoys?

*Answer.* About the convoys? I'm not aware of that. But to be honest with you, John, I haven't asked. I am aware of complaints concerning the travel advisory this weekend but I am not aware of complaints concerning the convoy.

[From The Jerusalem Post, Feb. 6, 1991]

## MISLABELING JORDAN

In scintillating display of obfuscation, UN Secretary-General Javier Perez de Cuellar has labeled Jordan a victim of Saddam Hussein, rather than an accomplice. One would think that a regime which allies itself with Iraq, aids its war effort and violates the international embargo on Iraqi products would have become the target of the UN's condemnation and opprobrium, rather than a recipient of its sympathy

and concern. Unfortunately, such simple logic does not appear to play a role in the Secretary-General's moral calculus.

According to the U.S. State Department, Jordanian trucks have not only been violating the embargo by importing Iraqi oil; they have been carrying parts for Iraqi Scud missiles from Baghdad to Western Iraq. As spokeswoman Margaret Tutwiler said on Monday: "War material, including some related to Scud missiles, has been transported in convoy with civilian oil trucks . . . the trucks head off the freeway . . . and start giving war material to build a Scud. The Scud goes into Israel."

This outright collaboration with Saddam has led the Allied forces to bomb Jordanian truck convoys on the Baghdad-Amman highway. But Perez de Cuellar has chosen to ignore Jordan's violations of the embargo imposed by the UN, of which he is executive head. He has further chosen to shut his eyes to the fact that Amman has facilitated Iraqi missile attacks on civilians in noncombatant Israel. Instead, he has "strongly" deplored the American bombings and called them "inadmissible." Describing Jordan as a "sort of innocent victim of what is happening," he wondered, "Why should Jordan suffer from a war to which it is not a party?"

That Jordan is indeed "a party," with an indirect role in the missile attacks on Israel, should come as no surprise. It has been cooperating with Saddam Hussein for quite some time. As veteran commentator Moshe Zak pointed out on January 25 in *The Jerusalem Post*, Jordan harbored Iraqi planes during the Iran-Iraq war, much in the way that Iran is now doing. Just a year ago, Jordan and Iraq announced the creation of a joint air force fighter squadron, and Iraqi planes conducted photo-reconnaissance missions along the Jordan-Israel border in conjunction with the Jordanian air force. Egyptian President Hosni Mubarak has accused King Hussein of trying to induce him to join forces with Saddam in a conspiracy to take over Kuwait and split the dividends. Jordan is no victim in the Gulf crisis; it has been a participant and a supporter of Iraq since the beginning.

King Hussein's collaborationist behavior may perhaps now produce the long-overdue Western reassessment of his "moderation," and perhaps Israel, too, will draw the necessary conclusions. As for Secretary-General Perez de Cuellar's inability to distinguish between an aggressor's eager allies and his battered victims, this should serve to disabuse those who still believe the UN has abandoned its double standards and regained its moral integrity.

LAWRENCE J. SMITH  
18TH DISTRICT, FLORIDA

COMMITTEE ON FOREIGN AFFAIRS  
CHAIRMAN, TARP FORCE ON INTERNATIONAL  
NARCOTICS CONTROL

EUROPE AND THE MIDDLE EAST  
INTERNATIONAL OPERATIONS

COMMITTEE ON JUDICIARY  
CRIME

ECONOMIC AND COMMERCIAL LAW  
CRIMINAL JUSTICE

SELECT COMMITTEE ON NARCOTICS  
ABUSE AND CONTROL  
DEPUTY MAJORITY WHIP



Congress of the United States  
House of Representatives  
Washington, DC 20515  
February 14, 1991

112 CONGRESS BUILDING  
WASHINGTON, DC 20515  
(202) 225-7511

DISTRICT OFFICE

PRESIDENTIAL CIRCLE  
4000 HOLLYWOOD BLVD.  
SUITE 302 W  
HOLLYWOOD, FL 33021  
(305) 967-6044 (FAX)  
(305) 624-4111 (HOME)

The Honorable George Bush  
President of the United States  
The White House  
1600 Pennsylvania Ave., N.W.  
Washington, D.C. 20500

Dear Mr. President:

We share your deep concern over recent actions taken by King Hussein and their implications for United States and allied policy in the Persian Gulf.

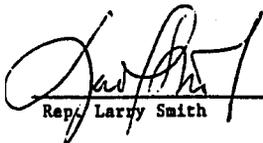
For nearly four decades, Jordan and the United States successfully have maintained a strong relationship based on mutual interest and benefit. Our alliance with Jordan has always been perceived as vitally important to our interests in the Middle East, and, consequently, the United States has made substantial investments in resources and trust in the relationship. As members of foreign affairs related committees in Congress, each of us has played a role in overseeing and approving many of these investments.

It is precisely because of this historically close relationship between the United States and Jordan that we have been shocked and disappointed by the King's spirit and lack of cooperation culminating in his speech of February 5. We fear that by siding with Saddam Hussein, as well as lending him other forms of logistical and economic support, the King's actions may further jeopardize the safety of American and allied troops in the Gulf. Accordingly, we applaud your decisions to place Jordan's foreign assistance program under review and to refrain from assisting Jordan via the Gulf Crisis Financial Co-ordination Group. We believe there would be support in Congress should you decide to suspend Jordan's aid.

Additionally, we strongly urge the following measures be undertaken. First, all American maintenance support, including the transfer of spare parts and technical assistance, for U.S.-supplied weapon systems in Jordan should be suspended immediately pending the completion of Operation Desert Storm and a comprehensive evaluation of Jordanian-Iraqi military cooperation throughout the conflict. Secondly, we respectfully request that a report be prepared for Congress which details the current status of military cooperation between the United States

The President  
February 14, 1991

Thank you for taking time to consider our views and we commend you for the leadership you have displayed throughout the Persian Gulf crisis.

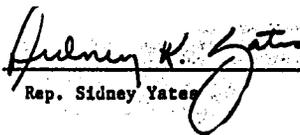
  
Rep. Larry Smith

  
Rep. Ben Gilman

  
Rep. Ed Feighan

  
Rep. Porter Goss

  
Rep. Robert Torricelli

  
Rep. Sidney Yates

  
Rep. Howard Berman

  
Rep. Mel Levine

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(From the Wall Street Journal)

## SUPPLYING SADDAM: GERMANS HAD BIG ROLE IN HELPING IRAQ ARM, INTERNAL REPORT SAYS

(By Frederick Kempe)

BONN.—For weeks, the dismaying reports had trickled in: West German companies were supplying weapons factories to Iraq, shipping it poison gas equipment, maybe even helping Saddam Hussein develop a nuclear bomb. Trying to separate fact from fiction, members of the German parliament in August demanded a confidential briefing from Economics Minister Helmut Haussmann. What they heard surpassed their worst fears.

Mr. Haussmann read off a long list of companies believed to have supplied Iraq with the means to manufacture arms. The French and Soviets had sold Iraq far more missiles and bombs, but the Germans were shipping, right up until the trade embargo on Iraq, something far more important to Saddam Hussein in the face of an international blockade, the wherewithal to build his own advanced weapons.

Last year, a leading German role was revealed in Libya's chemical weapons program, Mr. Haussmann made clear that in respect to Iraq, his country's corporate sins were far broader: German companies were involved in virtually every major Iraqi weapons project, and were probably the most important suppliers in President Hussein's crash project to develop weapons autonomy.

"From poison gas plants to rocket factories, from cannon forges to the nuclear sector . . . , the danger has already been spread," he said.

### CRIMINAL PROCEEDINGS

A text of Mr. Haussmann's secret statement makes clear that German links to the Iraqi arms industry are far more widespread than previously believed, raising questions whether the world's largest exporter is discriminating enough about who buys its sensitive technologies. The laxity is now clearly under attack in Germany, however: Investigators have so far made inquiries into 170 companies, and started criminal proceedings against 25.

The Haussmann report names more than 20 of these companies and points to at least a dozen more. It lists six Iraqi projects in which it says Germans have played important roles:

—Nuclear weapons: Three German companies have provided machinery, special steel and components that are being used to build the gas centrifuges needed for producing weapons-grade uranium. Mr. Haussmann said. West German intelligence believes this has helped bring Iraq within perhaps two years of "the bomb."

Poison gas: A Gas German company was the chief supplier for six plants in Samarra, Iraq, that make nerve and mustard gases, gasers already used against the Iraqi Kurds and the Iranians.

Upgrading missiles: Five German companies have helped improve Iraq's Scud-B missiles so they can carry chemical or conventional warheads farther and more accurately.

The "Big Gun": Six German firms have provided parts for a 150-meter-long "super-cannon" Iraq has tried to build.

The Saad 16 project: A German contractor built Iraq's most advanced weapons research facility—President Hussein's pet project—where work on chemical and nuclear arms take place.

The Taji project: A German company led the consortium that built what Mr. Haussmann called "the best-known project in the weapons sector," which makes artillery and other arms.

### BIOLOGICAL WEAPONS

Beyond this, at least one German company sold Iraq deadly mycotoxins, TH-2 and T-2, that Western intelligence reports say Iraq has used in research on biological weapons. (U.S. officials in Washington say Iraq has developed such weapons and will have enough by year-end for battlefield use.) The company, Plato-Kuehn G.m.b.H., delivered the small amount of mycotoxins under legitimate license, and a principal of the firm, Josef Kuehn, has said he didn't know what they were to be used for.

Such reports haven't come at a convenient time, what with Germans preparing to celebrate their historic unification at midnight tonight. To German chagrin, they lead inescapably to an unearthing of the past. Germany was the first country to use poison gas, when it 1915 its scientists opened several hundred cans of liquid chlorine

along the trenches at Ypres, Belgium, killing 5,000 soldiers. By World War II, German chemists had developed nerve gas and modified a powerful insecticide to make Zyklon-B, the gas the Nazis used for mass-killings in the concentration camps.

"We have a political and a moral problem," comments Wilfried Penner, a member of the Bundestag intelligence committee trying to curb weapons-related exports. "We should be showing more restraint than other countries due to our inescapable history."

It was American pressure that forced West Germany to begin looking inward, in late 1988. Initially, its leadership was bellicose when the U.S. charged that Libya's poison gas plant in Rabta was German-made. But anger turned to embarrassment when German investigators found that a chemical company run by industrialist Juergen Hippenstiel-Imhausen. Imhausen Chenne AG, had planned and built the plant. Mr. Imhausen eventually drew the maximum jail sentence under the weak laws of the time: three years.

Since then, the West German government has tightened its controls, increasing penalties, tripling the number of export-control officials and cooperating more with U.S. and Israeli intelligence in tracking down suspect companies.

It was West Germany's industrial knowhow that attracted Iraq. The country makes some of the most sophisticated machinery in the world, is the international leader in chemicals production, and, of notable importance to Iraq, has a relatively small customs control force. However, Germany's postwar constitution was designed to prevent the country from building a huge weapons industry. For one thing, it made it illegal to ship weapons to Spinnungsprbrietr, or areas of tension in the world.

But it doesn't bar the export of machinery of dual use, civilian and potentially military. To penalize a company, authorities have to prove it knew its export would be used to make weapons. Some German exporters to Iraq may not have had any idea their deliveries would be used in weapons manufacture, and many are now coming forward to volunteer information about their business with Iraq.

"The Iraqis have been more refined" than Libya in acquiring chemical-weapons capability, notes Lutz Stavenhagen, the West German chancellery's intermediary with intelligence services. "They have bought bits and pieces everywhere" and made sure each supplier knew nothing about the bigger picture. The vast majority of German technology used in Iraq's chemical and nuclear weapons programs was sent out of the country piecemeal under legitimate export licenses.

Still, the various German investigations have uncovered a series of murky business relationships. Karl Kolb G.m.b.H., a laboratory and medical supplier based near Darmstadt, says a facility it helped Iraq build in 1983 was merely for pesticide production, and wasn't built so it could produce chemical weapons. But German investigators conclude that the facility, a group of six plants in Samarra, is actually making chemical weapons, and that Karl Kolb knew it all along. The firm's lawyer denies this. A few days after Iraq invaded Kuwait, Darmstadt officials arrested Helmut Maier, the company's managing director; so far, he hasn't been charged with any wrongdoing.

Police also arrested several executives of another small company, Water Engineering Trading G.m.b.H., which had provided parts for the Samarra facility. Investigators believe Water Engineering, which has closed down operations, sold Iraq special machine tools to convert conventional 122 millimeter shells into poison-gas projectiles.

As it turns out, one of Water Engineering's four partners, Peter Leifer, worked for two years as a West German intelligence information, a senior West German official says. The official says Mr. Leifer apparently used his intelligence contacts to help shield his illegal activities, adding that German intelligence knew nothing of these activities. Mr. Leifer, who is in custody, couldn't be reached for comment. His lawyer declined to comment.

Darmstadt prosecutors fear they may have to drop the case against Karl Kolb; besides the difficulty of proving guilty knowledge, German courts recently nullified a new law governing weapons exports (Bonn is appealing). However, prosecutors believe they have a stronger case against Water Engineering; it had no license for its exports.

Fingers are being pointed too at H&H Metalform G.m.b.H., a small company based in the a farming town of Drensteinfurt. Ten days after Iraq invaded Kuwait, customs officials at Frankfurt airport seized crates H&H was trying to ship to Baghdad. The packing list read "parts for a dairy plant."

The contents, however, were high-quality steel components that investigators believe may have been destined for Iraq's rocketry program. Also inside were catalogs

and product lists printed by the American Institute for Aeronautics and Astronautics.

Authorities seized the company's records and searched the homes of its two owners. They concluded that H&H is one of several suppliers of advanced machinery for Iraq's nuclear weapons program, among other things. What worries West German officials most is their conclusion that H&H has already sold Iraq machinery suitable for making gas centrifuges, an indication Iraq is in an advanced stage of nuclear-weapons development. Centrifuges separate inert uranium 238 from radioactive uranium 235, an essential step in creating weapons-grade material.

Officials at the Frankfurt airport also seized hundreds of gas centrifuges bound for Iraq that they believe were to be used to align machinery provided by H&H. Experts in Germany conclude that Iraq doesn't yet have a prototype gas centrifuge plant up and running, though they add it probably isn't far from that goal.

German authorities believe other German businessmen and companies have helped Iraq get there. Mr. Haussmann said that two former employees of MAN Technolgie G.m.b.H. may have provided Iraq access to construction plans for different centrifuge types. He said they were investigated on suspicion of acting as foreign agents for Iraq, but authorities didn't find any evidence of illegal technology transfer. The company isn't suspected of any wrong-doing in this case.

The economics minister also said Export Union G.m.b.H. of Duesseldorf is suspected of providing special steels for the nuclear program. (It denies delivering special grade steels under its steel-delivery license.) Authorities have arrested the director of a Bonn company believed to have sold special ring magnets that reduce friction in the critical centrifuge process.

The West Germans say H&H is also linked to two companies in London controlled by Iraq, Technology Development Group and Meed International. Both company names appear on contracts H&H has signed, and investigators believe Technology Development has acquired a 50% stake in H&H. One document sent by H&H to the Nassr Establishment for the Mechanical Industry (an arm of Iraq's war-materials ministry), through Meed International, offered to sell a "drop tank" that specialists say could be used to release chemical weapons from aircraft. "They are of such good quality that they cannot only be used for one single mission but can be used several times for deep penetration actions . . ." the letter said.

The West Germans believe Technology Development has spent billions of dollars acquiring companies in the West, many of them makers of industrial equipment that has weapons applications. Sometimes it merely bought a stake in a company, and other times it placed huge orders and paid rich premiums for the goods.

Investigators believe the Iraq strategy was to make the network of European firms in one way or another dependent on Iraq's business, and therefore more willing to supply sensitive materials. The result is a sophisticated web of contacts that German authorities say includes companies in England, Northern Ireland, Germany, Switzerland and even the U.S. that could deliver virtually everything Iraq has needed.

German officials say a number of prominent Iraqis have visited H&H Metalform over the past three years, driving across Drensteinfurt's single set of railway tracks, past a couple of grain silos, then left at a large cornfield that marks the entrance to H&H.

Peter Huetten, one of its owner-managers, strongly denies links to any Iraq arms network and says the government has made him and other businessmen scapegoats. He insists the supposed centrifuge machinery he sold Iraq isn't precise enough for that application, and is actually equipment to make customized aluminum wheels for Middle East hot-rodders. He also says Technology Development Group doesn't own an interest in his company, though he says he has done business with it and knows its erstwhile chairman, Safar al-Habobby.

Mr. al-Habobby is also head of the Nassr State Enterprise for the Machine Industry, the war materials firm.

Mr. Huetten notes that H&H had legal export licenses for the machines it shipped to Iraq and that no charges have been filed against the company. "Everyone wanted to help Iraq stop the Ayatollah," he complains "Now great politicians stand before the cameras crying crocodile tears, and they leave their businessmen standing in the rain."

As for the rocketry materials found with the suspect "dairy equipment," Mr. Huetten dismisses them with a laugh. The explanation, he says, is simple: H&H was really sending the journals to a library in Baghdad, not to the war ministry. His employees, under order to help cut costs, merely enclosed the periodicals in an outgoing shipping crate, which coincidentally contained the load of sophisticated steel. They were just trying to save postage, he shrugs.

[From the Washington Times, Sept. 4, 1990]

**GERMAN PROFITS UBER ALLIES**

(By Frank Gaffney)

Recently, seven West Germans were arrested for allegedly helping Iraq to produce chemical weapons (CW). As U.S. servicemen and women are now in peril from such chemical arms, American indignation over what amounts to an ally's treachery would be understandable.

If limited to this current travesty, however, this anger risks missing the larger—and far more serious—problem that German export policies represent for the security of all civilized nations.

West German enterprises have been implicated in the sale to Iraq of technology, equipment and know-how associated with not only chemical munitions but also biological and nuclear arms. According to press accounts, German prosecutors are examining the activities of at least 50 companies believed to have engaged in such sales.

These include: Pilot Plant (whose employees were among those rounded up recently for having sold Saddam Hussein two laboratories compatible with chemical weapons production); H&H Metalform (said to have sold Iraq equipment used to build enrichment plants for weapons-grade uranium); and a company with the remarkable name of Nukem (accused of selling Iraq uranium in various forms in the course of last year).

Worse, those probes reportedly represent but a small fraction of the more than 1,000 German businesses suspected of illegally providing Third World countries with advanced weapons and dual-use technologies (namely, those with both civilian and military applications).

Within the past fortnight, for example, it was revealed that Imhausen—the company whose president was recently imprisoned for providing Libya with its notorious chemical weapons production facility at Rabta—may also have sold Moammar Gadhafi plans for a second CW plant.

In addition, the press has reported evidence that U.S. ballistic missile technology has been passed by German concerns under a program named Condor to Argentina and Egypt as well as Iraq.

Unfortunately, the willingness of some German companies to sell militarily relevant technology to potentially aggressive nations is not limited to the Third World. For decades, many businessmen in West Germany have appeared largely indifferent to the risks associated with the Soviet Union's efforts to acquire sensitive military or dual-use equipment and know-how from the West.

Key technologies transferred by or through Germany to the Soviet Union include: high accuracy machine tools, deep underground tunneling machines, telecommunications equipment, underwater sensors, sophisticated computers and manufacturing equipment associated with microelectronics, advanced composites and superalloys.

What, one might ask, is the West German government doing about all this? The answer, regrettably, is that the federal authorities in Bonn are part of the problem.

In fact, U.S. officials charged with maintaining effective technology security through multilateral export control arrangements have long been confounded by Bonn's reluctance to create real constraints on German trade in equipment and know-how with dual-use applications. What is more, where such constraints have been created (usually pursuant to agreements reached in the Coordinating Committee for Multilateral Export Controls, or COCOM), the German government has resisted bringing charges against violators or failed to impose meaningful penalties on those that are found guilty of export crimes.

A particularly notorious instance of this phenomenon arose two years ago when Chancellor Helmut Kohl and Foreign Minister Hans-Dietrich Genscher personally stonewalled U.S. requests for an investigation of Imhausen's involvement in the Rabta scandal.

Worse yet, the German government has undertaken a strenuous effort in recent months to dismantle many of such export controls that have been imposed over the past decade. Citing reduced tensions with the Soviet Union and the need to resuscitate East European economies, the Germans have demanded (with considerable success) that whole categories of strategically sensitive technologies be decontrolled. As a result, the KGB and others bent on acquiring such technologies are finding unprecedented opportunities to secure targeted equipment, data and know-how.

In short, the view of both the German government and many German companies toward export controls might be best summed up as Profits Uber Allies. This reckless and irresponsible course was ill-advised when, with the fall of the Berlin Wall

and prior to the Iraqi invasion of Kuwait, many in the West indulged in the naïve belief that a new, threaten-free world had arrived. But today it should be crystal clear that such a policy is unacceptably dangerous.

If Germany is to enjoy the status of a leading Western power it so clearly desires, the willingness of some unscrupulous German entrepreneurs to disregard elementary common security interests in order to make a profit—and of Bonn government to tolerate, if not facilitate, such practices—must end.

President Bush can help bring this about by utilizing authority available to him under existing U.S. law to impose import sanctions against German companies judged to have violated regulations controlling exports. In addition, immediately upon its return from the August recess, Congress should hold hearings into German export practices. The model for these hearings could be the congressional inquiries of half a century ago when those who sold Japan scrap metal subsequently used to attack U.S. forces were held to account.

At the very least, the public has the right to know the extent of the risks posed to future U.S. and Western security interests—and the additional costs imposed on U.S. defense expenditures—likely to result from access to extremely sensitive technologies afforded the military establishments of the Soviet Union, Iraq, Libya and other potential adversaries by our German friends.

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[From the New York Times, Sept. 8, 1990]

### WHO'S MAKING MISSILES FOR IRAQ?

Saddam Hussein probably gives some of his foreign "guests" real hospitality. They're the Brazilian engineers who have been helping Iraq develop ballistic missiles. Brazil disclaims any knowledge of their activities and wants them to quit work and leave, to comply with the U.N. trade embargo with Iraq. But they haven't left.

The Bush Administration has communicated its official displeasure to Brazil, just as it has asked Moscow to withdraw its 193 military advisers from Iraq. But as recently as two weeks ago, in a dangerously thoughtless decision, it approved shipment of missile casings to Brazil.

The Administration cannot hope to persuade the world to maintain a tight embargo on trade with Iraq, particularly in arms, until it stops aiding Brazilian missile-building programs. President Bush can still hold up the shipment of missile casings and can also block the export of supercomputers that can be used to perfect missiles. Beyond that, he needs a tough new policy to curb the spread of missiles, as well as chemical and nuclear warheads, by working with European allies, the Soviets and others to tighten export restrictions.

Brazil has long followed a laissez-faire policy on arms sales, with the rationale that arms are a profitable export and a spur to technological advance. This "Have guns, will travel" attitude has made Brazil the largest third world arms seller.

When its missile-marketing in Libya in 1988 drew Washington's wrath, Brazil curbed its sales. But the U.S. did little to discourage Brazilian arms exports to Iraq during the Persian Gulf war, or since. It continues to allow U.S. companies to sell Brazil missile components and technology, ostensibly for commercial satellite launches, though critics warned that the technology would end up in Iraq.

To curb just such technology transfers, the U.S. and six weapons-producing allies set up the Missile Technology Control Regime in 1987. They restricted sales of rockets but did not always force their own manufacturers to comply, and in some instances even allowed dubious sales like that of the missile casings to go ahead.

In another example, companies in France, Sweden, West Germany and Belgium helped Brazil develop an engine capable of powering a missile to intercontinental range and improve its computer guidance. Brazilians passed this technology to Iraq.

The Gulf crisis now demonstrates the urgency of doing more to stop indiscriminate high-tech arms sales. That means expanding the list of restricted exports under the 1987 Control Regime. States need to insist on inspecting items they export to assure they are not being put to military use. And laws are needed to impose criminal sanctions on businesses that export without a license.

The Technology Control Regime also ought to be expanded to include Brazil and other third world arms exporters, as well as the Soviet Union, China and recently liberated Eastern European states. These countries also contribute to the spread of missile capabilities.

As the current crisis makes painfully clear, a world united against aggression cannot allow those who sold Iraq advanced missile technology to continue this deadly practice. The motto must be: Let the sellers beware.

[From the Miami Herald, Jan. 26, 1991]

### WEAPONS FIRM AIDED IRAQ DESPITE EMBARGO

**SÃO JOSÉ DOS CAMPOS, BRAZIL.**—A Brazilian arms manufacturer who sold some \$500 million in battlefield rockets to Saddam Hussein said this week that his company continued to supply Iraq with technical weapons information through December, despite the U.N. arms embargo.

After reports appeared this week in the Brazilian media detailing the transactions between technicians from Avibras Aerospacial and its Iraqi clients, a spokesman for Brazil's Foreign Ministry on Thursday defended the ongoing relations. He said the U.N. embargo does not apply to technical assistance obligated by contracts signed before Iraq invaded Kuwait Aug. 2.

But U.S. and British diplomats in Brasilia on Friday disagreed angrily with that interpretation. One U.S. official called the reports "an absolute bombshell."

British Ambassador Michael Newington and at least two U.S. diplomats contacted the Brazilian Foreign Ministry on Friday for an explanation of statements made by Joao Verdi Carvalho, president of Avibras, and reported by the media.

"We have no confirmation of the statements attributed to the Avibras representative," said a British Embassy spokesman. "But if true, we think this is appalling, and we hope the Brazilian government will take action to stop this."

Verdi Carvalho told The Miami Herald on Friday that his company kept its offices in Baghdad open through December, four months after the U.N. embargo took effect, to offer the Iraqis "Post-sale assistance" with their Astros II rockets. The rockets, which have a range of up to 60 miles, are now believed deployed against allied troops.

But Verdi Carvalho said in an interview at Avibras headquarters in this Sao Paulo suburb, the center of Brazil's arms industry, that his company's contacts with the Iraqis ended after Avibras' last representative left Baghdad in December.

"Today we have no communication with the Iraqis. We give them no help at all," Verdi Carvalho said. He said Avibras has no plans to restaff its Baghdad office.

During the Iran-Iraq War, Avibras sold Iraq about 100 Astros II rocket "batteries," which include three armored trucks used as launching platforms, rocket transports and computerized ranging units. The system can fire rockets with warheads ranging from 40 to 330 pounds to battlefield targets up to 60 miles away. The estimated cost of each Astros II battery is \$5 million.

Avibras also sold numerous Astros II batteries to Saudi Arabia during the 1980s, and last fall, after Iraq's invasion of Kuwait, sold the Saudis some \$69 million in replacement rockets.

Paulo Fortuna, the defense reporter for the Sao José dos Campos newspaper Vale Paraibano, first reported Avibras' continuing contacts with Iraq after a Tuesday interview with Verdi Carvalho. Fortuna quoted Verdi Carvalho as saying, "The U.N. embargo only bars arms sales but not technical assistance."

The Rio daily O Globo reported Thursday that "Avibras is still helping Iraq," quoting Verdi Carvalho as saying that Avibras technicians had recently furnished information to the Iraqi military regarding electrical circuitry in the Astros II rockets.

Speaking to The Herald Friday, Verdi Carvalho, 55, said the Brazilian papers had combined exaggeration and invention to sell newspapers.

"What's important are the facts: Today, there is no communication, no help," Verdi Carvalho said.

Verdi Carvalho said Avibras' technician in Baghdad—who left the city in December—is a Brazilian of Lebanese descent, a mechanic with no electrical knowledge. He noted, however, that the Baghdad office is equipped with a complete set of technical manuals for the Astros 2 system. Fortuna told The Herald on Friday that he believed Verdi Carvalho is denying his earlier statements because of the controversy they have generated.

A phone call interrupted The Herald interview with Verdi Carvalho on Friday. It was a colonel in Brazil's Army Ministry, demanding information about Avibras' reported dealings with the Iraqis.

"The whole world is falling in on me," Verdi Carvalho said after the call.

## BRAZILIAN ARMS EXPERTS SAID TO UPGRADE IRAQ'S MISSILES

(By Thomas Kamm)

**RIO DE JANEIRO.**—Among the foreigners reportedly being held in Iraq are Brazilian weapons engineers who may have been aiding Baghdad's missile capabilities, according to officials and individuals familiar with their activities.

Their presence, which highlights Brazil's once close commercial ties with the regime of Saddam Hussein, is a "political embarrassment" to Brazil at a time when it is firmly supporting the economic blockade of Iraq. Foreign Minister Jose Francisco Rezek has said.

Brazilian officials acknowledge the engineers' presence in Iraq, but contend they were operating without the government's knowledge and say they have no specific information on their activities.

"We don't have knowledge of the project," says Foreign Ministry spokesman Jose Vicente Pimentel. "The Brazilians are there on a strictly private basis." But Mr. Pimentel says the "very special treatment" the group apparently enjoyed, including luxurious but isolated living conditions, could indicate a military project of some importance to Iraqi authorities.

Brazilian press reports say the group was helping Iraq to develop a short-range missile, possibly based on the Piranha air-to-air missile that Brazil unsuccessfully sought to develop, and to improve the performance of Iraq's Soviet-made Scud ballistic missiles. There is also speculation that the group was helping Iraq develop an earth-orbiting satellite with military applications, and a rocket launcher. How far these projects have advanced isn't clear.

Brazilian officials say that until recently Brazilians were free to work in Iraq, but they should now comply with Brazil's adherence to the embargo imposed against Iraq, cease their work and leave the country. But there hasn't been any response to Mr. Rezek's appeal to their "patriotism," officials say.

"Brazilians, including retired military [officers], are civilians like any others [and] have the right to work wherever they want," says Aeronautics Minister Socrates Monteiro. "But at a time when the Brazilian government is proclaiming its support for the United Nations-sponsored economic blockade against Iraq, Brazilian citizens are obliged to comply with this blockade."

The group, said to total about 23 engineers, is apparently headed by retired Maj. Brigadier Hugo de Oliveira Piva, former director of Brazil's Aerospace Technology Center. The engineers are said to have been in Iraq for several months. Other foreign engineers, possibly Soviet, French and Chinese, were believed to be working on the same project.

Individuals familiar with Brazilian and Iraqi military research doubt that the project was carried out without the knowledge of Brazilian authorities because of Mr. Piva's high rank. "It's conceivable that the government is right, but it seems implausible to me that Piva would go and embarrass his government to help Iraq with its missile technology," says Gary Milhollin, director of the Wisconsin Project on Nuclear Arms Control, which tracks chemical, nuclear and missile development in the Third World.

At the Aerospace Technology Center, according to David Dantzie, a researcher at the Wisconsin Project, Mr. Piva was in charge of converting the Sonda IV, Brazil's latest space rocket, into a missile large enough to carry a nuclear warhead, and of secretly making nuclear weapon material by enriching uranium. Since his retirement, Mr. Piva has headed an engineering consulting firm called HOP (after his initials) and based in Sao Jose dos Campos, near Sao Paulo. Repeated telephone calls to HOP's offices and to Mr. Piva's home were unanswered. According to Mr. Pimentel, Mr. Piva was recently in Iraq, but Brazilian press reports quote friends of Mr. Piva saying he is in Europe.

While officials say Mr. Piva—described by one magazine as a "Brazilian Werner von Braun"—has the right to market his scientific abilities, the newspaper *Jornal do Brasil* commented that passing on information about the Piranha missile, whose development Brazil abandoned for lack of funds, would "constitute a serious case of espionage." Maj. Teles Ribeiro, a spokesman for the Aeronautics Ministry, says he doubts the Piranha would interest Iraq because it's very similar to the Sidewinder, a U.S. missile that Iraq could already have obtained.

The engineers' presence in Iraq once again focuses attention on Brazil's controversial defense program. In only two decades, Brazil has become the Third World's largest arms maker and exporter, but has roused ire in Washington because of what the U.S. considers indiscriminate selling to countries, such as Libya, that are linked to international terrorism. Also, Brazil's failure to sign either the nuclear nonprolif-

eration treaty or the Missile Technology Control Regime has led to suspicion that it has a program to produce nuclear-weapons material.

Last summer, West German documents suggested that Brazil was using for military purposes West German nuclear technology acquired for the power industry, and was renegotiating on some inspection terms. Brazil denies that such diversion is taking place. More recently, the Washington-based Council on Hemispheric Affairs and the Wisconsin Project charged that efforts by Embraer, a Brazilian aerospace company, to purchase an IBM supercomputer should be blocked because Brazil could use the computer to develop—and disseminate—nuclear weapons technology. And two weeks ago, Wisconsin Project officials warned that Brazil could use rocket motor technology it is acquiring from a group of European companies to develop an intercontinental ballistic missile.

But Mr. Pimentel, the Foreign Ministry spokesman, denies the allegations. "We're the bad guy that on top of burning rain forests also sells arms to Iraq," he says. "But this bad guy hasn't sold arms to Iraq in two years and hasn't even sold spare parts for a year because Iraq doesn't pay. We were one of the first countries to say we would stick to U.N. resolution 661 despite its economic costs."

Indeed, until Iraq's economic difficulties, it enjoyed a profitable relationship with Brazil. Until the embargo, Brazil imported up to 160,000 barrels of Iraqi oil a day. It paid for some of the oil with Brazilian goods. Among other things, Jornal do Brasil recently alleged, Brazil's previous military government provided Iraq with a small quantity of enriched uranium.

During the Iran-Iraq war, Brazil sold Baghdad about \$3 billion of hardware, including armored vehicles, tanks, rocket launchers and ammunition. Iraq's financial straits after the war were a major reason why two of Brazil's largest arms makers, Avibras Aeroespacial S.A. and Engesa, filed for protection from creditors this year.

But the Kuwait crisis could revitalize the troubled arms industry. Engesa hopes to sign a \$2 billion contract to supply Saudi Arabia with heavy armored vehicles.

#### DEVELOPMENT OF SPARROW-TYPE MISSILE IN IRAQ

(Report by Roberto Godoy)

The Al-Taw'han [name as published] air-to-air missile on which 21 Brazilian experts hired by the HOP [Hugo de Oliveira Piva] company owned by Brigadier Hugo de Oliveira Piva have been working in Iraq prior to the invasion of Kuwait is not a light weapon like the Piranha missile developed in Brazil. In fact, it is a sophisticated supersonic interceptor with a range of 40 km.

The Al-Taw'han has a dual guidance system that combines precision radar and infrared heat sensors. It carries a 45-kg warhead. Initial test launchings were scheduled for December 1991.

Everything began in 1985 when Minister of Industry and Military Industrialization Kamil al-Majid [name as published], son-in-law and cousin of President Saddam Husayn, decided to launch an ambitious program to develop air-to-air missiles, a field in which Iraq was totally dependent on foreign supplies. A British-trained arms engineer Ahmed Ayoub [name as published] was appointed project supervisor. He immediately received \$40 million for initial investments in trained personnel and support equipment. Ayoub's local team designed a two-stage project. First, the team would get acquainted with the latest concepts for the construction of electronic weapons, and then it would produce two missiles. One would be a simple, defense missile with a maximum range of six km and a heat-seeking guidance system that would find its target by homing in on the heat generated by the turbines of an enemy plane.

Such a missile would be produced in large quantities at the probable cost of \$150,000 [quantity not specified]. At the same time the plan for manufacturing the Al-Taw'han for selected use would be put into operation with the utmost secrecy.

The Iraqi military engineers established the specifications for their missile, drawing their inspiration from the U.S. AIM-7E Sparrow (Pardal), one of the most successful designs in this field. Presented in 1962 and constantly improved since then by its supplier, the Raytheon Company, 25,000 AIM-7E's have already been sold to seven countries other than the United States. In the United States the Sparrow continues to be part of the U.S. Air Force inventory as a medium-range interceptor.

The configuration of the smaller missile was finally based on the Sidewinder I, quite possibly the most popular in the U.S. arsenal. This initial task took slightly over one year, a period during which the facilities to house the assembly lines were also built in Baghdad's military-industrial district.

By then, May 1987, a mission of Brazilian military industrialists and experts arrived in Iraq. Brigadier Piva, then chairman of the recently created *Orbita Espacial*—a partnership made up by Engess [Specialized Engineers, Inc.] (40 percent), Embraer [Brazilian Aeronautics Company] (40 percent), and a consortium, the minority shareholder (10 percent)—was carrying in his briefcase the short-range Piranha air-to-air missile which was undergoing aerodynamic tests.

Engineer Ayoub heard out the proposal but declined an offer to supply him with a finished product. He said that he would rather offer the Brazilians a plan for binational cooperation. Back in his headquarters in Sao Jose dos Campos, Brigadier Piva tried to get the deal going. An internal squabble with *Orbita Executive Vice President Vito Di Grassi* compelled Piva to leave the company, although he did not leave this line of business. Even before setting up the HOP company, Hugo Piva was already discussing with Iraqi Government officials an advanced program for launching a reconnaissance satellite, an electronic spy. This idea did not work out, but the project to build air-to-air missiles was maintained.

The following six months, until March 1988, were fraught with serious crises. Ahmed Ayoub fell into political disgrace and was charged with involvement with the leaders of semisubversive guerrillas made up of Druze minority members. He left the country for Argentina where he obtained political asylum and where he works for the CITEFA [Armed Forces Scientific and Technical Research Center] a military technical research organization.

In Brazil, the defense materiel manufacturing corporations were shaken by a crisis; they laid off thousands of employees and suspended production. Faced with a composition of creditors, those corporations decided to cut all links with the Baghdad government, responsible for an overall debt of some \$200 million. The debt was contracted, with no apparent intention of paying, with Avibras Aerospacial [Avibras Aerospace Industry, Inc.], manufacturer of the *Astros-2* rocket launcher, and with Engess, which has exported more than 1,100 tanks to the Iraqi Army since 1978.

Within that confused environment, and talking directly with Minister al-Majid, Brig. Piva outlined the details for supplying a complete team of Brazilian technicians. Salaries were set at \$6,500, plus a \$3,500-bonus for the chiefs. Some benefit expenses include housing in a top-level compound, cars for personal use, other maintenance costs, and tickets for periodic visits to Brazil. Most of the 21 people recruited have lost their jobs because of the crisis.

Piva participated in one of the first working meetings between the managers of the priority projects from the Military Industry Ministry and the coordinators of the foreign teams. "There were many Germans, French, Egyptians, and Argentines," he said.

Two individuals linked to the authorities reported a few days later that they were called to a meeting at Kamil al-Majid's office. There, after brief preliminaries, they were made privy to a secret: the plans for the construction of the Al-Taw'han missile.

The design, showing a profile of the weapon, was on the conference table covered by reflective glass that prevented us, for example, from taking pictures or from scrutinizing it with a graphic microlaser. It was then clearly stated that the weapon would be the main exclusive objective of the contract, involving a multinational group of independent professionals.

Piva considers it "possible that not all the Brazilians were aware of the final objective, given the secret nature of the project which implied manufacturing the missile in segments totally independent from each other." It is not easy to clearly explain that involvement. "Officially, none of the research institutes in Brazil have ever been involved in such a highly advanced project," an FAB [Brazilian Air Force] officer said yesterday. According to him, "passing from the Piranha stage to a higher level is like trading in an ordinary car for a Ferrari: It takes some time to adapt, but since the operating principle is the same, at least basically, if the owner is talented, efficiency improves."

The Al-Taw'han is a clear copy of the U.S. Sparrow, except for the dual guidance system, an uncommon solution. Guidance control is achieved by movable forward fins, controlled by on-board electronics. The Al-Taw'han measures approximately 3.6 meters in length and 23 centimeters in diameter. It weighs 230 kg at the moment of firing and has a wing span of slightly more than one meter.

Its 4,800-km-per-hour speed allows it to reach the ideal point of impact less than 30 seconds after ignition. Immediately after launching, the missile is "illuminated" by the carrier aircraft radar while the missile is reading its own data during the terminal guidance phase before engagement.

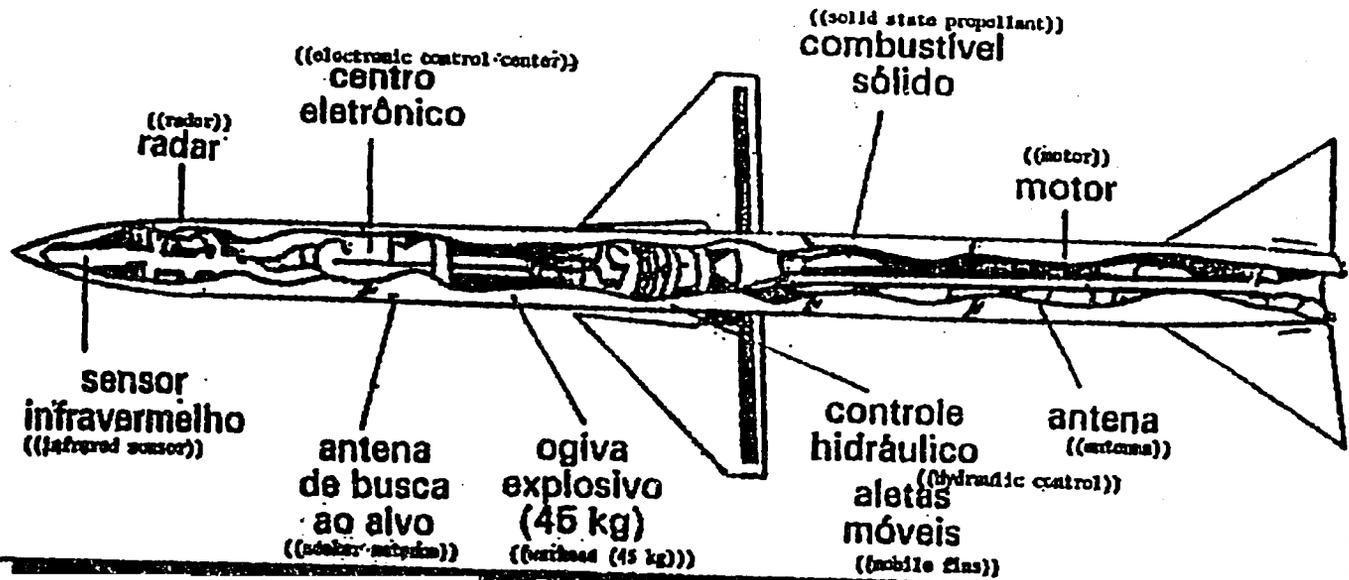
The employment of this type of weapon on high-performance aircraft such as the Soviet MiG-29 received by Iraq over the past two years is a factor capable of guaran-

teeing the Iraqi Air Force a considerable increase in fire power and in airspace control.

This means that the intercept squadrons of the air defense command can leave their secret desert bases flying 2.2 times the speed of sound and tracking possible intruders with the help of ground radars and the Iraqi Awacs.

This gives them a capacity to kill the enemy long before visual contact. So far in the region this has been an exclusive capacity of the sophisticated Israeli Air Force and of the U.S. fighter aircraft deployed to the Middle East over the past six weeks.

# Missil "Ata Taw/Han"



[From the New Republic, Mar. 4, 1991]

**BURDEN SHIRKING**

(By John B. Judis)

When George Bush finally gets around to constructing a new world order out of the ashes of the Gulf war, one of his thorniest problems will be American relations with Japan. Since Iraq invaded Kuwait last August, Japan has not only disappointed the hopes of a generation of policymakers and public officials, but created a groundswell of ill will among Congress and the public.

The conventional wisdom about U.S.-Japan relations was something like this: if the United States doesn't take too hard a line on economic issues, then when the United States faces an international crisis, Japan will readily subordinate its economic interests to the concerns of a U.S.-led geopolitical order. But in the six months since the Iraqi invasion, Japan has repeatedly resisted and then acceded only reluctantly to American requests for aid. At the same time, it has become increasingly contentious in its economic disputes—even threatening to stop buying U.S. Treasury bonds. Japan is showing that it can say no.

Even longtime friends of Japan such as Former Secretary of State Cyrus Vance have become exercised over Japan's attitude toward the Iraqi invasion. Since the day Bush declared that Saddam Hussein's invasion "would not stand," the United States has had to apply continual pressure on the Japanese for whatever assistance it has gotten. On August 29, as 200,000 U.S. troops headed toward the desert sands, Prime Minister Toshiki Kaifu announced what he called his "maximum" Persian Gulf package, which did not include any financial contribution to the multinational forces. Only after a personal protest from Bush did he pledge \$1 billion, raising it later, after more American pressure, to \$2 billion, with another \$2 billion going to the front-line states, Jordan, Turkey, and Egypt.

As of December, grumbling Treasury officials had received only about a third of their \$2 billion, and by the end of January not quite half of it. The composition of the money to the United States and to the front-line states also has raised some hackles. Of the \$2 billion shipped to front-line states, \$600 million has been in the form of emergency commodity loans, payable with low interest over thirty years; the remainder has been in what a senior foreign official calls "high priority project aid," most of which also consists of loans. These are used to fund projects like dams, bridges, public buildings, and factories. One project, the Japanese officials say, will be a cement factory in Egypt. These contributions may seem philanthropic, but if past practice is any guide, the specifications for the projects will be drawn up by Japanese consulting firms; and Japanese construction companies will get the contracts. The money will whisk through foreign hands on its way back to Japanese banks. One Commerce Department official called Japan's contribution "one of the biggest industrial subsidy schemes ever hatched."

Even Japan's contribution to the U.S. forces has sparked controversy. In lieu of cash, Japan bought 800 Mitsubishi and Toyota jeeps and sent them to the multinational forces. A senior Japanese official says they sent the jeeps because they were available "quickly," but Japanese auto companies and their suppliers gained access to a highly lucrative market that Chrysler had dominated because of its superior product. This time the money didn't even touch foreign hands. Paul Craig Roberts, an economist at the Center for Strategic and International Studies, who in the past has been highly supportive of the Japanese, accused them of taking the United States "for a ride."

Few American officials were concerned when a bill by Kaifu to send army non-combatants to the Gulf failed to win support in the Diet or among the Japanese public. The United States wrote the 1947 Japanese Constitution barring the use of troops except for national self-defense, and most Americans would prefer that the Japanese continue to adhere to it. But eyebrows were raised when Kaifu's call for a team of a hundred medical workers to go to the Gulf brought forth only two dozen volunteers. By year's end they had all returned.

After the war began, Japan's foreign minister suggested that Japan might come up with another \$4 billion, but after pressure from Bush and Secretary of State James Baker, Kaifu announced that Japan would pledge \$9 billion and also would send planes to Jordan to help remove Asian refugees. This is a significant sum, but both houses of the Diet must pass Kaifu's proposal, and the upper house is controlled by the Socialist and Komeito (clean-government) parties, which at the very least want to put a non-military rider on the aid that would limit it to logistics. The debate was expected to be over in days, but the first week was characterized as the

most raucous since World War II, with an embattled Kaifu being shouted down repeatedly by opposition members.

Germany, the other great global economic power, has been equally lax in its contributions, but the Germans have the excuse of Eastern Europe. They also have maintained relatively amicable trade relations with the United States. In contrast, as the conflict over its contribution to the Gulf has escalated, Japan has become more truculent about trade and investments issues. Having stood on the sidelines throughout the debate over the GATT free trade treaty, the Japanese—unwilling to open their rice markets—torpedoed a last-minute compromise over agricultural imports that might have saved the talks. Then during negotiations last month with U.S. Treasury officials over removing Japan's restrictions on foreign banks and securities firms, Japan's vice minister of finance, Makoto Utsumi, threatened to curb credit to the United States if the U.S. Congress passed a bill imposing reciprocal restrictions on Japanese financial firms.

In the past Japan has occasionally and indirectly used American dependence on its purchase of Treasury notes to register protest—in the spring of 1987, for instance, Japanese bond purchasers staged a brief strike after the Reagan administration slapped a tariff on Japanese semiconductor imports. But Utsumi's statement marked the first time Japan had openly threatened to use its ownership of American debt, including obligations incurred in the Gulf, to affect American policy. Even more clearly than Japan's grudging contribution to the Gulf, Utsumi's statement shows that Japanese no longer consider themselves junior partners in an American-led world order. "This is the most significant thing that has happened in U.S.-Japan relations in a long time," says Robert Angel, a Japan specialist at the University of South Carolina.

But if the Japanese appear ready to say no to America's world order, they are not ready to construct one of their own. Their foreign policy, Vice Foreign Minister Takakazu lamented last December, remains "that of a minor power." In certain respect, Japan's attitude toward the United States is similar to America's attitude toward Great Britain and France in the 1920s. Like the United States then, Japan has achieved the economic prerequisites of world leadership, but it is not yet prepared to lead. And like the post-World War I United States, Japan is content to act like a nation of loan sharks. But the United States was more circumspect about using its allies' war debt as an instrument for national economic leverage.

The Japanese emphasize their postwar pacifism in explaining their reluctance to contribute to the U.S. war effort, but equally important is the way Japan actively envisages its role in the world. Japan deals with the world, in the words of American University political scientist Masuru Tamamoto, "as if it were only a marketplace." Whereas other nations look to regional security and a new world order as well as to oil and profits, Japan appears to gauge its actions solely on a national economic calculus.

The reason most Japanese have shown so little enthusiasm over the Gulf war is that they don't see it as being in their economic self-interest. Speaking last December at New York University's Stern School of Business, the Japanese consul general, Masamichi Hanabusa, candidly explained that from the Japanese point of view it doesn't matter who controls Kuwait. "Who will control oil is a serious issue for the U.S. this time," Hanabusa said. "But it is not a very serious issue for Japan. It is of course better that oil is in friendly hands. But experiences tell us that whoever controls oil will be disposed to sell it."

The Japanese get a far higher percentage of their oil from the Middle East than the United States does—70 percent to 12 percent—but their overall import bill is much lower. As Hanabusa explained, the Japanese see oil as a "fungible commodity, so from where you import oil is a secondary concern. The question is, who consumes oil most? Those who consume most worry most about the supply of oil."

Since the shooting began in January, Japanese business leaders have been pressing for greater participation in the war effort, but for the most part their motives have little to do with Saddam Hussein. As American legislators introduce one bill after another to penalize Japan, these business leaders see the train of economic nationalism rumbling across the American plains, and they know that if they do not head it off, real damage will be done to U.S.-Japan economic relations.

Undoubtedly the Bush administration is hesitant about sharing leadership with the Japanese. Bush proclaims a new world order but dreams openly of a "next American century." In that sense the United States must take some of the blame for Japan's and Germany's intransigence. If it wants their willing assistance, the United States will have not merely to consult, but to reach agreement with them before undertaking major military moves. But whoever is to blame, one thing is certain: in the absence of willing cooperation and joint leadership from Japan and Germany, the United States is incurring responsibilities in the new world order that it is in no position to pay for.

WEDNESDAY, SEPTEMBER 19, 1990.

**FISCAL YEAR 1990 SUPPLEMENTAL REQUEST: EGYPTIAN  
MILITARY DEBT FORGIVENESS**

**WITNESSES**

**LAWRENCE EAGLEBURGER, DEPUTY SECRETARY OF STATE**

**DAVID C. MULFORD, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS,  
DEPARTMENT OF THE TREASURY**

**WILLIAM M. DIEFENDERFER, III, DEPUTY DIRECTOR, OFFICE OF MAN-  
AGEMENT AND BUDGET**

**CHAIRMAN'S OPENING STATEMENT**

Mr. OBEY. Good morning.

If I could have your attention, please, let me simply say that we are happy to have with us today the Honorable Lawrence Eagleburger, Deputy Secretary of State; the Honorable David Mulford, Under Secretary for International Affairs, Department of the Treasury; and the Honorable William M. Diefenderfer, III, Deputy Director of OMB.

Gentlemen, let me stipulate from the beginning that I think all three of you are first-rate public servants.

Larry, you and I have known each other for a long time. We have the same geographical roots.

I have a great respect for you. I think you know I am your friend.

We have a very difficult issue before us this morning. What I would like to do is to try to place it in some context.

When our Committee reported our bill this spring, on pages 20 through 29 in the Committee Report accompanying our bill, we discussed the horrendous international debt problem which is building and we tried to make the point that it is not a very smart banker who does not recognize an uncollectable debt when he sees one.

This country got into an awful lot of trouble with the savings and loan crisis because the government simply did not recognize that many of its debts held by savings and loans were, in fact, not worth the paper they were printed on, and were not collectable.

The longer that that fact was masked, the bigger the problem became with really rough consequences not only for government trying to wrestle with the problem, but for the taxpayers who are going to get stuck with the bill. We tried to point out that we certainly have, although not in the same magnitude, a problem which is very similar in terms of tendencies. We have had for quite a number of years now to hide from the fact that there is a large mountain of uncollectable debt out there owed not just to us, but to other countries.

Very shortly thereafter we were hit by the Iraqi invasion of Kuwait. The Administration is now here before us with a request that we forgive a large share of Egyptian debt, namely, the FMS debt, which was run up because of military purchases made by Egypt.

Let me stipulate that I regard Egypt as a valuable friend and ally. I regard Egypt as being one of the most constructive forces for stability in a very unstable and dangerous region.

I fully recognize that we have an obligation to try to work as closely as we can with them in shaping a policy based on practicality, in shaping a policy based on reality. And I am fully aware of the tremendous contributions which Egypt has made to our efforts in the Middle East. I think those contributions need to be responded to.

But, I think that we have a number of other problems which have to be faced up to and dealt with, frankly, if we are going to have the ability to do that.

As I understand it right now, international debts owed to the United States Government total between \$60 and \$64 billion. Of that, \$16 billion is outstanding FMS debt.

A large amount of it, I assume the Administration thinks is collectable. I assume there are good pieces of it which the Administration has substantial doubts about with respect to its collectability.

We have seen over the 1980's, in my judgment, an incredible Rube Goldberg effort on the part of the Western powers to mask what the true financial situation is with respect to a number of these countries. The Paris Club used to be used primarily as a device by which countries that were in short-term cash flow trouble got some help from the international community while they were putting their economic act together.

The problem is that as we have descended into a more and more tangled web of debt, we have had upwards of 140 Paris Club reschedulings in the 1980's. We used to have about one a year.

We now are running over twenty a year. Some countries have been rescheduled upwards of five and six times.

What happens when you do that for many of those countries is that the debt is denied for a while.

But, because it is moved backward and the interest is capitalized, because of the magic of compound interest and other devices, the debt becomes much larger.

So, then, once again countries have to go through another round of trying to work out an agreement with the IMF and other financial institutions, other governments, other private creditors. They wind up going through that routine again.

Then often we face the problem of again still seeing that repayments, in fact, aren't likely to be made without yet more changes. So, I think one of the things we have to do is to try to find out before we act on this package exactly what the Administration's intellectual construct is for dealing with this entire problem.

I don't want to suggest for a moment that it needs to treat each country the same way. It certainly does not. It cannot.

There are good reasons not to. But we do have to know if this shoe falls today, what the next shoe is going to sound like when it falls.

We do have to know what the Administration's overall conceptual framework is within which it is dealing with the problems faced by each of these indebted countries. We do need to know what costs are going to be incurred, not just with respect to this package, but with respect to other packages down the road.

We need to know exactly how this package is going to work. We need to know what our allies are going to be doing with respect to not only Egypt, but with respect to other problem creditor nations.

We need to know what the Administration's rationale is for determining that Egypt and Egypt alone warrants this kind of exceptional treatment. We need to know what the Administration's arguments are, what their position would be, and what their strategy would be in order to fend off requests, which are most assuredly going to come from a whole litany of other sources, for the same kind of treatment, even though their situation may or may not be the same.

In short, we have a whole lot of questions we have to ask here this morning.

Let me say also with respect specifically to Egypt that in the past year this committee approved requests for significant amounts of surplus defense equipment for Egypt which they received above the normal aid program.

In June of 1990, Egypt received \$115 million in cash from the U.S. for fiscal year 1989.

As recently as a month ago the Committee approved the Administration's urgent request for a cash transfer of an additional \$136 million for Egypt from fiscal year 1990 funds. That request was approved in recognition of the extraordinary efforts made by Egypt in the Persian Gulf crisis and despite the fact that economic reform in Egypt has essentially stalled.

This request which we have before us today also comes within the context of other requests made by the Administration.

One is their notification of their intention to proceed with the gargantuan arms sale to Saudi Arabia of some \$20 billion. Also it comes within the context of a request by the Defense Department for an extraordinary grant of authority to provide one of the most spectacular end runs on the Constitution and the appropriations process that I have ever witnessed in all of the years that I have paid attention to public affairs.

I think the wide range of authority being suggested for the Pentagon creates considerable disquiet among a lot of Members of Congress.

While we recognize that Egypt is a distinct case, we think there are a series of other problems which have to be addressed as well.

I would invite you gentlemen to present whatever case you care to make, starting with you, Mr. Secretary.

Mr. EAGLEBURGER. Thank you, Mr. Chairman.

Let me say, first of all—

Mr. OBEY. Let me apologize. Before I do that, I should call on Mickey Edwards, our Ranking Republican, for whatever comments he would care to make.

## CONGRESSMAN EDWARDS' OPENING STATEMENT

Mr. EDWARDS. I appreciate that because I do have a couple of things I would like to start out with. This is for me, as it is for many other Members of Congress, a very difficult issue.

Nobody denies that Egypt has been absolutely pivotal in this crisis. No nation, with the possible exception of Turkey, which moved to shut off the Iraqi pipelines, has been more important to making the economic blockade work.

I don't think there is any question that if not for the full support of Egypt, we wouldn't have solidified the support of the rest of the Arab world. And without the Arab world, this blockade would not be successful.

We are very much aware that Egyptian troops are standing side-by-side with American troops in attempting to force Iraq back out of Kuwait.

Mubarak has gone to bat for us. He should be given credit for that and he should be rewarded for that.

Egypt has suffered. It will continue to suffer for its actions in this crisis.

I was over there recently and other Members of this committee have been. We have certainly been very familiar with the economic situation in Egypt.

The loss of remittances from the workers in Kuwait and Iraq and lost traffic through the Suez Canal are causing even greater strains on Egypt's economy. I am very much aware of that.

I absolutely agree that we have to provide some relief for the Egyptians for the hardships that they are suffering as a result of the crisis. The question is whether forgiving nearly \$7 billion in debt is too generous. Something has to be done.

I wonder if this is doing more than we need to do or should do. I told you, Mr. Secretary, in private and in other meetings we have had, that I would support some sort of debt reduction, structuring, refinancing the debt or the interest payments, or stretching out the payment schedule to ease Egypt's hardships.

I would support waiving the Brooke provisions and allowing the Egyptians to skip their debt payments for six months or a year until this crisis has passed.

It seems to me if our goal is to ensure Egypt's economic viability through this crisis waiving Brooke or perhaps in other ways removing the obligation they have to make repayments to us at this time would accomplish the same thing you are trying to do.

One final point, I have a number of questions that we will get into, including questions of where this whole episode began, who made the request, how they made it and where it came from.

Quite frankly, I have now gotten three different versions from three different departments in the Federal Government. But let me just conclude with this. And I don't know of a better time to again make this point.

This whole affair was handled very, very poorly. Whether there was a leak or not, the Administration obviously should have consulted with key Members of Congress about these proposals beforehand.

I don't want President Bush to be embarrassed by having his request turned down by the Congress. I do not want President Mubarak to be embarrassed or to have ramifications that we don't want to have happen in Egypt.

But, there is some very serious concern and hesitation in the Congress about supporting these proposals. I wish the Administration would learn that constitutionally, Congress has an obligation and that Congress must be consulted before these decisions are made. If you fail to do that, you are running a very risky strategy because not every time is Congress going to react positively to an appeal by the Administration that its prestige is now on the line, its credibility is on the line.

The administration has already gone out front on this, and therefore relies on the Congress to come on board and be supportive. It isn't always going to happen and I don't know if it is going to happen in this case.

Those people in the Administration, and those in the State Department who have not read the Constitution and somehow believe it is the sole prerogative of either the Executive Branch or the State Department to make foreign policy and then announce it really ought to read the Constitution. You can buy copies of the Constitution in very small form, little booklets that they can carry around.

I think they ought to do that. If this continues, you are going to find yourselves one time rejected by the Congress and it is going to be very embarrassing and have very serious repercussions.

Thank you, Mr. Chairman.

Mr. OBEY. Mr. Secretary.

#### SECRETARY EAGLEBURGER'S OPENING STATEMENT

Mr. EAGLEBURGER. Thank you, Mr. Chairman, now that we are off to such a good start.

Let me say before I read my brief statement, Mr. Chairman, that I have also read your report. While we don't agree with all of it, it is required reading in the State Department.

We have taken your thoughts on this subject, the committee's thoughts on this subject seriously.

Under Secretary Mulford, Mr. Diefenderfer and I are here before you and the Members of the Foreign Operations Subcommittee today to support the President's proposal to forgive Egypt's foreign military sales debt, a major component of the "Desert Shield" appropriation request that was sent to the Congress last Friday.

#### WORLD RESPONSE TO THE INVASION OF KUWAIT

When Saddam Hussein's forces invaded Kuwait in the early days of August, Iraq violated the sovereignty of a small, virtually defenseless nation.

His actions violated accepted standards of international conduct, and posed a preeminent threat to the hopeful, but as yet fragile, world order which is emerging in the wake of the cold war.

And Saddam Hussein also threatened the vital interests of the United States and the rest of the world by seeking a stranglehold over a major share of an energy source which is critical to econom-

ic growth and development, not only in the industrialized nations, but in the developing world as well.

As Secretary Baker noted before Congress two weeks ago, Iraq's unprovoked aggression is a political test of how the post cold-war world will work. And the world has responded to Saddam Hussein's aggression with unprecedented unity and resolve.

The United Nations Security Council has passed seven resolutions condemning Saddam's illegal occupation of Kuwait and imposing economic sanctions. In addition to the United States, over 20 nations have contributed either troops, direct financial support, or humanitarian assistance to the region—nations that range from Great Britain to Syria to Canada.

While Saddam Hussein would like to portray the current crisis as a fight with the United States, Mr. Chairman, it is not. It is Iraq against the united world community.

What the United States can on its own take credit for, however, is the political leadership which was necessary to marshal and to mobilize the world coalition against Iraqi aggression.

If there is one thing which this crisis demonstrates, it is that the United States alone possesses the will and the credibility to exercise global leadership—the will to bear sacrifices commensurate with our unique status and responsibility in the world, the credibility needed to persuade others to share equally and equitably both the risks and the burdens of our common effort.

We have, if I may say so, done our job well. But we have not been alone. While our role is international in scope, the nature of the crisis is such that courageous and compelling leadership at the regional level has been equally critical to the success of this unprecedented multilateral undertaking.

#### EGYPT'S ROLE

Indeed, at the moment of gravest danger, when lesser men might have succumbed to the intimidation or blandishments of the aggressor, Egyptian President Hosni Mubarak stepped alone to the fore and rallied an Arab consensus upon which all subsequent international efforts have been based.

His actions have been timely; they have been bold; and they carry with them obvious political and military risks, and economic costs.

President Mubarak quickly mobilized Arab opposition to Saddam, convening in Cairo an Arab League ministerial meeting that condemned the invasion and demanded an Iraqi withdrawal.

He immediately sent 5000 Egyptian troops to Saudi Arabia to join the international force gathering to defend that country from Iraqi aggression; he is now sending an additional 15,000 troops.

Egyptian strategic cooperation has also been essential for our deployment under Operation Desert Shield. In short, President Mubarak is and must continue to be the solid foundation of Arab leadership in the Gulf crisis.

## COSTS TO EGYPT

President Mubarak has done the right thing; we are all in his debt as a result. But his actions have had very direct political and economic costs to him and to the people of Egypt.

An Egyptian economy that was strained before August now faces serious difficulties that are the consequence of Iraq's invasion of Kuwait and of the Egyptian Government's courageous response.

It is estimated that, on an annual basis, remittances from Egyptian workers in Kuwait and Iraq will decline by \$500 million to \$1 billion. Suez Canal receipts will fall by \$150 million to \$200 million.

Revenues from tourism will decline by \$500 million to \$1 billion. And another estimated \$500 million a year will be lost because of exports, service contracts, et cetera.

And on top of all of these burdens, Mr. Chairman, President Mubarak will have to come up with the means to absorb one half million Egyptians, workers and their families, who are now returning to Egypt as a result of the crisis. Housing will have to be built, jobs will have to be created and services will have to be provided.

Failure to meet these needs could threaten political stability in Egypt, with potentially serious consequences for everything we and our Egyptian friends are now doing to resist Saddam's aggression.

The exact costs of absorbing these Egyptians back into the fabric of Egypt's economy are difficult to predict with accuracy at this time, but they are conservatively estimated to run between \$500 million to \$1 billion.

## ADMINISTRATION POLICY

In light of Egypt's critical role in the current Gulf crisis, the longstanding, close political relationships between the governments and people of the United States and Egypt, and the potentially overwhelming financial burdens for Egypt that have resulted from the crisis, the President decided to do two things.

First, he instructed Secretaries Baker and Brady to approach the Gulf States and the industrialized countries around the world, countries that are virtually dependent on the free flow of oil, to encourage them to share in the burden of opposing Saddam.

This burden sharing, or responsibility sharing, is aimed at increasing direct contributions of military forces, where possible, to the Gulf region; helping defray incremental U.S. military costs associated with Operation Desert Shield; and helping frontline states such as Egypt, Turkey and others absorb some of the economic burdens brought on by the crisis.

Second, he proposed the elimination of Egypt's \$6.7 billion of foreign military sales debt, the subject of today's hearing.

As you know, Mr. Chairman, we have made important progress on the first part of our program. Significant, generous pledges have been made by several of our key friends and allies.

We are still in the process of clarifying the pledges and developing a follow-up system to ensure that the funds are distributed appropriately—unconditionally at the outset (that is through the rest of this calendar year) and integrated with appropriate conditionality through the medium term, which we have defined as Calendar Year 1991.

We believe that the second part of the President's program, the forgiveness of Egypt's debt, is as important as the first.

President Mubarak's stand in the Gulf crisis can be compared with no risk of exaggeration to Egypt's decision to sign a peace treaty with Israel in 1979. Indeed, Egypt's current efforts to turn back Iraqi aggression should be viewed against the backdrop of more than a decade of consistency and cooperation with the U.S. on the Middle East peace process.

Egypt paid a high price for its decision to choose peace, having been kicked out of the Arab League and ostracized by most Arab states. Nevertheless, it never altered its course and today is back as a leader of the Arab League which has rejected the extremism of a decade ago.

Another important result of the treaty with Israel was that Egypt abandoned its dependence on Soviet made military equipment and turned instead to the United States as a military supplier.

Today, Mr. Chairman, U.S. equipment is being used by Egyptian soldiers who are standing shoulder-to-shoulder with American soldiers in Saudi Arabia.

Between 1979 and 1984, Egypt incurred \$4.5 billion of FMS loans that carried interest rates comparable to Treasury's cost of borrowing.

Interest rates on some of these loans are as high as 14 percent.

By 1984, the debt service burden on these loans—loans that by their military nature drained rather than stimulated economic activity—was beginning to strain Egypt's ability to pay.

Between 1984 and 1990, the burden of servicing Egyptian FMS debt became the largest political irritant in U.S./Egyptian relations. President Mubarak consistently stated his view that FMS debt was political debt and should be forgiven.

We, in turn, consistently maintained that debt was debt and had to be paid.

Because of the Brooke/Alexander amendment and its requirement that military and economic assistance be cut off if a country were to go more than one year in arrears on its military debt service payments, the Egyptian Government began to make its required payments just short of the one year trigger.

By the fall of 1989, Egypt's economic situation had reached the point where we expected that Egypt would have to reschedule its official debt in the Paris Club and that it would have to do so for at least the next five years. Our fiscal year 1991 budget estimates reflected this judgment.

President Mubarak told us in increasingly strong messages that he would not be able to meet even these "brink of Brooke" payments, which in 1990 would exceed \$700 million; our own analysis supported his conclusion.

Let me make it perfectly clear, however, that we were not prepared to seek a cancellation of Egypt's FMS debt on the basis of these factors. Our decision to do so now is solely related to the unique circumstances, and in particular to the urgent political and military challenges Egypt is facing as a consequence of the ongoing crisis in the Gulf.

Our proposal should by no means be viewed as setting any kind of a precedent for any future action on the part of the U.S.

Let me make another important point, Mr. Chairman. We recognize that when the dust settles in the Middle East, Egypt has a formidable task in front of it in the area of economic reform.

The United States will continue to work with Egypt and the international financial institutions to ensure that the difficult choices are made, choices that will be necessary to get Egypt's economy on a sound footing.

The forgiveness of FMS debt, in short, will not lessen in any way our commitment to engaging the Egyptians on the kinds of structural reforms which alone will enable them to profit economically from the climate of stability which we expect to prevail in the wake of this crisis.

These are not normal times, Mr. Chairman. Egypt's bold and courageous leadership in generating and maintaining Arab support for the efforts against Saddam Hussein, and the sacrifices taxpayers are making to this exercise in leadership make this the unique case it is, and make the forgiveness of Egypt's FMS debt the right thing to do, and now the right time to do it.

We do not support FMS debt forgiveness for any other country. No other country meets the unique combination on political, military and economic factors that I have described here today.

Mr. Chairman, I noted at the outset that one of the principal tasks of American diplomacy has been to achieve an equitable distribution of risks and responsibilities in this multilateral effort. By any standard of measure, Egypt has of its own accord accepted a lion's share of the risks and a lion's share of the responsibilities, and this at a time when its economy was beset with substantial difficulties.

In this context, our action on the question of FMS debt involves the same principle of fairness which compelled us to seek equitable contributions from the many nations around the world who have a stake in our common cause.

Your action on this matter will send an important message to the people of Egypt—and to the peoples united in the coalition which Egypt leads—that the United States is willing to support fully a nation whose soldiers are manning the frontlines alongside American GIs.

At times of crisis and peril, there is no substitute for bold and farsighted leadership. History will, I believe, judge that President Bush and President Mubarak, among others, have demonstrated this kind of leadership.

In our constitutional system, no less is expected from the Legislative Branch. I hope and trust that this subcommittee, and the Congress as a whole, will keep the Desert Shield package together, and in so doing, respond quickly and positively to our request for Egyptian FMS debt forgiveness.

[The prepared statement of Lawrence S. Eagleburger follows:]

STATEMENT BY  
DEPUTY SECRETARY OF STATE  
LAWRENCE S. EAGLEBURGER

MR. CHAIRMAN, UNDERSECRETARY MULFORD AND I ARE HERE BEFORE YOU AND THE MEMBERS OF THE FOREIGN OPERATIONS SUBCOMMITTEE TODAY TO SUPPORT THE PRESIDENT'S PROPOSAL TO FORGIVE EGYPT'S FOREIGN MILITARY SALES DEBT, A MAJOR COMPONENT OF THE "DESERT SHIELD" APPROPRIATION REQUEST THAT WAS SENT TO THE CONGRESS LAST FRIDAY.

WHEN SADDAM HUSSEIN'S FORCES INVADED KUWAIT IN THE EARLY DAYS OF AUGUST, IRAQ VIOLATED THE SOVEREIGNTY OF A SMALL, VIRTUALLY DEFENSELESS NATION. HIS ACTIONS VIOLATED ACCEPTED STANDARDS OF INTERNATIONAL CONDUCT, AND POSED A PREEMINENT THREAT TO THE HOPEFUL, BUT AS YET FRAGILE, WORLD ORDER WHICH IS EMERGING IN THE WAKE OF THE COLD WAR. AND SADDAM HUSSEIN ALSO THREATENED THE VITAL INTERESTS OF THE UNITED STATES AND THE REST OF THE WORLD BY SEEKING A STRANGLEHOLD OVER A MAJOR SHARE OF AN ENERGY SOURCE WHICH IS CRITICAL TO ECONOMIC GROWTH AND DEVELOPMENT, NOT ONLY IN THE INDUSTRIALIZED NATIONS, BUT IN THE DEVELOPING WORLD AS WELL.

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AS SECRETARY BAKER NOTED BEFORE CONGRESS TWO WEEKS AGO, IRAQ'S UNPROVOKED AGGRESSION IS A POLITICAL TEST OF HOW THE POST COLD-WAR WORLD WILL WORK. AND THE WORLD HAS RESPONDED TO SADDAM HUSSEIN'S AGGRESSION WITH UNPRECEDENTED UNITY AND RESOLVE. THE UNITED NATIONS SECURITY COUNCIL HAS PASSED SEVEN RESOLUTIONS CONDEMNING SADDAM'S ILLEGAL OCCUPATION OF KUWAIT AND IMPOSING ECONOMIC SANCTIONS. IN ADDITION TO THE UNITED STATES, OVER TWENTY NATIONS HAVE CONTRIBUTED EITHER TROOPS, DIRECT FINANCIAL SUPPORT, OR HUMANITARIAN ASSISTANCE TO THE REGION — NATIONS THAT RANGE FROM GREAT BRITAIN AND FRANCE TO KOREA; FROM JAPAN TO AUSTRALIA; FROM BANGLADESH TO SYRIA TO CANADA. WHILE SADDAM HUSSEIN WOULD LIKE TO PORTRAY THE CURRENT CRISIS AS A FIGHT WITH THE UNITED STATES, MR. CHAIRMAN, IT IS NOT. IT IS IRAQ AGAINST A UNITED WORLD COMMUNITY.

WHAT THE UNITED STATES CAN ON ITS OWN TAKE CREDIT FOR, HOWEVER, IS THE POLITICAL LEADERSHIP WHICH WAS NECESSARY TO MARSHAL AND TO MOBILIZE THE WORLD COALITION AGAINST IRAQI AGGRESSION. IF THERE IS ONE THING WHICH THIS CRISIS DEMONSTRATES, IT IS THAT THE UNITED STATES ALONE POSSESSES THE WILL AND THE CREDIBILITY TO EXERCISE GLOBAL LEADERSHIP—THE WILL TO BEAR SACRIFICES COMMENSURATE WITH OUR UNIQUE STATUS AND RESPONSIBILITY IN THE WORLD, THE CREDIBILITY NEEDED TO PERSUADE OTHERS TO SHARE EQUALLY AND EQUITABLY BOTH THE RISKS AND THE BURDENS OF OUR COMMON EFFORT.

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WE HAVE, IF I MAY SAY SO, DONE OUR JOB WELL. BUT WE HAVE NOT BEEN ALONE. WHILE OUR ROLE IS INTERNATIONAL IN SCOPE, THE NATURE OF THE CRISIS IS SUCH THAT COURAGEOUS AND COMPELLING LEADERSHIP AT THE REGIONAL LEVEL HAS BEEN EQUALLY CRITICAL TO THE SUCCESS OF THIS UNPRECEDENTED MULTILATERAL UNDERTAKING. INDEED, AT THE MOMENT OF GRAVEST DANGER, WHEN LESSER MEN MIGHT HAVE SUCCEDED TO THE INTIMIDATION OR BLANDISHMENTS OF THE AGGRESSOR, EGYPTIAN PRESIDENT HOSNI MUBARAK STEPPED ALONE TO THE FORE AND RALLIED AN ARAB CONSENSUS UPON WHICH ALL SUBSEQUENT INTERNATIONAL EFFORTS HAVE BEEN BASED.

HIS ACTIONS HAVE BEEN TIMELY; THEY HAVE BEEN BOLD; AND THEY CARRY WITH THEM OBVIOUS POLITICAL AND MILITARY RISKS, AND ECONOMIC COSTS.

PRESIDENT MUBARAK QUICKLY MOBILIZED ARAB OPPOSITION TO SADDAM, CONVENING IN CAIRO AN ARAB LEAGUE MINISTERIAL MEETING THAT CONDEMNED THE INVASION AND DEMANDED AN IRAQI WITHDRAWAL. HE IMMEDIATELY SENT 5,000 EGYPTIAN TROOPS TO SAUDI ARABIA TO JOIN THE INTERNATIONAL FORCE GATHERING TO DEFEND THAT COUNTRY FROM IRAQI AGGRESSION; HE IS NOW SENDING AN ADDITIONAL 15,000 TROOPS. EGYPTIAN STRATEGIC COOPERATION HAS ALSO BEEN ESSENTIAL FOR OUR DEPLOYMENT UNDER OPERATION DESERT SHIELD. IN SHORT, PRESIDENT MUBARAK IS AND MUST CONTINUE TO BE THE SOLID FOUNDATION OF ARAB LEADERSHIP IN THE GULF CRISIS.

PRESIDENT HUBARAK HAS DONE THE RIGHT THING; WE ARE ALL IN HIS DEBT AS A RESULT. BUT HIS ACTIONS HAVE HAD VERY DIRECT POLITICAL AND ECONOMIC COSTS TO HIM AND TO THE PEOPLE OF EGYPT. AN EGYPTIAN ECONOMY THAT WAS STRAINED BEFORE AUGUST NOW FACES SERIOUS DIFFICULTIES THAT ARE THE CONSEQUENCE OF IRAQ'S INVASION OF KUWAIT AND OF THE EGYPTIAN GOVERNMENT'S COURAGEOUS RESPONSE.

IT IS ESTIMATED THAT, ON AN ANNUAL BASIS, REMITTANCES FROM EGYPTIAN WORKERS IN KUWAIT AND IRAQ WILL DECLINE BY \$500 MILLION TO \$1 BILLION. SUEZ CANAL RECEIPTS WILL FALL BY \$150 MILLION TO \$200 MILLION. REVENUES FROM TOURISM WILL DECLINE BY \$500 MILLION TO \$1 BILLION. AND ANOTHER ESTIMATED \$500 MILLION A YEAR WILL BE LOST BECAUSE OF EXPORTS, SERVICE CONTRACTS, ETC.

AND ON TOP OF ALL OF THESE BURDENS, MR. CHAIRMAN, PRESIDENT HUBARAK WILL HAVE TO COME UP WITH THE MEANS TO ABSORB ONE HALF MILLION EGYPTIANS, WORKERS AND THEIR FAMILIES, WHO ARE NOW RETURNING TO EGYPT AS A RESULT OF THE CRISIS. HOUSING WILL HAVE TO BE BUILT, JOBS WILL HAVE TO BE CREATED AND SERVICES WILL HAVE TO BE PROVIDED. FAILURE TO MEET THESE NEEDS COULD THREATEN POLITICAL STABILITY IN EGYPT, WITH POTENTIALLY SERIOUS CONSEQUENCES FOR EVERYTHING WE AND OUR EGYPTIAN FRIENDS ARE NOW DOING TO RESIST SADDAM'S AGGRESSION. THE EXACT COSTS OF ABSORBING THESE EGYPTIANS BACK INTO THE FABRIC OF EGYPT'S ECONOMY ARE DIFFICULT TO PREDICT WITH ACCURACY AT THIS TIME, BUT THEY ARE CONSERVATIVELY ESTIMATED TO RUN BETWEEN \$500 MILLION TO \$1 BILLION.

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IN LIGHT OF EGYPT'S CRITICAL ROLE IN THE CURRENT GULF CRISIS, THE LONGSTANDING, CLOSE POLITICAL RELATIONSHIPS BETWEEN THE GOVERNMENTS AND PEOPLE OF THE UNITED STATES AND EGYPT, AND THE POTENTIALLY OVERWHELMING FINANCIAL BURDENS FOR EGYPT THAT HAVE RESULTED FROM THE CRISIS, THE PRESIDENT DECIDED TO DO TWO THINGS.

FIRST, HE INSTRUCTED SECRETARIES BAKER AND BRADY TO APPROACH THE GULF STATES AND THE INDUSTRIALIZED COUNTRIES AROUND THE WORLD, COUNTRIES THAT ARE VITALLY DEPENDENT ON THE FREE FLOW OF OIL, TO ENCOURAGE THEM TO SHARE IN THE BURDEN OF OPPOSING SADDAM. THIS BURDEN SHARING, OR RESPONSIBILITY SHARING, IS AIMED AT INCREASING DIRECT CONTRIBUTIONS OF MILITARY FORCES, WHERE POSSIBLE; TO THE GULF REGION; HELPING DEFRAY INCREMENTAL U.S. MILITARY COSTS ASSOCIATED WITH OPERATION DESERT SHIELD; AND HELPING FRONTLINE STATES SUCH AS EGYPT, TURKEY AND OTHERS ABSORB SOME OF THE ECONOMIC BURDENS BROUGHT ON BY THE CRISIS.

SECOND, HE PROPOSED THE ELIMINATION OF EGYPT'S \$6.7 BILLION OF FOREIGN MILITARY SALES DEBT, THE SUBJECT OF TODAY'S HEARING.

AS YOU KNOW, MR. CHAIRMAN, WE HAVE MADE IMPORTANT PROGRESS ON THE FIRST PART OF OUR PROGRAM. SIGNIFICANT, GENEROUS PLEDGES HAVE BEEN MADE BY SEVERAL OF OUR KEY FRIENDS AND ALLIES.

WE ARE STILL ENGAGED IN THE PROCESS OF CLARIFYING THE PLEDGES AND DEVELOPING A FOLLOW UP SYSTEM TO INSURE THAT THE FUNDS ARE DISTRIBUTED APPROPRIATELY — UNCONDITIONALLY AT THE OUTSET (THAT IS THROUGH THE REST OF THIS CALENDAR YEAR) AND INTEGRATED WITH APPROPRIATE CONDITIONALITY THROUGH THE MEDIUM TERM, WHICH WE HAVE DEFINED AS CALENDAR YEAR 1991.

WE BELIEVE THAT THE SECOND PART OF THE PRESIDENT'S PROGRAM, THE FORGIVENESS OF EGYPT'S FMS DEBT, IS AS IMPORTANT AS THE FIRST.

PRESIDENT MUBARAK'S STAND IN THE GULF CRISIS CAN BE COMPARED WITH NO RISK OF EXAGGERATION TO EGYPT'S DECISION TO SIGN A PEACE TREATY WITH ISRAEL IN 1979. INDEED, EGYPT'S CURRENT EFFORTS TO TURN BACK IRAQI AGGRESSION SHOULD BE VIEWED AGAINST THE BACKDROP OF MORE THAN A DECADE OF CONSTANCY AND COOPERATION WITH THE U.S. ON THE MIDDLE EAST PEACE PROCESS. EGYPT PAID A HIGH PRICE FOR ITS DECISION TO CHOOSE PEACE, HAVING BEEN KICKED OUT OF THE ARAB LEAGUE AND OSTRACIZED BY MOST ARAB STATES. NEVERTHELESS, IT NEVER ALTERED ITS COURSE AND TODAY IS BACK AS THE LEADER OF AN ARAB LEAGUE WHICH HAS REJECTED THE EXTREMISM OF A DECADE AGO.

ANOTHER IMPORTANT RESULT OF THE TREATY WITH ISRAEL WAS THAT EGYPT ABANDONED ITS DEPENDENCE ON SOVIET MADE MILITARY EQUIPMENT AND TURNED INSTEAD TO THE UNITED STATES AS A MILITARY

SUPPLIER. TODAY, MR. CHAIRMAN, U.S. EQUIPMENT IS BEING USED BY EGYPTIAN SOLDIERS WHO ARE STANDING SHOULDER TO SHOULDER WITH AMERICAN SOLDIERS IN SAUDI ARABIA.

BETWEEN 1979 AND 1984, EGYPT INCURRED \$4.5 BILLION OF FMS LOANS THAT CARRIED INTEREST RATES COMPARABLE TO TREASURY'S COST OF BORROWING. INTEREST RATES ON SOME OF THESE LOANS ARE AS HIGH AS 14 PERCENT.

BY 1984, THE DEBT SERVICE BURDEN ON THESE LOANS—LOANS THAT BY THEIR MILITARY NATURE DRAINED RATHER THAN STIMULATED ECONOMIC ACTIVITY—WAS BEGINNING TO STRAIN EGYPT'S ABILITY TO PAY. BETWEEN 1984 AND 1990, THE BURDEN OF SERVICING EGYPTIAN FMS DEBT BECAME THE LARGEST POLITICAL IRRITANT IN U.S./EGYPTIAN RELATIONS. PRESIDENT MUBARAK CONSISTENTLY STATED HIS VIEW THAT FMS DEBT WAS POLITICAL DEBT AND SHOULD BE FORGIVEN. WE, IN TURN, CONSISTENTLY MAINTAINED THAT DEBT WAS DEBT AND HAD TO BE PAID.

BECAUSE OF THE BROOKE/ALEXANDER AMENDMENT AND ITS REQUIREMENT THAT MILITARY AND ECONOMIC ASSISTANCE BE CUT OFF IF A COUNTRY WERE TO GO MORE THAN ONE YEAR IN ARREARS ON ITS MILITARY DEBT SERVICE PAYMENTS, THE EGYPTIAN GOVERNMENT BEGAN TO MAKE ITS REQUIRED PAYMENTS JUST SHORT OF THE ONE YEAR TRIGGER. BY THE FALL OF 1989, EGYPT'S ECONOMIC SITUATION HAD REACHED THE POINT WHERE WE EXPECTED THAT EGYPT WOULD HAVE TO

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RESCHEDULE ITS OFFICIAL DEBT IN THE PARIS CLUB AND THAT IT WOULD HAVE TO DO SO FOR AT LEAST THE NEXT FIVE YEARS. OUR FY 1991 BUDGET ESTIMATES REFLECTED THIS JUDGMENT. PRESIDENT HUBARAK TOLD US IN INCREASINGLY STRONG MESSAGES THAT HE WOULD NOT BE ABLE TO MEET EVEN THESE "BRINK OF BROOKE" PAYMENTS, WHICH IN 1990 WOULD EXCEED \$700 MILLION; OUR OWN ANALYSIS SUPPORTED HIS CONCLUSION.

LET ME MAKE IT PERFECTLY CLEAR, HOWEVER, THAT WE WERE NOT PREPARED TO SEEK CANCELLATION OF EGYPT'S FMS DEBT ON THE BASIS OF THESE FACTORS. OUR DECISION TO DO SO NOW IS SOLEY RELATED TO THE UNIQUE CIRCUMSTANCES, AND IN PARTICULAR TO THE URGENT POLITICAL AND MILITARY CHALLENGES EGYPT IS FACING AS A CONSEQUENCE OF THE ONGOING CRISIS IN THE GULF. OUR PROPOSAL SHOULD BY NO MEANS BE VIEWED AS SETTING ANY KIND OF A PRECEDENT FOR ANY FUTURE ACTION ON THE PART OF THE UNITED STATES.

LET ME MAKE ANOTHER IMPORTANT POINT, MR. CHAIRMAN. WE RECOGNIZE THAT WHEN THE DUST SETTLES IN THE MIDDLE EAST, EGYPT HAS A FORMIDABLE TASK IN FRONT OF IT IN THE AREA OF ECONOMIC REFORM. THE UNITED STATES WILL CONTINUE TO WORK WITH EGYPT AND THE INTERNATIONAL FINANCIAL INSTITUTIONS TO INSURE THAT THE DIFFICULT CHOICES ARE MADE, CHOICES THAT WILL BE NECESSARY TO GET EGYPT'S ECONOMY ON A SOUND FOOTING. THE FORGIVENESS OF FMS DEBT, IN SHORT, WILL NOT LESSEN IN ANY WAY OUR COMMITMENT TO ENGAGING THE EGYPTIANS ON THE KINDS OF STRUCTURAL REFORMS WHICH

ALONE WILL ENABLE THEM TO PROFIT ECONOMICALLY FROM THE CLIMATE OF STABILITY WHICH WE EXPECT TO PREVAIL IN THE WAKE OF THIS CRISIS.

THESE ARE NOT NORMAL TIMES, MR. CHAIRMAN. EGYPT'S BOLD AND COURAGEOUS LEADERSHIP IN GENERATING AND MAINTAINING ARAB SUPPORT FOR THE EFFORTS AGAINST SADDAM HUSSEIN, AND THE SACRIFICES EGYPT IS MAKING INCIDENT TO THIS EXERCISE IN LEADERSHIP MAKE THIS THE UNIQUE CASE IT IS, AND MAKE THE FORGIVENESS OF EGYPT'S FMS DEBT THE RIGHT THING TO DO, AND NOW THE RIGHT TIME TO DO IT. WE DO NOT SUPPORT FMS DEBT FORGIVENESS FOR ANY OTHER COUNTRY. NO OTHER COUNTRY MEETS THE UNIQUE COMBINATION OF POLITICAL, MILITARY AND ECONOMIC FACTORS THAT I HAVE DESCRIBED HERE TODAY.

MR. CHAIRMAN, I NOTED AT THE OUTSET THAT ONE OF THE PRINCIPAL TASKS OF AMERICAN DIPLOMACY HAS BEEN TO ACHIEVE AN EQUITABLE DISTRIBUTION OF RISKS AND RESPONSIBILITIES IN THIS MULTILATERAL EFFORT. BY ANY STANDARD OF MEASURE, EGYPT HAS OF ITS OWN ACCORD ACCEPTED A LION'S SHARE OF THE RISKS AND A LION'S SHARE OF THE RESPONSIBILITIES, AND THIS AT A TIME WHEN ITS ECONOMY WAS BESET WITH SUBSTANTIAL DIFFICULTIES. IN THIS CONTEXT, OUR ACTION ON THE QUESTION OF FMS DEBT INVOLVES THE SAME PRINCIPLE OF FAIRNESS WHICH COMPELLED US TO SEEK EQUITABLE CONTRIBUTIONS FROM THE MANY NATIONS AROUND THE WORLD WHO HAVE A STAKE IN OUR COMMON CAUSE. YOUR ACTION ON THIS MATTER WILL

SEND AN IMPORTANT MESSAGE TO THE PEOPLE OF EGYPT — AND TO THE PEOPLES UNITED IN THE REGIONAL COALITION WHICH EGYPT LEADS — THAT THE UNITED STATES IS WILLING TO SUPPORT FULLY A NATION WHOSE SOLDIERS ARE MANNING THE FRONTLINES ALONGSIDE AMERICANS.

AT TIMES OF CRISIS AND PERIL, THERE IS NO SUBSTITUTE FOR BOLD AND FARSIGHTED LEADERSHIP. HISTORY WILL JUDGE THAT PRESIDENT BUSH AND PRESIDENT MUBARAK, AMONG OTHERS, HAVE DEMONSTRATED THIS KIND OF LEADERSHIP. IN OUR CONSTITUTIONAL SYSTEM, NO LESS IS EXPECTED FROM THE LEGISLATIVE BRANCH. I HOPE AND TRUST THAT THIS SUBCOMMITTEE, AND THE CONGRESS AS A WHOLE, WILL KEEP THE DESERT SHIELD PACKAGE TOGETHER, AND IN SO DOING, RESPOND QUICKLY AND POSITIVELY TO OUR REQUEST FOR EGYPTIAN FMS DEBT FORGIVENESS.

Mr. OBEY. Mr. Mulford.

### SECRETARY MULFORD'S OPENING STATEMENT

Mr. MULFORD. Thank you, Mr. Chairman. I am pleased to have the chance to discuss with your committee the President's recommendations to Congress that the United States Government forgive Egypt's foreign military sales (FMS) debt.

#### BASIS FOR ADMINISTRATION POLICY

The President's decision to forgive Egypt's FMS debt was stimulated by Egypt's vital leadership in resisting Iraqi aggression in the Gulf. The President's decision is unique and does not extend to other FMS debtors. It was based fundamentally on geopolitical and military grounds. The President made his recommendation in recognition of Egypt's unique, unparalleled strategic contributions to the pursuit of peace and security in the Middle East and the inability of measures short of forgiveness to safeguard our strategic relationship with this important Arab partner. Thus, forgiveness of Egypt's FMS debt is an integral part of the United States' ongoing efforts to restore the rule of international law in the Gulf.

The President's recommendation for forgiveness covers approximately \$6.7 billion in Egyptian FMS debt. This includes about \$4.4 billion in principal outstanding on loans made by the Federal Financing Bank (FFB) with the full faith and credit guarantee of the Secretary of Defense through the Defense Security Agency (DSAA). The remaining \$2.3 billion is owed to DSAA and represents arrears plus amounts that DSAA has already paid to the FFB under the terms of its guarantee when Egypt failed to make payments that were due to the FFB.

#### LEGISLATIVE MECHANISM IN FMS DEBT FORGIVENESS

The legislative mechanism that the Administration is considering to accomplish the forgiveness involves three steps. First, DSAA's Guarantee Reserve Fund would purchase the \$4.4 billion still owed to the FFB, using funds borrowed from the Treasury Department under existing authority. This would consolidate all of Egypt's \$6.7 billion FMS debt in DSAA's hands. Second, the legislation would authorize DSAA to forgive the entire consolidated stock of Egypt's FMS debt. Third, the legislation would permit the Secretary of the Treasury to forgive all the Department of Defense's borrowings from the Treasury Department undertaken in connection with Egypt's FMS debt. Thus, the Department of Defense would have no further obligations relating to Egypt's FMS debt.

We favor this approach because it enables the Department of Defense to honor its guarantee to make the FFB "whole." This is important because the FFB is simply a financing mechanism, with no responsibility for administering programs. If the FFB were required to forego its guarantee rights and forgive Egypt's debt directly, a precedent would be set that could ultimately lead to forgiveness of a substantial portion of the bank's remaining portfolio. As the FFB's portfolio totals some \$162 billion, this could be an extremely costly precedent.

I understand, Mr. Chairman, that you and your committee have a strong interest in other areas of official debt. First, I want to state that our general policy is not to forgive debt, except in very special circumstances. Second, I want to emphasize that our treatment of Egypt's FMS debt is distinct from the actions that the United States Government has taken or is prepared to take on the non-military official debt of other countries. Finally, we have found that there is no single, comprehensive program for dealing with other official debt that effectively meets the needs of all heavily-indebted countries. The only overriding theme has been our emphasis on encouraging significant and lasting economic reforms.

Our treatment of official debt has been highly differentiated and tailored to the specific circumstances of particular countries involved:

The United States and other participants at the 1988 Toronto Summit agreed to extend exceptional multilateral debt relief to low-income debt distressed countries in sub-Saharan Africa that were undertaking economic adjustment programs. Under this program the U.S. agreed to extend maturities to 25 years so that other countries willing to engage in debt reduction and debt service reduction could put their options into place. This has now been extended to Bolivia.

We have also recognized the need to provide exceptional bilateral relief to sub-Saharan debtor countries which are undertaking significant macro-economic and structural reforms. Section 572 of the fiscal year 1989 Foreign Operations Appropriations Act allows the United States to extend bilateral relief by forgiving development assistance and ESF loans for those sub-Saharan African countries that have in effect economic reform programs supported by the IMF and the World Bank.

President Bush's "Enterprise for the Americas Initiative" (EAI) is a cooperative effort to boost growth, trade and investment in the Western Hemisphere and includes some elements of bilateral debt reduction conditioned on economic and investment reforms.

These initiatives raise complex and far-reaching issues that defy a comprehensive solution. The debt situation and the type of debt vary significantly from country to country.

I would be happy to discuss these issues in more detail. We look forward to working with you and your committee.

[Mr. Mulford's prepared statement follows:]

# TREASURY NEWS



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Expected at 11:00 a.m.  
September 19, 1990

STATEMENT OF THE HONORABLE  
DAVID C. MULFORD  
UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS  
BEFORE THE SUBCOMMITTEE ON  
FOREIGN OPERATIONS, EXPORT FINANCING AND RELATED PROGRAMS  
COMMITTEE ON APPROPRIATIONS  
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this chance to discuss with your Committee the President's recommendation to Congress that the United States Government forgive Egypt's Foreign Military Sales (FMS) debt. The President's decision to forgive Egypt's FMS debt was stimulated by Egypt's vital leadership in resisting Iraqi aggression in the Gulf. The President's decision is unique and does not extend to other FMS debtors. It was based fundamentally on geopolitical and military grounds.

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Our treatment of official debt has been highly differentiated and tailored to the specific circumstances of particular countries involved:

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These initiatives raise complex and far-reaching issues that bely a comprehensive solution. The debt situation and the type of debt vary significantly from country to country. I would be happy to discuss these issues in more detail. We look forward to working with you and your Committee.

Mr. OBEY. Thank you very much.

MR. DIEFENDERFER'S OPENING REMARKS

Mr. DIEFENDERFER. I have no prepared statement, sir. I came to answer technical budget questions if they need to be asked.

Mr. OBEY. All right.  
Thank you.

EGYPT'S DEBT PAYMENTS

Let me, before I get into basic questions, try to get a bunch of numbers on the table so we understand exactly what it is we are talking about. I would appreciate very brief answers because these essentially simply require numerical answers.

What is Egypt's performance record in making its debt payments to the United States in each of the following programmatic areas: PL4-80, CCC, Ex-Im Bank, AID, economic support funds, development assistance and FMS? Do we have those numbers anywhere?

Mr. DIEFENDERFER. I wasn't able to note down every category that you mentioned. I have the numbers for actual payments for Ex-Im, commodity, CCC, PL4-80 AID, direct loans and Department of Defense direct loans.

Do you want me to read them to you?

For what year, sir?

I have data up until 1989.

Mr. OBEY. I am trying to get an idea of what their record has been the last two or three years. Give them to me any way you want.

Mr. DIEFENDERFER. In DOD direct loans, the area we are looking at now, in 1987 my records indicate that Egypt repaid \$525.8 million; in 1988, \$21.5 million; and in 1989 \$191,000. I have it rounded here, \$200,000.

Mr. OBEY. What is the situation with respect to whether they are current, or if they are not, how far in arrears are they?

Mr. DIEFENDERFER. They are fairly in arrears. I don't have the exact number. We can compute that for you.

The outstanding principal amount at the end of 1989 in the direct loan account was \$5.944 billion. I think the arrearages would be in the order of a half a billion dollars or so. I think that is right.

Mr. OBEY. What are their arrearages with respect to the other accounts?

Mr. DIEFENDERFER. I can't tell you that from the numbers I have here. I have the payment stream. I have the total outstanding amount, but I don't have the arrearages. We can supply those.

Mr. OBEY. We would like to have them as quickly as possible.  
[The information follows:]

## ARREARAGES ON EGYPTIAN DEBT TO U.S. AGENCIES AS OF SEPT. 30, 1989

[Dollars in Thousands; detail may not add to totals due to rounding]

Agency	Arrears on principal	Arrears on interest	Total arrears
Department of Agriculture: Commodity Credit Corporation guarantees.....	9	0	9
Public Law 480: Direct loans.....	5,771	20,160	25,930
Department of Defense: Direct loans.....	36,585	504,203	540,788
Agency for International Development: Direct loans.....	16,434	29,116	45,550
Export-Import Bank: Direct loans.....	2,752	990	3,743
Totals.....	61,552	554,470	616,022

Source: Treasury/OMB Report on Estimated Debt and Debt Service Owed to the U.S. Government by Foreign Obligors—June 1990.

## FISCAL YEAR 1990 PROJECTED DEBT

Mr. OBEY. Can you tell me, specifically this year, what did the administration project that Egypt would pay on its FMS debt and what has Egypt paid?

Mr. DIEFENDERFER. For fiscal year 1990, what did we project?

Mr. OBEY. The current year, yes.

Mr. DIEFENDERFER. In fiscal year 1990, we projected that Egypt would pay less than, around, I believe, \$20-some million. They paid, in fact, I believe, around \$500 million in March, around March of 1990.

Mr. OBEY. You said \$20 million?

Mr. DIEFENDERFER. I think that is right, sir.

Mr. OBEY. I frankly don't understand that response.

Mr. DIEFENDERFER. Okay.

Mr. OBEY. My question is, what did the administration project that Egypt would pay on its FMS debt in fiscal year 1990, and what has Egypt paid in fiscal year 1990?

Mr. DIEFENDERFER. The projection for 1990 was somewhere between zero and \$20 million. They paid \$500 million. I am advised it was exactly zero.

I had a range here, but it was exactly zero. It paid about \$500 million.

Mr. OBEY. They paid \$500 million more than you expected?

Mr. DIEFENDERFER. Five-hundred and eighty-three million, yes, sir.

Mr. OBEY. What are your expectations with respect to 1991?

Mr. DIEFENDERFER. With respect to 1991, our expectations were zero.

## DEBT TO COMMERCIAL CREDITORS

Mr. OBEY. How much does Egypt owe its commercial creditors right now?

Mr. DIEFENDERFER. I don't know. OMB does not keep track of commercial debt.

Mr. MULFORD. Egypt, Mr. Chairman, owes its commercial creditors, at least commercial banks, about \$4.9 billion out of a total body of debt of about \$49 billion. But much of that \$4.9 billion is in one way or another supported or guaranteed contingently by government. That does not include short-term financing.

[I may be able to find the short-term figure if I look for a second.]

DEBT TO OFFICIAL CREDITORS

Mr. OBEY. Then let me ask you, Egypt owes the U.S. \$12 billion in debt principal of which about \$7 billion is military debt. What does Egypt owe other official creditors?

Then if you would, supply the laundry list for the record.

[The information follows:]



UNDER SECRETARY

 DEPARTMENT OF THE TREASURY  
 WASHINGTON

September 24, 1990

The Honorable David R. Obey  
 Chairman, Subcommittee on Foreign Operations  
 of the House Appropriations Committee  
 2462 Rayburn HOB  
 Washington, D.C. 20515-4907

Dear Chairman Obey:

Thank you for the opportunity to testify with Deputy Secretary Eagleburger and Deputy Director Diefenderfer on September 19 about the President's important initiative to recommend forgiving Egypt's Foreign Military Sales (FMS) debt.

As Deputy Secretary Eagleburger and I stated in our remarks, it is the Administration's view that forgiving Egypt's FMS debt will not pave the way for debt forgiveness for other countries. The FMS program is fundamentally different from other USG direct loan programs. In addition, Egypt possesses a number of political, military, and economic characteristics that set it apart from other FMS debtors.

FMS loans carry market, rather than concessional, interest rates. In addition, they do not have an economic objective, but are intended directly to serve the mutual security interests of the United States and the borrower. No other U.S. direct foreign loan program possesses this combination of characteristics.

The Congress has recognized the special nature of the FMS loan program. The House report on hearings on the 1979 Special International Security Assistance Act, which first authorized substantial FMS loans to Egypt and Israel, states that:

The Congress finds that the Governments of Israel and Egypt each have an enormous external debt burden which may be made more difficult by virtue of the financing authorized by this section [and that...] it may be necessary in future years to modify the terms of the loans...made available pursuant to this section.... (H. Rap. No. 96-161, 96th Cong., 2nd Sess. 5 (1979))

While Israel has already been able to adjust the terms of the bulk of its FMS loans by refinancing with a USG guarantee, this is not the case for Egypt.

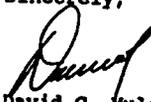
- 2 -

The White House announcement of the President's decision to recommend FMS forgiveness for Egypt spoke of the President's recognition of the unique contribution of Egypt to the pursuit of peace and security in the Middle East and the courage, constancy, and determination that it has shown. Deputy Secretary Eagleburger addressed this point forcefully in his testimony and I will not comment on it further except to note that the Administration's views are united in this regard.

Egypt also possesses a combination of economic characteristics that sets it apart from other FMS debtors and should provide a firm rationale for limiting FMS forgiveness to Egypt alone. These economic factors -- relating to Egypt's extraordinary financing gaps, the fact that it has not benefited from previous FMS debt relief programs, and the size and structure of its debt -- are described in greater detail in the attachment.

In sum, FMS debt forgiveness for Egypt is an integral part of Operation Desert Shield. Such forgiveness is consistent with the Administration's case-by-case approach to official debt. The Administration does not support FMS forgiveness for any other country because no other developing country has Egypt's unique combination of leadership, geo-political, and economic factors. I look forward to working with you further and hope that you will be able to support the President's important initiative.

Sincerely,



David C. Mulford

**Attachment:** Egypt - Distinguishing Characteristics

EGYPT - DISTINGUISHING CHARACTERISTICS

Unlike other key FMS debtors, Egypt faces extraordinary balance of payments gaps that cannot be addressed through a traditional Paris Club rescheduling.

- ▶ Egypt, the second largest FMS debtor, is the only one among the top fourteen (each having at least \$150 million in FMS debt) that faces imminent default on its external payments.
- ▶ Egypt has accumulated some \$10 billion in arrears since its May 1987 Paris Club rescheduling. Moreover, recent balance of payments projections for Egypt suggest that it will face a \$6.3 billion additional financing gap in the two years from July 1990, even with a strong adjustment program and generous Paris Club debt relief.
- ▶ In contrast, other major FMS debtors, such as Israel (#1), Turkey (#3), and Pakistan (#5), do not need and are not seeking Paris Club relief, due to concerns about the effect such action would have on their creditworthiness.
- ▶ In particular, Turkey has a strong external reserves position. President Ozal has indicated that he believes that greater trade and concessional loans, rather than grants and debt forgiveness, are the most appropriate means of support for Turkey.
- ▶ For other countries among the top 14 FMS debtors, traditional Paris Club reschedulings and commercial bank restructurings have generally proved sufficient to address whatever payments difficulties they have faced in the past ten years (i.e., Jordan (#7), Morocco (#8), Zaire (#12), and Philippines (#14)).
- ▶ Except for Jordan, which has begun to accumulate some FMS arrears in the past few weeks, and Morocco, whose FMS arrears will be cleared up by last week's Paris Club, all of the major FMS debtors are current on their payments.

Other major FMS debtors have already benefited from relief on their debt under previous programs (except for Greece, #4). Egypt has not.

- ▶ Thailand (#9) and Korea (#13) prepaid at par a substantial portion of their debt to the Federal Financing Bank (FFB) under the Administration's 1987 FMS relief program. (Although not a major FMS debtor, Oman also prepaid.)

- ▶ Israel, Turkey, Pakistan, Spain (#6), Jordan, Morocco, Thailand (#9) and Tunisia (#10) have refinanced large amounts of their FMS debt in commercial markets with a 90% USG guarantee under the 1988 FMS Debt Reform. This has reduced the average interest rate on their FMS debt to current market (or below, in the case of their remaining debt to the PFB), resulting in significant interest savings. (Although not major FMS debtors, Kenya and Honduras have also refinanced. Greece is considering taking advantage of this program.)
- ▶ Egypt has been unable to benefit from either of these programs due to its inability to raise even the 10% unguaranteed finance necessary under the 1988 program. In addition, Egypt has been concerned that, under the 1988 program, it would be necessary to keep any future arrears on its FMS loans to 90 days or less.
- ▶ Finally, it should be noted that under the terms of the Cranston Amendment, Israel benefits from special treatment on its FMS debt not accorded to Egypt or any other debtor. Israel's annual appropriation of Economic Support Funds (ESF) has been at least equal to the level of its annual FMS debt service and, moreover, has been provided in cash each year by October 30 or within 30 days of the appropriation, whichever came later.

A final point is that the structure and burden of Egypt's debt is different from that of other FMS debtors.

- ▶ Egypt's total external debt at end-1989 was about \$51 billion (not including arrears). This is the highest among key FMS debtors (see Table 1).
- ▶ Egypt's outstanding direct loans from bilateral creditors at end-1989 totalled \$32 billion, the largest among key FMS debtors both in absolute amount and as a percentage of total medium and long-term debt. Except for Pakistan, Egypt's debt to private creditors (bank loans and bonds) constitutes the smallest percentage of total medium and long-term debt (Table 1).
- ▶ Egypt's direct loans and guarantees from the USG at end-1989 totalled \$12.5 billion, not including about \$550 million in end-1989 FMS arrears. This is also the highest level among key FMS debtors (Table 2).
- ▶ Egypt's end-1989 FMS debt to the USG accounts for 48% of its total bilateral debt to the USG (Table 3). This is the highest ratio for any developing country that has not already benefitted from a USG-guaranteed refinancing or Paris Club relief on the bulk of its FMS debt.

- ▶ Egypt's debt burden is also heavy, expressed in terms of standard ratios such as total debt to GDP, total debt to exports, and debt service to exports of goods and services (see Table 4, based on 1988 data.) Note that in order to reduce distortions caused by arrears and reschedulings, the debt service ratio is defined as the higher of actual 1988 debt service payments on long-term debt or accrued debt service on end-1987 debt.
- ▶ In the World Debt Tables 1989-1990, published in 1990, the Bank notes that Egypt's situation has deteriorated since 1988: "Based on recent data, Egypt would be classified as severely indebted instead of moderately indebted." The ratio of Egypt's scheduled debt service payments is now estimated at more than 60%.

September 24, 1990

- Tables:
1. Key FMS Debtors - Total Debt (1989)
  2. Key FMS Debtors - Bilateral Debt with the U.S. (1989)
  3. Major FMS Debtors - Stock of FMS Debt (1989)
  4. Debt Ratios for Key FMS Debtors (1988)

## KEY FMS DEBTORS - TOTAL DEBT (1989)

	MEDIUM AND LONG-TERM PUBLIC DEBT								PRIVATE DEBT	SHORT TERM	TOTAL DEBT	
	OFFICIAL DEBT				BANK/BOND DEBT#							TOTAL
	BILAT CREDITS@		MULTILATERAL		TOTAL		AMOUNT	% L/T				
AMOUNT	% L/T	AMOUNT	% L/T	AMOUNT	% L/T	AMOUNT			% L/T			
EGYPT	\$32,190	72%	\$4,930	11%	\$37,120	83%	\$7,502	17%	\$44,622	\$939	\$5,116	\$50,677
GREECE*	\$278	2%	\$4,968	28%	\$5,246	30%	\$12,236	70%	\$17,482	\$1,315	\$4,717	\$23,514
ISRAEL**	\$6,048	37%	\$68	0%	\$6,116	37%	\$10,333	63%	\$16,449	\$4,400	\$2,850	\$23,699
JORDAN	\$1,696	29%	\$1,313	22%	\$3,009	51%	\$2,846	49%	\$5,855	\$0	\$106	\$5,961
MOROCCO	\$11,319	55%	\$4,445	22%	\$15,764	77%	\$4,651	23%	\$20,415	\$200	\$100	\$20,715
PAKISTAN**	\$8,609	57%	\$5,661	38%	\$14,270	95%	\$816	5%	\$15,086	\$69	\$2,535	\$17,690
PHILIPPINES	\$6,644	26%	\$6,355	25%	\$12,999	51%	\$12,640	49%	\$25,639	\$874	\$3,910	\$30,423
TURKEY	\$10,969	31%	\$8,738	25%	\$19,707	56%	\$15,570	44%	\$35,277	NA	\$5,745	\$41,022

- @ Does not include officially-guaranteed credits, such as guaranteed export credits and FMS refinancing.
- # Includes officially-guaranteed credits.
- \* 1988 data. Due to Greek reporting practices, we do not believe this figure includes FMS direct credits.
- \*\* Provisional 1989 data.

SOURCE: World Bank

**Key FMS Debtors**  
**Bilateral Loans and Guarantees from the United States**

(\$ millions; as of December 31, 1989)

1988 Avg.

Per Capita

GNP (USD)

— Loans and Guarantees from the USG —

ESF/DA   PL480   CCC   Exim   FMS   Total\*

660	<i>Egypt</i>	2,734	2,800	1,020	116	5,944	12,615
4,800	<i>Greece</i>	76	16	0	17	1,715	1,824
NA	<i>Israel</i>	1,568	48	0	818	8,255	10,689
1,500	<i>Jordan</i>	320	22	123	57	361	883
830	<i>Morocco</i>	263	454	473	132	346	1,668
350	<i>Pakistan</i>	1,983	1,129	347	4	1,095	4,558
630	<i>Philippines</i>	684	161	39	1,049	160	2,094
1,280	<i>Turkey</i>	1,529	48	197	715	3,125	5,614
1,436	<i>Total...</i>	9,157	4,679	2,199	2,908	21,001	39,945

Note: ESF/DA includes OPIC-Investment Support & Housing and Other Credit Guarantee Programs

\* May not add due to rounding, miscellaneous programs.

## Major FMS Debtors \*

Stock of FMS Debt (\$ millions)

	Direct Loans **	Guar. Loans +	Total FMS ++	Total Debt to USG ++	FMS Debt as % of Total USG
Israel	3,204	5,051	8,255	10,690	77.22%
Egypt	5,994	0	5,994	12,615	47.51%
Turkey	1,410	1,715	3,125	5,615	55.65%
Greece	1,714	0	1,714	1,824	93.97%
Pakistan	530	565	1,095	4,559	24.02%
Spain #	735	0	735	1,045	70.33%
Jordan	161	200	361	885	40.79%
Morocco	204	142	346	1,669	20.73%
Thailand	230	75	305	431	70.77%
Tunisia	32	162	194	776	25.00%
Portugal	193	0	193	500	38.60%
Zaire ##	147	0	147	202	72.77%
Korea	162	0	162	2,679	5.83%
Philippines	160	0	160	2,093	7.64%

\* All other FMS debtors have outstandings of less than \$150 million.

\*\* FFB loans guaranteed by DOD, direct DOD loans, rescheduled debt

+ Loans refinanced in commercial markets with a 90% U.S.G. guarantee.

++ Includes both direct loans and guarantees. Does not include end-1989 arrears.

# Spain refinanced, but then prepaid the refinancing loan. Thus, the U.S.G. has no further guarantee obligation.

## Zaire's FMS debt has been largely rescheduled in the Paris Club.

Data as of end-1989

## DEBT RATIOS FOR KEY FMS DEBTORS (1988)

	<u>DEBT/GDP</u>	<u>DEBT/EXPORTS</u>	<u>DEBT SERVICE*</u>
EGYPT **	117%	351%	27%
GREECE	44%	201%	34%
ISRAEL	62%	195%	25%
JORDAN	92%	172%	25%
MOROCCO	114%	353%	47%
PAKISTAN	43%	308%	36%
PHILIPPINES	75%	271%	34%
TURKEY	55%	226%	45%

\* In order to reflect debt payments not made because of rescheduling or arrears, the World Bank used the higher of actual 1988 debt service payments on long-term debt or accrued debt service on end-1987 debt.

\*\* The "World Debt Tables 1989-1990" note that Egypt's situation has deteriorated since 1988 and should be considered "severely indebted".

SOURCE: World Bank

Mr. OBEY. The total is?

Mr. MULFORD. Egypt's total bilateral debt to official bilateral creditors is \$32 billion.

Mr. OBEY. Of which \$12 billion is ours?

Mr. MULFORD. Yes, about \$12 billion is ours. [It is a little hard to say there because the—well, it is approximately \$12 billion.]

Mr. OBEY. Does that \$32 billion include military debt?

Mr. MULFORD. Yes, it does.

Mr. OBEY. It does?

Mr. MULFORD. Yes.

#### U.S. BUDGETARY COSTS

Mr. OBEY. What is your estimate of the budgetary cost of your recommendation?

Mr. DIEFENDERFER. Of the Egypt recommendation, zero, sir.

Mr. OBEY. Would you explain why you reach a conclusion of zero while OMB CBO reaches an estimate of approximately \$2.4 billion over five years?

Mr. DIEFENDERFER. I can't explain CBO, but I can explain how we arrived at our numbers.

Every year we estimate the amount of foreign debt that will be repaid to the United States in a lump sum, much as we estimate how much we are going to receive in corporate income tax. Every year we look for special factors that would affect that number.

In estimating the 1991 budget, we looked at special factors pertaining to Egypt. There was the size of the debt . . . about one half of the total outstanding FMS debt. Their payments had dipped in 1989. At the time we were making these estimates, it would have been around November or December of 1989. We were putting together the budget. They had paid in 1989 only \$191,000 on that debt.

They were up for the Paris Club rescheduling. We thought it was prudent to score them at zero, in that they would not be in the position to pay us anything.

Mr. OBEY. So that is how you then are able to say that you estimate that the cost to us would be zero because you estimated that there would be zero repayment in the first place; is that right?

Mr. DIEFENDERFER. That is correct, sir.

#### POLAND'S DEBT

Mr. OBEY. With respect to Poland, what expectations were you carrying that they would repay us anything this year?

Mr. DIEFENDERFER. As I stated previously, we make a general assumption on all debt. We only estimate special situations where we have reason to believe there is vast increase in the amount of past payments or a decrease in the amount of past payments.

Egypt was the only country that we reviewed in this manner for this budget.

I can say that, according to our figures, Poland's actual payments in 1989 were \$7.1 million. But we did not make a specific estimate for Poland or for any other country at that time.

Mr. OBEY. Do you have any expectation, do you have any reason to believe that we are going to collect more than the \$7.9 million from Poland this year than we got the previous year?

Mr. DIEFENDERFER. I don't have any expectations right now, but I have not reviewed it. If we were going to make a judgment on Poland, we would need a chance to sit down and review all the material.

Mr. OBEY. I have been asking that question for four months and I have yet to get an answer to it. I would appreciate it in light of these circumstances that I get an answer to it.

If we are to measure the cost of loan forgiveness or adjustment, it is nice to know what the administration's real expectations are about repayment from all countries, not just the one that happens to be under the gun at the moment.

Mr. DIEFENDERFER. I understand that. If you are moving legislation with forgiveness for anybody in it, you have to know what our estimates of the costs are.

I understand there has been a reluctance on the part of this administration and past administrations to put out in the public payment estimates—

Mr. OBEY. I understand. If we are to assess the reasonableness of your position with respect to Egypt vis-a-vis another country like Poland, we have a right to that information, and I expect to get it.

How soon can we have that number with respect to Poland?

Mr. DIEFENDERFER. I can't give you a time yet, sir. I will be glad to give you a time within 24 hours. I have to make some consultations with people who supply us the information.

Mr. OBEY. Well, I would suggest that if the administration wants any consideration of their request, we need that information before this request is going to be considered.

Mr. DIEFENDERFER. I understand.

[The information was supplied and is contained in the committee files.]

Mr. OBEY. At this point, do we have any estimate. Let me ask you one practical question before I get back to the numbers, after others have had their opportunity to question.

#### POTENTIAL ADDITIONAL REQUESTS FROM OTHER COUNTRIES

If we were to grant your proposal exactly as is, what would the Administration's expectations be with respect to other countries who might come in asking similar treatment, i.e., what do you expect to experience by way of requests from Israel, from Turkey, or from any other countries that you might expect pressure from or requests from? How do you recommend that those requests be dealt with and how do you plan to deal with it?

Mr. EAGLEBURGER. Let me do a piece of the answer and then ask Mr. Mulford to talk specifically about some of the issues that I know you are interested in.

As I have made as clear as I can in my statement and as clearly as Mr. Mulford stated it, it is the Administration's view with regard to the request for Egypt's debt relief on FMS that this is a unique, totally unique circumstance deriving from the crisis in the Gulf. Therefore, it sets no precedent for anything else.

Having said that, it is clear that we will be asked by some countries to engage in debt relief for them as well.

I should say with regard to Turkey, by the way, that has not been the request. In fact, as I understand it, that is not their intention to make such a request, that they are interested in greater trade and investment and issues of that sort. The debt issue, at least as I understand it, they have made no such requests and do not intend to.

There have been discussions with regard to the Israeli debt. I would be happy to talk about the whole question of Israel and support of Israel, if you want to.

Mr. OBEY. Let me interrupt here. I am not speaking just with respect to debt relief. My point is this. If you provide \$20 billion to Saudi Arabia, if you provide forgiveness of roughly \$7 billion in Egypt's debt, or whatever level is finally agreed upon, if you provide additional assistance to Turkey, when this is all over, what I am trying to get at is, what other kinds of requests do you expect to get from other countries citing what we have done here, what we have done in the case of Saudi Arabia? What do we think the total cost of that package is going to wind up being?

Mr. EAGLEBURGER. Mr. Chairman, there is no way I can answer the question. I don't know what kinds of requests we will get of that broad a category. We will get some requests and some discussion on debt relief. There is no question about that.

I also have to say that since we have been out beating the bushes for money from allies and friends, part of it to be used to support our military effort, part of it to be used to support Egypt, Turkey and so forth, that money obviously will be available.

I don't know what kinds of total requests we are likely to get. All I can tell you at this stage is that with regard to this specific issue we do not consider it as setting a precedent for anything else. We will get a lot of requests, I am sure, for a lot of different things. They will have to be looked at individually.

We are in discussions with the Israelis now. I can't possibly give you what kind of a figure this would end up with. I can tell you that we will have to deal with each one of these requests on its merits as it comes.

Mr. OBEY. My point is simply this. We are an appropriations committee. We have the plain idea we ought to know where we are going before we start on the journey.

The problem we have is if we approve the very first piece of anything, we have an obligation to ask, what is this going to wind up being? How is it going to impact the budget, how is it going to impact our other choices?

We have to have a better response to that. We have got to have some idea of what the overall package is going to wind up looking like. We don't want to be led under the tent a centimeter at a time and then wind up facing a very big balloon we have to finance.

#### SYRIA

Mr. YATES. If the Chairman would yield, I am told Syria owes the United States \$240 million. Secretary Baker sat down with

Syria for the first time and negotiated Syria's participation in the alliance against Iraq.

Was there any deal made with Syria? Is Syria still on the list of terrorists nations that we have maintained over the years? Were there any promises that were given to Syria as a result of its building up its forces against Iraq?

Mr. EAGLEBURGER. That I can't answer specifically. Syria is still on the Threat list. There were no promises made. There were discussions between Mr. Baker and Mr. Assad. There were no promises made. There was nothing as far as I know discussed on Syria debt to the U.S.

Certainly no agreements were reached with regard to that. This was an opening conversation in what we hope will be an increasingly productive dialogue with Syria, but there were no commitments made.

Mr. YATES. Thank you.

#### PRECEDENT FOR OTHER COUNTRIES

Mr. EAGLEBURGER. Can I ask Mr. Mulford if he wants to, since you are unhappy with my answer, let's see if he can do better than I did.

Mr. MULFORD. Mr. Chairman, I think the question you asked was about the kind of precedent that this action in Egypt would set for other countries with similar debt.

Mr. OBEY. No. What I am asking is, this committee, the Appropriations Committee, is going to be asked to finance a venture and we would like to know a ball-park estimate of what that is going to be.

You must have some idea of the kinds of requests you are going to get from a variety of other characters around the world. I would kind of like to know, when this whole ball of wax is wrapped up, what are the other pieces—not only with respect to debt relief. Debt relief is of economic value to country A. How is country B going to react to that? How are we going to react to country A and country B and country C that come running in on their coattails?

What is our rough estimate? Are we going to the football game with no game plan beyond trying to get the first down? That is the question.

Mr. MULFORD. On the broad issue, there is no overall figure that covers all countries affected by this crisis. One of the purposes of the two presidential commissions led by Mr. Baker and Mr. Brady was to seek out funds for economic support for the affected front-line states and also to determine what the needs of those front-line states might be. That is an ongoing exercise, Mr. Chairman, which I do not believe will result in large additional requests being made to this committee.

The purpose of the burden-sharing exercise is to attempt to identify and raise monies that can be used to offset those problems.

With regard to the military debt itself, the other countries that have large military debt with the United States by and large are clearly differentiated from Egypt in many different ways.

We have already said this is a unique case, based on political and military and, to some extent, economic considerations. But the

other heavily indebted countries with military debt owed to the United States, if you apply certain criteria to them to determine what sort of debtor they are, that is to say what sort of condition they are in, they don't have the same case for debt relief as Egypt.

It seems to me that those figures support the premise here that Egypt is unique and will not be followed by other requests from other countries.

Mr. OBEY. I want to yield. I would like to stop this. My only response would be, if you are suggesting we could reasonably expect there to be very limited additional cost associated with this package, I don't, and I don't think many people in the Congress, would find that a credible response.

Mr. MULFORD. Mr. Chairman, I was only referring to the economic cost of the front-line states.

Mr. OBEY. That is an interesting issue, but that is not the question I asked. We really do need to know. We are sitting out there at Andrews Air Force Base negotiating a Budget Summit, or at least we were. Now they are going to be sitting someplace else.

Given the fact that they have more than a minor interest in achieving an agreement on the budget, we would like to know what impact all of these actions are going to have on that budget. We are not getting very much information.

Mr. EAGLEBURGER. In part, Mr. Chairman, that is because we don't have it. All I can tell you is we—

Mr. OBEY. You ought to have some estimate. When the Green Bay Packers sit down with the pack, they don't know whether they are going to expect blitzes or fall-down defenses.

Mr. EAGLEBURGER. This isn't a football game, in the first place.

In the second place, as much as I like the Green Bay Packers, I hope we win more than they do.

The point is, we are in a situation where we are going to get requests. For example, clearly, something is going to be agreed with regard to Israel. We are in discussions on that subject now.

I couldn't for the moment give you a figure yet. I can tell you obviously something is going to be done with regard to Israel, a number of the other requests that will come out of what we have done with regard to the Egyptian action. We are simply going to have to say that is not something we are prepared to do with you.

The point is, I can't give you a figure because, one, we don't know how much we are going to be asked for.

Secondly, I can assure you we are not going to be anxious with most of the requests.

Thirdly, I am hopeful that the money that is being raised from other countries will take a good bit of that burden off us to begin with.

Mr. OBEY. Excuse me. We have to vote. We will be right back.

[Recess.]

Mr. OBEY. Dean, would you like to proceed as long as no one else is here?

Mr. GALLO. Thank you, Mr. Chairman.

Mr. OBEY. I will call on Mickey after you are done.

## RAMIFICATIONS OF DENYING DEBT RELIEF

Mr. GALLO. Secretary Eagleburger, I would, too, as has been mentioned here many times, compliment the administration on the way it has handled this entire crisis situation in the Middle East.

I would also echo the sentiments of the Chairman and others that President Mubarak has been gracious in his actions in bringing about the Arab nations the support.

One of the concerns, and you have to look at all sides of this particular issue as you bring this forward for supplemental approval, if in fact there were not an agreement, what do you feel the ramifications would be vis-a-vis Egypt and President Mubarak?

Mr. EAGLEBURGER. If the Congress does not approve this debt relief? Without trying to be, trying very much to avoid exaggeration, I think there are a number of consequences, the first of which is it would be the first time that the administration and the Congress have separated during this particular Gulf crisis. I think that is bad in general, and it sends a bad signal to lots of people.

Secondly, I think in terms of impact in Egypt itself, given, first of all, the fact that this whole FMS debt issue has been a substantial political problem, the basic political problems between ourselves and the Egyptian government for some time, it would be a real blow to President Mubarak in terms of a demonstration on our part that there are limits to our willingness to cooperate.

Frankly, the thing that would bother me the most is the issue that I am most concerned about, which is political stability in Egypt, support for Mubarak in the tough stance he has taken against the attitude of a lot of others in the Arab World is absolutely critical to Mubarak's being able to maintain Egypt as the linchpin that I think it is in the effort we are now engaged in in the Gulf area.

I don't want to see us do anything that raises questions in the minds of the body politic in Egypt about the degree of our commitment to stay step by step with the Egyptians at this time.

There is as well and related to that, let's face it, the Egyptian economy was not in great shape before this effort began. In many ways, what we are engaged in now in trying to get help from others to support the Egyptians is to bring them back up to what was then an unsatisfactory economic level that has now deteriorated because of the crisis.

I don't think it is astounding to anybody to recognize that economic conditions and the living conditions of the average Egyptian have an impact on political stability. All of those tell me that I think it would be, to put it mildly, deeply regrettable if we can't proceed with this.

Let me also say to you, and I have to say it when Mr. Edwards comes back, I am not happy about the way this came forward.

I would like to argue we are victims of that thing that has become so obvious and often happens in Washington, a leak to the newspapers. That is not the way we intended to proceed to inform the Congress that we wanted to do this.

I realize that our hiding behind the leak and 25 cents will get me a cup of coffee up here. We were driven to something we didn't want to do that way.

I can very well understand if somebody says, "You've put this forward. Now you've given me all these arguments about why if it doesn't happen, that is a disaster and that is putting the Congress in an awkward spot."

Having said all of that, I can tell you now on the basis of what I know, if we had been able to go through the proper consultation process when we, through the President and the administration, feel so strongly about the need to do this in terms of the kinds of signals it sends to the Egyptian government and the Egyptian people, in addition to the fact that it is a critical economic and military element in this context, we would have come forward with the proposal any way, I am quite sure. But I wish we had been able to do that in a much more appropriate manner to bring it before this committee and this Congress.

#### SETTING PRECEDENT FOR OTHER COUNTRIES

Mr. GALLO. I would certainly agree with that. I think that in many cases, all of us—if not all of us, many of us—have been blinded by this. I didn't mean my question to indicate that this committee is not. I just think it is important that we understand the ramifications. And as far as the Egyptian people, it is at least the information that I have been given, they feel it is a fait accompli. They don't understand the governmental structure of the United States and what has to take place. That also compounds in either direction our decision.

You have made emphasis, a great deal of emphasis as to the specific request not setting a precedent. I am sorry I left for a vote before you commented, but there are similarities with some countries, in particular Israel. I am not sure I make the same separation that you so clearly defined, at least in your own mind or the administration's mind. I am just wondering whether or not there is the same concern I have as expressed by the chairman and others.

This line is going to get very long very quickly. There are some countries that do have similar situations, although not being exactly the same.

#### POLICY TOWARDS ISRAEL

Mr. EAGLEBURGER. Mr. Gallo, I am going to put it, quote, I am glad you asked the question because it gives me a chance to straighten up this Israeli issue which we kind of got cut off in the middle of.

Let me specifically refer to the Israeli issue. I start by saying once again, as I said, as Mr. Mulford has said, we do not regard the Egyptian FMS debt relief as setting a precedent for anybody else.

Let me try to be clear on the Israeli issue. I am not announcing here today that we have arrived at an aid package for Israel. I am telling you we are in discussions with the Israelis, with Israeli officials. Moshe Arens has been here. We are talking to him. Secretary Baker will be talking to Foreign Minister Levi next week, I think it is. It is no secret, I think, to anybody. If it is, I am prepared to say it is no longer a secret.

We are talking about what kind of an assistance effort we ought to put together with regard to Egypt. It is obvious to all of you up

here that one of the issues, for example, is the housing loan guarantees. That is one small piece being discussed. I hope we have that settled by next week when Jim Baker and Mr. Levi meet. There are a whole list of things being discussed.

It ought to have been obvious to everyone that the administration accepts the principle that having done what has been done with regard to the Arab states, there needs to be balance in the way in which we deal with Israel. I am confident we will arrive at an agreement with the Israeli government on what ought to be done.

I don't know the details yet. I couldn't even predict at this point the details other than to say I think we will accept, for example, the housing loan guarantee question.

When it comes to the specific question of foreign military sales debt, I would argue strenuously that Egypt and Israel are in quite different circumstances. I would also say—I don't want to put words in anybody's mouth.

Mr. OBEY. Would you tell us why?

Mr. EAGLEBURGER. I am trying to. I am not trying to put words in anybody's mouth.

The issue of whether Israel is in fact seeking this is an open question at this stage. Why is it different? In the first place and critical to the whole question is, remember, please, Israel is paying its debt. It is not in arrears. Remember as well, and I think it is the Cranston amendment, says that when we set our economic support fund level for Israel, that level will take into consideration the amount of money that Israel has to repay on its foreign military sales debt each year.

In a sense we are offsetting in what we appropriate for Israel what we know they are going to have to repay. That does not exist with regard to the Egyptian case. So that makes it substantially different.

Israel is paying its debt and it is not a great strain, as far as I understand it, with regard to paying that debt. There are clearly things we need to do for Israel, and we are talking about those. We will arrive at agreement on what they ought to be, I think, and move forward with it.

I don't think we ought to get hung up on this narrower question of foreign military sales debt and debt relief for Egypt, and start with a view that has, that it is exactly the same situation in the Israeli case. I think they are quite different.

My suspicion is we can deal with what Israel needs without having to get into that kind of a question.

Again, to simply end on it, the administration's clear view is that this is a unique action with regard to Egypt.

Mr. GALLO. Mr. Chairman, if I can continue, just one more question?

I know that you have set a proposal before us. That is what is under consideration. Again, I think to properly evaluate if there are any options, do you see any options to this if this committee in its deliberations trying to make the right decision and do the right thing, are there any options to this outside of outright forgiveness?

Mr. EAGLEBURGER. No, sir, I don't think there are. I think anything else—and I will be glad to talk about specific suggestions, as

would we all—I think anything other than proceeding the way we have suggested sends the wrong signal at the wrong time in a crisis where we have thus far been able to maintain solidarity between the Executive and Legislative Branches and solidarity amongst the Arabs and ourselves, and I would hope we can stay that way.

Mr. GALLO. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. OBEY. Mr. Edwards?

#### POLICY ON EGYPT AND OTHER REQUESTS

Mr. EDWARDS. Thank you, Mr. Chairman. Sorry I was late.

Let me make a couple of comments and then ask some questions. I think it ought to be very clearly understood that while the bulk of your testimony, Larry, was about why Egypt has earned this sort of reaction from the United States, nobody disagrees with that. That is not in dispute. I think that every Member of Congress I have talked to, and certainly I feel very strongly that President Mubarak has done an outstanding job, as President Sadat did before him. I have warm feelings about what Egypt has done in this case and in other cases.

The question is only, what is the appropriate and correct response? To do something for Egypt is something that I think we all agree on.

I am concerned, quite frankly. I don't want to carry on the way I did before in my opening statement, but I really am concerned about the fact that sometimes in the effort to accomplish things that are thought to be the best thing to do, we tend to cut around the edges as to what really is the case.

I, for example, to be real open about this, had heard originally in the news that the administration's answer to the question, "What about other people who are going to come forward and also ask for this kind of relief", that the administration's response was, "We're going to take all of these up on an individual basis, judge them on their merits."

When Mr. Obey and I met with you, I raised that exact quote because you were saying very clearly, if that happens, if the other requests come in, the administration is going to say "no."

Mr. EAGLEBURGER. That is what I think I said today, too.

#### ORIGINS OF ADMINISTRATION DEBT FORGIVENESS POLICY

Mr. EDWARDS. No, you didn't. You said—in fact, I wrote it down—that when the requests come in, they are going to be judged individually. It can't be both ways. Either the answer is a flat "no" and nobody else is going to be considered for this, or they are going to be judged individually. I am not saying which way is a correct answer, but they are not consistent answers.

And I guess my first question really relates to that same kind of a thing. President Mubarak told us in Cairo, in Alexandria, rather, that he learned about this whole proposal from the newspapers. That is how he found out about it.

I have been told by people in the Executive Branch that in fact this initiated with us, that it was our idea, that we thought it would be a good thing to do for Egypt, for our relationship with

Egypt, and we went to Egypt. I have been told by other people in the Executive Branch that it was Egypt's idea. They came to us.

I guess my first question is, where did this begin? Whose idea was it? Did Egypt come to us asking for debt forgiveness or did we surprise them out of the blue with our generosity?

Mr. EAGLEBURGER. I noticed you raised that point earlier, Congressman Edwards. I want to try to give you the detail as I know it. Let me try to give you the answer to that.

Let me also say just in case there is any ambiguity in the first point you raised, I have said in my statement, Mr. Mulford has said in his statement, this sets no precedent for anything else. If we are approached by other countries, the answer is going to be, "What we have done for Egypt is unique and deals uniquely with this case."

I can't say to you never, ever are we ever again going to consider debt relief for a country. But I can say to you that this Egyptian action on our part should not be taken by you as in any way an indication that the United States Government is going to entertain FMS debt relief for some other country.

I can't say it any other way. That is not to say that at some point sometime Mulford here in discussions with other countries isn't going to be discussing debt relief. Of course he is. It is not going to be based on this precedent.

Now, as to how this was initiated, to the best of my knowledge and against the background as I know you understand, this has been an issue between us and the Egyptians for some period of time. When the Saddam Hussein attack on Kuwait took place and a short period thereafter, the issue of how do we deal with the question of FMS debt relief was looked at against the fact that the Egyptians, at just about that time, had to make a payment to avoid Brooke-Alexander. It was the State Department that raised the issue of should we move to recommend to the President that this issue be looked at in terms of whether we should in fact forgive Egyptian FMS debt. That came out of the State Department. You are looking at one of the people involved in making the decision, not alone, by the way, but looking at one of the people involved in the decision to make such a recommendation to the President. It went from the State Department to the President.

There were a number of meetings at the NSC and senior levels in the U.S. Government to discuss the question. It was discussed, it was examined, it was looked at. The President made, in fact, I think, a decision on a Thursday that this was in fact a proposal that he liked and wanted to move forward with.

The intention at the time the decision was made was that we would then come up here and consult on the subject and then go to the Egyptians. On Friday there was a leak.

While you were out a minute ago, Mickey, I said, you know, I am not going to make apologies for the way it was handled. I regret we are coming to you under these circumstances. I think our intentions were clearly different.

There was a leak Saturday that was in the newspapers. At that point, we began to try to play catchup ball. The intention was to come up here and to discuss the matter with you. The intention was then to go to the Egyptians.

Where it was initiated was in the State Department, it was discussed with Treasury and discussed with the NSC.

I should also make the point to you that I tried to make earlier. I am not trying to hide behind the leak. It happens too often. I regret it happened. It should not have proceeded that way. But the intentions, at least, were to do it in a different way.

I should also tell you, Mickey, we felt strongly enough about it that I suspect after having come up and consulted, we would almost certainly have come forward with the proposal anyway. It should have been handled in a different way, and I regret the fact that it was not.

Mr. EDWARDS. The purpose of consultation is to consult before decisions are made, not to consult after decisions are made.

Mr. EAGLEBURGER. You can't ask something like this to be examined and discussed with the Congress until you know what the President is prepared to do.

Mr. EDWARDS. I understand that. You are suggesting, however, that the very high official in the administration who told me that this initiated with Egypt is misinformed? Is that right?

Mr. EAGLEBURGER. That is correct, Mr. Edwards.

Mr. EDWARDS. Okay. All right.

Mr. EAGLEBURGER. In this particular instance. Please understand there were all these earlier discussions.

Mr. YATES. At this moment.

Mr. EAGLEBURGER. No, I am not trying to be cute.

#### ALTERNATIVE POLICIES TO TOTAL DEBT FORGIVENESS

Mr. EDWARDS. I have two additional questions, Larry. One is—whichever of you wants to answer this—Secretary Mulford in his statement said the inability of measures short of forgiveness to safeguard our strategic relationship with this important Arab partner, the quote you used in discussing why this decision was taken. I wonder if you can elaborate a little bit on this.

Some of us are wondering why we can't accomplish the same thing through a restructuring of the debt, through changing the interest rates, through deferral of payments, through Brooke waivers, through having the Saudis and Kuwaitis pay Egypt's debt directly to us. There are a lot of different options.

Why was everything short of total forgiveness ruled out?

Mr. MULFORD. Most of the other options, apart from those where somebody else would pick up the debt, which was regarded as not workable in practice, were given some consideration. But options such as partial forgiveness, a temporary waiver of interest payments, or capitalization of interest which are designed to provide near-term relief, were thought not really to solve the problem; most of those solutions would have the effect of building the stock of debt further.

The present stock of military debt is already regarded as unsustainable and uncollectable. What is the point of attempting to go down a road which simply creates the impression we are solving a problem when in fact we are creating a body of debt that is not collectable. That is why the decision was made here to simply face the reality and exercise a total cancellation.

**Mr. EAGLEBURGER.** Can I add a little to that?

Let me give you a figure, Congressman. In fiscal year 1991, Brooke sensitive payments coupled with regularly scheduled payments coming due of nearly \$760 million bring Egypt's FMS bill to over \$1.5 billion. These are amounts that clearly they cannot pay. In other words, delaying it—

**Mr. OBEY.** I would like to put that in context. What that means is that this year, for instance, we are writing Egypt a check for \$815 million in military aid. They are turning around and rewriting a check, to us of \$720 million. That is going to grow to a billion dollars in the next three to four years, and it will be \$1.5 billion they are repaying in 1993.

While the public is under the impression we have a military aid program to Egypt, in fact we will rewrite a check to Egypt so they can rewrite one to a different agency of the Federal Government.

**Mr. YATES.** Is that a "yes" answer?

**Mr. EAGLEBURGER.** I am not debating the point.

With regard to the question of Kuwaitis or the Saudis picking up the bill, that was looked at. It was our clear judgment on this kind of solution to the problem, that what it does in effect is take \$6.7 billion if the Kuwaitis or the Saudis were to pay the bill, and routes it through the Egyptians to us. Yes, it takes care of the debt.

What it also does, however, is remove \$6.7 billion that we want to see put into assistance to the front-line states or, frankly, put into covering some of our military costs incident to the whole Gulf exercise.

We felt it was drawing money away from the two areas where we are all beating the bushes around the world to try to get money. So we didn't think that was a proper response beyond which, to put it bluntly, the President felt strongly the need to make it clear to the Egyptians and to Mubarak that the United States was prepared to take an action demonstrating our support for everything he was trying to do in the area.

#### POLICY TOWARDS IRAQ

**Mr. EDWARDS.** One more quick question. This is a little bit off the subject.

Having a man of your position and stature in the subcommittee at this time, there was an article in today's Post about the incident involving Secretary Kelly at the hearing where he testified yesterday in regard to our policy toward Iraq prior to the invasion. You are the first high-ranking official from the Department I have had a chance to see since that came out.

Obviously there is a question here about were we pursuing correct or incorrect policies toward Iraq. Do you have a comment that you could add to this?

**Mr. EAGLEBURGER.** I may not be a high-ranking official when I finish the answer, but I am glad to have a chance to say something about it.

In the first place, I have known Kelly for years. He is a first-class Foreign Service Officer who got shot at in Lebanon more than once. I think he has taken a bum rap.

The view which seems to be prevalent among some people that Saddam Hussein, who I think properly can be compared with Hitler in terms of his avariciousness and his lack of concern about what others think, is going to be deterred or encouraged because the Assistant Secretary for Near Eastern Affairs, in answer to a question, says, "Yes, it is a fact we don't have a defense agreement with Kuwait", that that invited Hussein in and that he wouldn't have come in if Kelly wouldn't have said that is denigrating, I think, the evilness of the man we are trying to compete with at the moment.

Kelly did nothing more nor less than state a fact. It was not an invitation for Saddam Hussein to invade Kuwait or anything of the sort.

On the broader question of whether in the period before the invasion, we should have imposed sanctions and been tougher with regard to the Iraqis, I am prepared to concede to you that it didn't work the way we pursued it. There are some things I think need to be thought about there as well.

The pressure was for the United States to impose sanctions individually on Iraq. If we have not learned anything in the course of the last decade, sanctions imposed upon a country by one other country which nobody else pays any attention to gets you nowhere.

We had discussed with the Europeans and others the possibility of joint sanctions against Iraq prior to the invasion of Kuwait, and we were told to bug off. They weren't interested.

For us to impose sanctions individually might have made us feel good. It would not, it seems to me, have made any difference with regard to the way Saddam Hussein would have acted.

Secondly, at least at the time I think you could make a substantial argument that if you are trying to examine which way you have the most influence on Saddam Hussein, the way you do it is by being in contact and conversation with him. I am prepared to concede it didn't work. I don't think the other would have made any difference either.

The fundamental point, sir, is I think it is absurd to blame a good, serious Foreign Service officer who served his country for 30 years for answering a question accurately. I do not think that is what invited Saddam Hussein into Kuwait.

Mr. EDWARDS. Thank you.

Mr. OBEY. Let me simply make a point. I think you had two good men on the opposite ends of those questions yesterday, Mr. Kelly on one end and Mr. Hamilton on another. I don't think Mr. Hamilton was in any way trying to question Mr. Kelly's conduct. I think what he was trying to elicit by his questions, or what he was trying to communicate, were a series of questions about the tone of the policy leading up to the actions by Iraq.

Mr. YATES.

Mr. YATES. I am not sure I agree with that, Mr. Chairman, in this respect.

Mr. OBEY. That is what Mr. Hamilton told me this morning.

[CLERK'S NOTE.—Congressman Hamilton submitted a letter for the record on this point.]

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One Hundred First Congress  
Congress of the United States  
Committee on Foreign Affairs  
House of Representatives  
Washington, DC 20515

October 3, 1990

The Honorable David R. Obey  
Chairman  
Subcommittee on Foreign Operations,  
Export Financing and Related Programs  
H-307, The Capitol  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman,

It was brought to my attention that during his testimony September 19th before your Subcommittee on proposals for debt forgiveness for Egypt, Deputy Secretary of State Lawrence Eagleburger made reference to testimony the previous day by Assistant Secretary of State John H. Kelly before the Subcommittee I chair.

During his testimony before your Subcommittee, Secretary Eagleburger spoke against those in Congress whom he said criticized Assistant Secretary Kelly.

I do not know to whom Secretary Eagleburger was referring in his testimony. Nonetheless, I want to make clear my own position regarding Mr. Kelly's testimony, since Secretary Eagleburger may have been referring to me.

First, my criticism was not directed at personalities, but at policy. Secretary Eagleburger was defending Secretary Kelly, but Secretary Kelly was not being criticized by me. The target of criticism was Administration policy prior to August 1st and Secretary Eagleburger should have spoken to that.

I am not -- and it is my judgment that most Members of Congress are not -- criticizing United States policy toward Iraq since the August 2nd Iraqi invasion of Kuwait. There is a strong consensus on that policy. But since the Administration -- but not the President -- has often defended its policy toward Iraq prior to August 2nd, there has been, and will likely continue to be, criticism and further debate concerning United States policy in that pre-August 2nd period. The President's position is clear. He has said "You'd go back and say 'This doesn't make much sense'" when he was asked on September 17th about previous United States policy toward Iraq.

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Second, I never suggested in my remarks during the September 18th hearing or at any other time that Secretary Kelly's testimony "invited Saddam Hussein into Kuwait," as Secretary Eagleburger implies that I said. I do not know why Saddam Hussein decided to invade Kuwait. Nor, to my knowledge, does Secretary Eagleburger.

Third, I do not blame Secretary Kelly personally for his testimony. As I indicated September 18th:

You left with this committee, and by you [Mr. Kelly] I don't mean you personally because I don't hold you personally responsible for these statements. I take it you are speaking for the President of the United States. But you left with this committee the clear impression that we seriously misread Iraqi policy and we seriously misread the possibilities of encouraging improvements in that policy and in the relationship with Iraq.

I know Mr. Kelly and other State Department officials involved in this subject to be honorable public servants. Mr. Kelly has served with distinction. None of my questions or comments in this or in other hearings were directed at him. They were directed to the policies he is representing and is sent to articulate.

I would appreciate your consideration of inserting this letter into the record of your hearing with Secretary Eagleburger at the point of his remarks about the hearing before my Subcommittee.

With best regards,

Sincerely,



Lee H. Hamilton  
Chairman  
Subcommittee on Europe  
and the Middle East

cc. Lawrence S. Eagleburger  
Deputy Secretary of State

Mr. YATES. It seems to me what Mr. Kelly says at a particular time has a particular meaning at that time. If Saddam Hussein is telling our ambassador that he has a grievance against Kuwait and that Kuwait is practically making an economic war against him. He has got to do something to stop it and that at that time, according to the transcript that has been printed in the paper, we tell him our opinion is: you should have the opportunity to rebuild your country, and we have no opinion on the Arab-Arab conflicts like your border disagreement with Kuwait. And then the ambassador is directed by the Secretary of State, Mr. James Baker, to say, that he has directed our official spokesman to emphasize this instruction.

It seems to me that that should have some impact on Saddam Hussein at a particular time when he is contemplating the possibility of making war against Kuwait. While you are holding your brief for Mr. Kelly, whom I don't know, and I will take Mr. Obey's word on Mr. Hamilton's statement that Mr. Kelly is a good Foreign Service Officer, it seems like what you are doing is picking on a very good ambassador as well, Ms. Glaspie, who was acting, according to the newspaper report, on what her instructions were as our ambassador.

Mr. EAGLEBURGER. I would be prepared to make the same points with regard to Ambassador Glaspie.

Mr. YATES. At a particular time, if Saddam Hussein is telling you about all of his problems and that he is going to take steps to do something about it and you say, "We have no interest in that, Mr. Leader. I am instructed by my Secretary of State to tell you that Arab-Arab conflicts don't involve us." I think that that is bad.

I want to move on to the Chairman's position this morning. It seems to me it has great importance in connection with this hearing and with all such hearings that I have been in and have experienced for 40 years starting with Korea, going back to a time when the Democrats were accused of giving away China because of a statement by Dean Acheson. Now it is being compared to the statements Mr. Kelly made about giving away Kuwait as a result of the Secretary of State's attitude.

The Chairman makes a very valid point. He says you cannot treat your request in isolation. You cannot come in here and talk only about Egypt when apparently our whole policy in the Middle East is exploding.

#### JORDAN

Jordan presumably has been a friend of the United States over the years. Is the king still a friend of the United States after the meeting he had in Jordan yesterday with these people who are not our friends? Is he still considered to be a friend of the United States? Isn't that part of the whole picture?

#### SYRIA

Syria, as you point out in response to an earlier question, is on the list of terrorist countries. Secretary of State Baker goes to Syria and talks to Assad. Does this mean now that Syria has been given a green light for expansion into Lebanon or Greater Syria as

a result of her sending a brigade of tanks in support of the anti-Saddam Hussein forces? What is the significance of that?

Where does the Congress come off in this picture? Are we just a rubber stamp of the President's request with respect to Egypt? Do we have nothing to say with respect to whether the debt ought to be paid?

How can you boldly say that this is not a precedent for any other kinds of discussions? The fact is that every country that owes us money under the FMS sales program is going to turn to this.

#### TURKEY

Turkey is a major ally of ours. It has turned over the Iraq pipeline. Turkey is not in good economic condition. Are you going to forgive Turkey's debts as a result of that?

I think this whole picture ought to be brought before this committee and an explanation given as to what the policies of the government are with respect to the whole picture before you ask us to forgive any of the debts, including Egypt, much as Egypt ought to be commended for its assistance in this respect.

I yield for an answer.

Mr. EAGLEBURGER. I don't know where to begin, but let me try.

First of all, the Turks have not asked for debt relief with regard to foreign military sales. There have been discussions with senior Turkish officials by senior American officials.

The Turks made it clear they regard themselves in a different circumstance. They don't need debt relief. What they need is increased U.S. investment and increased access to U.S. markets.

They have not asked for debt relief. In fact, my understanding is they specifically said they don't want it. It depends on each country.

Let me try to answer the broader question. It is at great risk both with regard to you and chairman Obey. In a sense I am about to tell you that I don't think we can answer your question in the way which you have both put it.

#### ARMS ASSISTANCE TO SAUDI ARABIA

Mr. YATES. I wanted to put one more point. That is I forgot to include the fact that now you are proposing to send \$20 billion in the latest fighter planes to Saudi Arabia, which is also a part of the picture as well.

Mr. EAGLEBURGER. Now it is going to take even longer.

Let me make a point on the Saudi arms package before I do anything else. Jim Baker, when he was confirmed as Secretary of State, said that we were not going to proceed the way in which we had in the past and that there would be consultation on every arms sale package that we were considering.

I don't know what you heard. I know what some of the leaks were.

Let me say to you, Congressman Yates, we are consulting you now on the subject of the Saudi arms package. We are going to listen to what is said to us with regard to that Saudi arms package. There have been no final decisions made on what that Saudi arms package will entail. Those decisions will be made only after we

have gone through the process of consulting up here on the Hill, which will go on for some period of time, this week and next.

I cannot tell you what the final package may look like. I can tell you were are going to consult and consult and consult constitutionally. We will look at the package on the basis of what we hear up here.

I can tell you it is the view of the administration, and it is mine as well, that there needs to be additional arms sales to Saudi Arabia. What it will be, I do not know at this point. It will depend on what we hear up here.

So, please, there have been no final decisions made. They will not be made until we finish our consultation.

#### SETTING PRECEDENT FOR OTHER COUNTRIES

Now, if I can try to get back to the question of the entire package. In some 30 years of trying to deal with foreign policy, I have to tell you it is very seldom, I think, that we can predict with any great accuracy in a case like this one in the Gulf what all of the fallout is going to be, what all of the requests are going to be, how we are going to deal with each one of those requests. It is a moving target, and conditions in the Gulf are going to change.

As those conditions change, our responses have to change. I would hope there is at least some understanding that with the best will in the world to try to answer the question that you and the Chairman have both raised, which is how much is all this going to cost and how much are we going to do for country X, Y and Z, I can't answer the question. I can give you some guesses on the kinds of requests we are going to get. I can also give you guesses on the kinds of answers we are going to give.

It is more than a guess when I say to you that I am confident that this administration's intention with regard to forgiving FMS debt with Egypt is we are going to say to everyone else who comes walking in the door, it does not set a precedent for what we do with regard to you.

Mr. OBEY. If I can insert at this point, if the gentleman would yield?

Mr. YATES. I yield.

Mr. OBEY. That isn't sufficient for those of us who have to actually manage a bill on the House Floor.

Mr. EAGLEBURGER. I am not through.

Mr. OBEY. My question is with respect to that, let's say you say, "okay, we don't want country X and country Y to come knocking on the door."

Mr. EAGLEBURGER. They will.

Mr. OBEY. What if they do come knocking on the door anyway by way of the House Floor? What are your plans to deal with that? How are you going to fence it off?

Mr. EAGLEBURGER. Mr. Chairman, you know, you can ask me to manage some things. You cannot ask me to manage the Congress of the United States.

Mr. OBEY. No. With all due respect, we have to try to manage this together. And if we don't have a game plan which makes sense

on both ends of Pennsylvania Avenue, that game is going to look pretty bad before it is over.

Mr. EAGLEBURGER. All I can do with some assurance is tell you that the administration, when it is approached by countries saying, "You did this for Egypt; we want the same thing," our answer is going to be, "No, the conditions are different."

For example, let's come back to the Israeli issue again. I am saying to you we are in discussions with the Israelis. There is certainly going to be some agreement on something. I don't know what, I don't know how much it is going to cost. I can't tell you that yet. Clearly, we are discussing with the Israelis something now.

I am also equally certain we are going to say to the Israelis on the issue of FMS debt relief and the Egyptian example, it doesn't fit for Israel and it isn't what you need anyway. Those sorts of things I can be confident about.

I can be quite confident that this administration, when it is approached on the specific subject of FMS relief, is going to be very negative and we will tell you and the Congress that we think you ought to be as well.

Mr. OBEY. My point is that if you are telling them and us that it doesn't fit, that we need to have some idea of what you think does fit.

Mr. EAGLEBURGER. With regard to each of the particular countries?

Mr. OBEY. Yes.

Mr. EAGLEBURGER. Let me give you an example. We are in discussions with the Israelis. If you ask me to tell you precisely what it was going to be and how much it is going to cost, I couldn't tell you.

When Jim Baker finishes with Foreign Minister Levi, when we have finished the conversation with Arens, when we have figured out how we are going to deal with the housing guarantee issue, we will have a better picture.

I can't tell you, Mr. Chairman. I am sorry, I can't tell you. I don't know what it is going to be.

All I am trying to say here is, with the best will in the world in terms of trying to predict how this is going to play out, I can't do it because conditions change and the targets change.

If what we were talking about is the fiscal year 1992 budget, I could give you some fairly clear picture of where we want it to go and how much we want from you, which we won't get, but how much we want and kind of try to describe it.

Let me close with one final point on this because I think this is critical. It gets back to something we talked about in the earlier budget hearings we had with you, which is that the world is changing. We have got to come up to you with a different approach on foreign assistance. I buy that completely.

#### IMPROVING RELATIONS IN THE GULF

Here is kind of one of the problems we now face. If in the world into which we are moving—forget the Gulf for a minute. The end of the Cold War creates for us all sorts of questions about what the

post-Cold War security structure ought to look like and how we ought to be dealing with Poland and the real revolutions that are taking place around the world.

I can give you a general picture of what we are going to try to accomplish. I can tell you how much I think that is going to cost us, and on East Europe you are going to tell me we are not spending enough. At least we are talking about something we can both get our minds around. Also, we are talking about building, putting the building blocks to something that 10 years from now, we hope will look a lot different.

We are now in the same situation with regard to the Gulf. I don't say that when we are through this crisis, we will have a better relationship with the Arabs, that this will have an impact on the security of Israel. But I can certainly hope so. I can hope that what we are now trying to build and what we are trying to deal with leads a year or two or a year from now to a really different situation in the Gulf in which we, the Arabs, the Israelis are all more secure.

I can't tell you what it is going to cost, what steps we are going to have to take. I can only tell you the direction at which we are aiming. Those sorts of directions give you some hint as to the kinds of things we are going to have to do, but they don't tell me how much it is going to cost.

What we can talk about and what we ought to be talking about is, are we trying to go in the right direction? If you don't think we are, we ought to hear that.

Finally, in response to your question about this particular issue, of course, we can propose, you dispose. Nobody is arguing that at all. We are not marching up here—just because I got this cane on the table doesn't mean I intend to use it. We are coming up here asking you to agree with the administration that in this particular case, in this particular crisis, we have got to separate it out from the broader questions that you all legitimately can ask us.

It is our belief that if we don't do this, we have done ourselves substantial damage in what it is we are trying to build over the next two or three or four years.

Mr. YATES. We have no discretion?

Mr. EAGLEBURGER. Of course you do. You can say "no."

Mr. YATES. We can say no with the consequences you predict, which are very evil consequences. The only point I am making is: Suppose the committee in its wisdom thought we ought to have more answers than just the Egyptian answer before we decide on whether to approve it?

What are your plans for the Middle East for your relationships with others?

Shouldn't we hold the Egyptian initiative until we have a chance to see where everything is going, where you are going with Turkey, where you are going with Syria, where you are going with Jordan, where you are going with Israel, where you are going with Saudi Arabia? Or do we continue with what seems to me to be a Band-Aid kind of foreign policy?

Mr. EAGLEBURGER. Mr. Yates, all I can tell you is it is our view—let me put it this way. It is my view that this is a crisis situation. I would like to be able to answer all your questions.

Mr. YATES. That answers the question then?

Mr. EAGLEBURGER. The train is going to leave the station. We feel we have got to move now on this quickly. I wish I could answer the rest of your questions more than I can.

Mr. YATES. Thank you.

Mr. OBEY. I called on two Republican Members in a row earlier. I will call now on Mr. McHugh and go back to the regular order.

#### SETTING PRECEDENT FOR OTHER COUNTRIES

Mr. McHUGH. Thank you, Mr. Chairman.

Mr. Secretary, you have been, as always, candid and as forthcoming as possible on some of these tough questions.

When you get down to this point in questioning, it is awfully difficult to be unique in asking questions. There is a tendency to beat a dead horse.

But in the spirit of consultation which you have expressed, let me at least pass on a few thoughts which in some measure, at least, reflect some of the other opinions that have already been stated.

First of all, I think that Egypt has done a terrific job and has made some very constructive contributions, not just in this crisis but at other times.

I think there is a great deal of support for President Mubarak as well as concern for the Egyptian economic situation. But as the Chairman and others have said, it is almost impossible for us as appropriators to separate out the Egyptian case as you have done.

I think you made a very strong case for Egypt as a separate matter. Nonetheless, we are going to be faced with some of these issues.

Let me give you one example, Bangladesh. And I use it as one modest example of what we are faced with. Bangladesh doesn't have a strong political constituency.

Bangladesh is the 17th poorest country in the world. It has pledged, I understand, 5000 troops to the common defense in the Persian Gulf despite its economic problems. It owes the United States money not for FMS, but for economic assistance loans in the past.

They are going to come in and make a pretty strong case. Egypt ranks in the 50's in terms of poverty, in world per capita income.

Bangladesh is 7th. They have made a comparable contribution from their point of view.

It is not nearly as strategically important to us as Egypt's contribution. That is kind of the argument we are going to hear.

I mentioned it only to stress and emphasize the importance where possible of trying to put a policy request like this in some context.

How are we going to handle these things in some rational way?

## SAUDI ARMS SALES

A second concern is with the Saudi proposal, and I recognize you are in consultation and there is no final request on the table as yet.

Let me in the spirit of consultation give you my own concern. It seems to me that an \$18 to \$24 billion arms sale is a very, very substantial ratcheting up of the arms race in that region.

Most of this equipment, if I understand it correctly, will not go to Saudi Arabian in the immediate future. Therefore, it is not necessarily related to the Iraqi threat.

But it inevitably will drive requests from Israel, in particular, for very substantial increases in military equipment on a qualitative basis. And you are discussing that with Israel now. As appropriators, the Saudi Arabian sale doesn't cost a dime, but the Israeli assistance is very costly.

## FOREIGN AID PRIORITIES

I have supported aid to Egypt and Israel for reasons which are related to U.S. interests in the region. But when I look at our foreign aid bill and see how much assistance goes to Egypt and Israel as compared to other interests we have around the world, I have to wonder whether this is a balanced foreign aid program.

Now I see very substantial assistance programs of some description being considered for Saudi Arabia, which will drive Israeli aid up inevitably. I see a budget agreement coming which is going to cut domestic programs. Therefore, it seems to me it is unlikely the foreign aid budget is going to go up. But I see Israeli aid going up and I see Egyptian aid going up. They already account for more than 40 percent of our foreign aid budget already.

Where does this lead us in terms of our foreign aid program? Is this a balanced, sensible program from the standpoint of U.S. interests? I don't expect you to answer that question today.

Mr. EAGLEBURGER. The point is taken.

## BURDEN SHARING

Mr. McHUGH. In the concept of a larger policy, which is the point I think Mr. Obey and others have made, I want to emphasize that and broaden the point even wider.

One specific question, you may have answered this when I went out to vote, relates to the pledges we have gotten from other countries.

Clearly the degree of support this operation will continue to get from the American people depends at least in part on how they perceive other countries contributing. Are they sharing this burden reasonably equitably?

I think your administration has done a good job so far in going around and getting other countries to increase their commitment. Can you give us either now or for the record a list of the countries that have pledged to this operation in financial terms?

Secondly, with respect to the amount of money that has been pledged to help the front line countries like Egypt, how much assistance can Egypt count on from these pledges from other countries?

It is in that context as well that we need to consider the debt relief issue.

Mr. EAGLEBURGER. Let me try to give you a general answer to that question now and then submit for the record more detail. This is the best I can do for you at the moment about what we have raised or what has been offered or contributed.

Twelve billion from the Gulf, 4 billion from Japan, 2 billion from Germany, and 2 billion from the Economic Community. That ends up, although I couldn't give you an exact breakdown at this point, it ends up more or less 50 percent of that, or at least a big piece of it is to offset U.S. costs incident to our deployment to the Gulf.

Some of it will be in dollars, some of it will be in-kind. The Japanese, for instance, provided some four wheel drive trucks that they sent for our use in Saudi Arabia. So I can't give you what will be dollars, what will be in-kind.

But there is a hunk of all of this that comes basically to us. Another half more or less, don't hold me to the percentages, is for use with the front-line states.

Mr. Mulford and I, we want to get out of here in one piece today, are, in fact, meeting this afternoon to try to put together kind of a management system, is a good way to describe it, I guess, or at least a tracking system on how that piece for the front-line states will be managed and who is doing what to whom.

I can't answer how much is going to Egypt at this state. After all, in many cases the countries that contributed are going to want to do it bilaterally. They are going to have their own decisions as to where it ought to go.

Some will have close relationships with Turkey and will want to try to help Turkey. Some will be going to Egypt. That is not yet fixed. We will have to be in consultation with the specific donors to try to help them think through where it ought to go.

I can't tell you yet how much will go to Egypt, but certainly some of it will. I think it is going to take some time to sort out all of those mechanisms. We will try to keep you informed as that develops.

I will try to give you a better breakdown on the countries than I just gave you. That is essentially what we now—and we may get more.

[The information follows:]

*Question.* Let me give you a general answer to that question now and then submit for the record more detail. This is the best I can do for you at the moment about what we have raised or what has been offered or contributed.

*Answer.* Fifty-four nations have contributed or offered to contribute military or economic assistance to the Gulf effort. This exercise in responsibility sharing has produced commitments of \$20 billion in resources, equally divided between support for the frontline states of Egypt, Turkey, and Jordan, and assistance to the multinational military effort. This includes support for a substantial portion of our incremental defense costs which are now running at about \$1 billion per month.

The three Gulf states of Saudi Arabia, Kuwait, and the United Arab Emirates have agreed to contribute more than \$12 billion to this effort in 1990. All of the states in the Gulf Cooperation Council have contributed troops to the multinational force in Saudi Arabia and are providing access and services in support of United States forces. Host nation support for our deployed forces includes the free use of ports, logistics facilities, bases, and fuel.

The United Kingdom is deploying over 6,000 combat troops, over 50 aircraft, and 12 warships. France has deployed over 4,000 combat troops, 30 aircraft, and 12 warships. Japan has pledged \$4 billion; \$2 billion in support of the military effort plus

\$2 billion in economic aid. Germany has pledged \$2 billion; \$1 billion in support of the military effort plus \$1 billion in economic aid. The European Community has pledged \$670 million in economic aid along with member state commitments of an additional \$1.3 billion. Italy has pledged 4 warships and 8 aircraft. Korea has pledged \$220 million; \$120 million in support of the military effort and \$100 million in economic aid.

Mr. EAGLEBURGER. If I could end on one other point which comes back to something I was trying to say to Mr. Yates. What we are talking about right now is a kind of a new invention in the practice of diplomacy. We are saying to the rest of the world, "We are doing what we are doing because it is in our own interest to do it."

It is also, let's face it, in your interest, Japan or Germany, or whoever depends upon Iraqi oil or Kuwaiti oil or Saudi oil and this ought to be shared responsibility, as shared cost. That is kind of a new invention.

I expect you will see this Administration approaching foreign policy questions more and more in that direction. I know it creates some constitutional problems which we are going to have to sort through.

But on the other hand, I don't think you would knock us for going around the world and trying to tell the other beneficiaries of what it is we are doing that we ought not to have to pay for all of this ourselves.

So I am simply saying you are seeing here something that I think is a new device we are going to try to be using more often in the future.

How we manage it, how we put it all together and the lessons we learn from this process are all pretty hard for me to describe to you at this point. But I think you are seeing a new device which I think you will see us using more often.

Mr. OBEY. If you would yield?

Mr. McHUGH. Yes.

#### APPROPRIATIONS ISSUES

Mr. OBEY. Let me say that I prefer you not mix two things. I don't know of anybody around this table who objects to you going from party to party asking they pay their fair share.

We have been pressing to see to it you do just that if you need any. But when you look at the language of the provision, which say, notwithstanding any other provision of law, the Secretary of Defense shall issue—no, this isn't the language I want. I want the language on defense.

When you look at that language and you see that you are given virtually carte blanche authority, "Any gift of money and the proceeds of any property received under this section shall be deposited in the Treasury. The Secretary of Defense, with the approval of OMB, shall from time to time transfer accounts credited to such a trust fund to appropriated accounts to be merged with and to be available for the same purpose. This fund shall not be subject to the appropriations process. It can be used for virtually any purpose for any length of time that you desire."

That is an incredible routing around the appropriations process. It is an incredible routing around the Constitution, which says the Congress is supposed to control foreign purchases.

It is the kind of thing over which we had a very hot discussion over the last two or three years because we thought Mr. North had tried to arrange for quite different purposes similar broad ability to reach and hunt and peck whoever he wanted to.

I don't want to interrupt the gentleman's time any more, but I simply want to say that that kind of incredible authority is quite different than the question of whether you ought to be asking allies to help pay their bills.

Mr. MULFORD. May I just make another point to Mr. McHugh's question?

In addition to the money which has been sought from other countries and which will have to be brought together, accounted for, directed, measured and coordinated, there are also the resources from the international institutions.

In creating whatever arrangements we create, we plan to collect and direct this money, and also take advantage of the resources that are available for the front-line states from the IMF, and from the World Bank as part of this exercise. That would add another few billion dollars to the figure.

Again, it is rather complex to assemble the donors and relate all the different kinds of possible flows to the flows that could be brought from the international institutions under various conditions and programs.

Mr. McHUGH. Well, my time has, I am sure, expired. Let me just conclude by saying, Mr. Secretary, you have broad bipartisan support for the policy thus far. That is, of course, very important.

There is a suspicion on the part of some Members, I suspect, that the Administration will attempt to use this crisis and the bipartisan support for our policy to get done certain things that it would like to have gotten done for a long time.

Egyptian debt relief, big sales to the Saudis of military equipment, this kind of authority which Mr. Obey has referred to.

You can mitigate and diminish that kind of suspicion to the extent that you can put into context these specific requests, not just in terms of the impending crisis but in terms of our long-range policy. So I would hope that the kinds of questions we have raised will impress upon you the importance of you trying to answer these things in a broader context. I think to the extent you can do that, we will be supportive.

To the extent you can't do it, it makes us more suspicious that these are ad hoc decisions of the kind that have been on the burner for a while and this is your chance to get them done.

I don't think it is in your interest or ours to proceed in that fashion.

Mr. MULFORD. Would you mind if I made a comment on the question that keeps coming up here that relates to debt? The Administration has had, I think, not an ad hoc approach to the debt problem, but a rational and rather comprehensive approach, although based on a case-by-case assessment of different countries, and different situations of indebtedness.

It is a global problem. It is a multilateral problem. It is an enormously complex problem. But the Administration has recognized, first, in the Brady plan for commercial banking debt some of the realities that I know the Chairman feels strongly about, namely,

the incremental building of the stock of debt which provides over a period of time an unrealistic prospect of payment. That issue is addressed in the Brady plan.

We have also, as I mentioned in my testimony today, looked at different kinds of indebtedness with regard to official bilateral debt. In Latin America in the President's Enterprise Initiative, in Africa in the Section 572 program and in the Toronto terms for rescheduling very poor countries' debts, where there was an element of forgiveness and also interest reduction involved.

So there is, I think, a recognition of many of the issues that are of concern to you.

With regard to the military debt and the question of how are we going to say no to other countries, I think we ought to spend some time on that or perhaps provide for you in writing some of the facts that will support the differentiation of Egypt from other FMS debtors.

If you take a look very briefly at the top eight FMS debtors to the United States, they include countries, such as Israel, Egypt, Turkey, Greece and Pakistan, for example. Those are the largest. Of those, the only country that faces a dire foreign exchange shortage and imminent default is Egypt.

The others do not meet that test or come remotely close. If Egypt, which has already been to the Paris Club, were to be given a liberal Paris Club rescheduling, for example, it will still face over the next few years, and irrespective of this particular debt decision, a very, very substantial financing gap that runs into the billions of dollars. That has to be dealt with in one way or another in its relations with the IMF, the World Bank, its creditor, in general and so on.

The other countries are not in that position. Therefore, they don't have the pressure on them to come to us to make the request. And if they do, it is very easy to explain from a set of rational facts why they are different, why we view them differently, why we are going to treat them differently, which in context means saying no to them.

Unlike Egypt, Israel, Turkey and Pakistan, for example, again the three largest, are not seeking any Paris Club relief. Many of these countries have already taken advantage of other arrangements to securitize and privatize some of their military debt, by restructuring it and selling it to private creditors, admittedly with a guarantee from the United States. A substantial part of their foreign military debt portfolio is thus no longer in our hands to forgive.

They have had the relief already of being able to refinance on more favorable terms with the private market. We would point that out. We would say: You don't have all that much military debt actually left with us. You have already had some relief. You are not going to the Paris Club. You are current on your payments. There is no case.

So I don't think we need to be quite so concerned about the precedent of Egypt within the foreign military debt category.

I think it is a controllable phenomenon. I think we can deal effectively with it. Perhaps it would give you comfort if we wrote a letter to the Chairman providing some tables and data that would

indicate why we think that these countries don't have that kind of a case.

For example, the World Bank gives a series of ratios by which it measures whether or not a country is heavily indebted. Again, if you look at the list of the eight largest FMS countries, only two have them meet all the ratio tests as being heavily indebted.

Those are Morocco and the Philippines. So out of that list of eight, there are only two that are heavily indebted. And there are other programs, the Brady plan and various other programs that are presently directed at those countries.

#### SETTING PRECEDENT

Mr. PORTER. Mr. Secretary, time is running on me, but not on you because there is a vote up. I wonder if I could get my questions answered before I go to vote

First, let me say that I think the Administration has done a magnificent job handling the Iraqi crisis. These questions certainly aren't intended in any way to denigrate that job. But I share some of the concerns that have already been expressed here.

I don't think we can say that the price of forgiveness of this loan is zero. I would suggest that Congress in the future would look very differently on loan programs if we go through with this forgiveness.

Frankly, I would look to use loans far less than we do now, and perhaps go to grant programs at a much smaller figure if we were going to assume that many of these loans might be forgiven in the future.

More than that, it seems to me that the American people ought to know exactly how our policy works. A good case can be made that it looks very, very much as if we are buying policies from Egypt that we want them to engage in.

What is it going to mean in terms of other countries that we want to stand with us in the future? Are they going to say, "Okay, we will stand with you, but what are you going to give us?"

Perhaps we ought to start by asking in the original negotiations with Egypt what they might do in the Gulf crisis. Was this whole subject brought up? It does seem, I think, a little strange that we find ourselves in this context. When Egypt acted, we wanted to forgive immediately.

It has a strange, I think, precedent-setting feature that may leave us bargaining with all of our allies when we need their help in the future in terms of other dollars and forgiveness.

Mr. OBEY. Could I interrupt before you answer that.

I would simply like to explain the situation.

We have two votes on the Floor. I am going to leave at this point to cast both of those votes. I will be back. I still have quite a number of detailed questions I would like to get at when everybody is finished.

I will be back as soon as those two votes are over.

I know Mr. Mrazek has a point and Mr. Porter will continue his questions.

Mr. MRAZEK. I have one minute.

Mr. PORTER. I have to go vote, obviously, too.

I would like to hear the answers to my questions.

#### PAYOFF FOR EGYPT

Mr. MRAZEK. I think what Congressman Porter has alluded to is very important. I think to the American people this will look like a \$7 billion payoff. I also think that it will serve to undercut public support for this extraordinary effort that President Bush has handled so masterfully so far.

No one is forgiving equipment loans for American farmers, no one is forgiving mortgage payments for American homeowners. If there is a good reason for all of us to be there, then all of the civilized nations in the world should be sharing that burden equally.

I don't think there should be the slightest suggestion that some nations have to receive a payoff in order to help. I know that President Mubarak, who we met with a couple of weeks ago, didn't ask for this. He said he didn't ask for it. I believe you should withdraw the proposal simply because it is going to be counterproductive to our immediate interests in the region.

Thank you.

Mr. PORTER. I am not sharing the Gentleman's comments at all, but I am very interested in the answer he would receive.

Mr. OBEY. Why don't we all go vote.

We will be back soon.

[Brief recess.]

#### U.S. BUDGETARY COST OF DEBT FORGIVENESS

Mr. OBEY. Since no one else is here for the moment, let me proceed to some of the questions I need to get the answers to.

I was earlier dealing with the question of what the actual budgetary cost is for Egypt. Specifically what I am trying to figure out is, what is the true budgetary cost for Egypt for this year, for the next four years of the Administration's proposals? What would be the budgetary cost in 1990 based on the very same numbers—or the very same assumptions—that you are using to arrive at the Egyptian cost estimates; namely, the amount that we estimated that they would pay this year, next year, etcetera, etcetera, etcetera.

What would that cost be with respect to Poland if we forgave all of Poland's standing debt or if we forgave 58 percent of it as is the same percentage that we are looking at now for Egypt?

I want to know how you arrive at those figures, and then I would like to know what the cost would be for Turkey, Pakistan, Philippines, and Greece if we were to do that for FMS. Let me stop at this point, because Mr. Porter is back and let me ask him to take you through his questioning and then I will try to wrap up as quickly as I can.

Mr. PORTER. You remember?

Mr. EAGLEBURGER. I think I do.

Mr. PORTER. If you do, go ahead.

#### DEALS WITH MUBARAK

Mr. EAGLEBURGER. Essentially as I understand it, your question, then, amended and made sharper, shall we say, by Congressman

Mrazek was, was there a deal cut? Did we promise something to Mubarak in order to get him—I may be repeating it wrong.

Mr. PORTER. No, that is correct, but beyond that, what kind of precedent does that set for us dealing with other people in the future when they say to us, "is that what you want done? Well, what is in it for me?"

Mr. EAGLEBURGER. Congressman, first of all, if you look at the record of events following on Saddam Hussein's attempt to digest Kuwait, you will see that President Mubarak moved out—let me start it over again.

There were no deals cut. We made no promises in advance of Mr. Mubarak doing what he did. He did a whole host of things, and he did them fast. He called for an Arab summit meeting. In the process of that and meetings thereafter he brought the Arab summit around to condemnation of the invasion. He did it very much through his own leadership, and in a process which started out with a great many of the Arabs very uncertain about how to proceed.

He put 5,000 troops into Saudi Arabia on his own and he did it fast. He took a whole series of steps, in fact we, in a way, had to catch up and he did those things on his own. To the best of my knowledge, and I only say to the best of my knowledge because there may be something I don't know, but I don't think so, to the best of my knowledge there were no promises made to Mubarak before any of those steps were taken. He did them on his own.

There were no promises made by anybody in this administration that we would do X, Y or Z. I have tried to explain to Congressman Edwards the circumstances which led to the proposal with regard to the debt. They came out of the State Department.

I can tell you, and you can believe me or not, as you wish, some light bulb didn't go on over my head and say, aha, we have been wanting to do this for the last three years. Now is our chance.

We looked at the situation. We looked at the fact that the Egyptians had had to make a Brooke payment that had been very difficult to make. It brought home to us that this was an increasingly difficult issue over a period of time when the Egyptians were going to be putting a lot of money into something on their own that we felt was critical to all of us.

It was our initiative to propose this debt relief, not based at least in my estimation, on all of a sudden realizing we could accomplish something we had been waiting to do for years. As I said in my statement, up until this particular crisis, we had been telling the Egyptians, and I think would still be telling the Egyptians no debt relief. You have got to pay. We didn't do this to pay them off.

I don't, however, feel that there is anything wrong with having recognized on our part the criticality of Egypt's role in trying to hold the Arabs together in opposition to Saddam Hussein and his actions, recognizing this was going to cost Egyptians a lot, recognizing that even if we did something to try to help him, we would only be helping to bring the Egyptian economy back to the point it was before this all started, which we all know wasn't in good shape.

There wasn't an attempt to buy him off or to pay him off. There is an attempt to keep him in business. I almost said to prop him up, and that is wrong. But there is an attempt, a desire to keep

him there, keep him in business, keep the Egyptian people supporting what he is doing in an Arab world in which we all know there are a lot of Arabs around that part of the world who don't particularly support what we are doing.

In Egypt there is no question about that. Without Egypt, we can't make this work. We have got to keep Egypt, and we felt this was one earnest sign of our support for him. That is all.

#### ISSUES BEYOND THE GULF CRISIS

Mr. PORTER. Mr. Secretary, you said earlier, and perhaps in an off-handed way, that Turkey doesn't want debt relief. Maybe you meant Turkey wasn't asking for debt relief. I can't imagine any country that wasn't run by insane people that wouldn't want debt relief if they could get it.

I suggest that Turkey's role in many ways has been just as important a role as Egypt's. They have a debt problem that isn't quite as severe. I would suggest that if they came to Congress and asked—if you came to Congress and asked for the same kind of relief for Turkey, you would realize that Congress would put some conditions on that debt relief; namely, we would say "let's get the troops out of Cyprus and get that situation solved, and then we will grant the debt relief."

Why should the Congress not take this opportunity if we are to grant debt relief of this magnitude, to ask of the Egyptian government that they follow some of the sound economic principles that we know will help their economy and that perhaps they can't follow easily because of their own internal political calculation?

In other words, isn't this an opportunity to say, fine, let's get rid of this debt. But let's get rid of some of the heavy hand of the state and encourage private enterprise a great deal more than you have done already and maybe look at some of the other conditions that might be important, particularly the rapid growth of population that overwhelms their institutions and their resources.

Why not look on this a little more broadly than you're looking at it and simply say let's forgive the debt because of the situation in Kuwait?

#### TURKEY

Mr. EAGLEBURGER. Congressman Porter, I am going to ask Secretary Mulford to answer that question.

I want to come back to Turkey for just one minute before I do. I do a lot of things in an off-handed way and it also gets me in trouble. It wasn't really off-handed on the Turkey situation. Let me try to explain what I mean.

I don't want to get into details on people and who said what to whom. Let me simply say to you that we have had, on what I consider to be good authority, reports of very senior Turkish officials saying.

We are not in the same circumstances as Egypt. We are more mature. Our economy is more mature. We can handle our debt. We pay it. We will continue to pay it.

"What we want is better access to U.S. and western markets." These are the kind of things they have said they want. It has been

said to us, and maybe it will change, that in fact debt relief is not something they are interested in.

Now, let me also say that what this exercise has shown to me, and I needed to be reminded, I will admit it, is the criticality of Turkey to the whole effort we are now going through and, indeed, the importance and criticality of Turkey if you look into the future of the gulf and where we want things to be and how we want to start to stabilize that situation. So I don't in any way want to indicate that we don't have a real investment in making Turkey stand with us, too, but let me also say they stepped right up to the plate on the issue of shutting down the pipeline, which was expensive for them, immediately.

But my remark was not off-handed on the question of their desire for debt relief. Now that may change, but as of now that is not what they want, but let me get Mr. Mulford to deal with your important question.

Mr. MULFORD. I would just make several short points. First, we should remember that forgiving debt for a country, you said anybody would be out of their mind not to want it. I think that is simply not true because it is a financial set back for a country.

Turkey has worked its way out of an extremely difficult debt problem in the 1970's. It has reestablished its international credit. Approximately half of its debt is with commercial banks. If it were granted some sort of a debt relief or sought it, it would cast a bad shadow on its whole creditworthiness as a nation.

Mr. PORTER. Not if we initiated it and if it was FMS, I don't think it would hurt their credit rating.

Mr. MULFORD. Well, even if you take that view, we would then be taking an action which, with half of their debt in the hands of commercial banks, we would be substantially improving the relative status of the commercial banks.

Again, I don't see why we would do that. As I said before, I don't think there is a case for Turkey or for the other countries, and that is where I think we should focus our attention. You raised the question, I think, of policy changes in Egypt.

#### ECONOMIC POLICY CHANGES IN EGYPT

Egypt has been negotiating an IMF program. It has made quite a lot of progress on a variety of different policies which I would be happy to go through with you if you wanted me to. It has not reached agreement on some of the major issues such as the fiscal deficit, the exchange rate, and so on, but it has made a lot of progress in other areas.

It continues to negotiate. They have told the IMF even now with this present situation that they want to continue the negotiation to try to establish an IMF Program. They have World Bank loans under negotiation which, again, have conditionality. I think that if we want to treat this situation as unique for geopolitical and military reasons, we should do so for those reasons and not simply take the view that because they are willing to change some economic policies, we then forgive their debt.

We have to remember that debt forgiveness is a one-time action. There is no way to enforce afterwards continued compliance with policies once the act of debt forgiveness is completed, so there is no continuing discipline. There is a real problem there in discipline.

Mr. PORTER. Well, except that often countries, and I am not sure this applies to Egypt, need an outside influence in order to make decisions that are very tough to be made at home and sometimes a little added impetus toward that direction is possible.

#### COST OF DEBT FORGIVENESS

Finally, let me ask your technical expert, the value of this debt, the amount owed is \$6.7 billion. If all of that debt was paid out according to its terms in full, what would be the amount of money that the United States would have received over the entire life of all the loans?

In other words, what is the future value.

Mr. DIEFENDERFER. The present value?

Mr. PORTER. The present value of the entire debt, yes.

Mr. DIEFENDERFER. It is a calculation we can do. We haven't done it.

Mr. PORTER. It might be two or three times as large as this amount if the service is six or seven hundred million a year?

Mr. DIEFENDERFER. No, present value would be much less.

Mr. PORTER. I am talking about the—

Mr. DIEFENDERFER. Actual value over the life of the loan?

In other words, add up all the interest and all the principle?

Mr. PORTER. And all the principal that was expected as a result of loan terms. I suppose it would be a very, very large sum of money. How will this score for Gramm-Rudman purposes with the disagreement between yourself and CBO?

Mr. DIEFENDERFER. Well, you are, if you choose to be bound by CBO's estimates, so for our purpose it will score over the next five years as a zero impact. For your purpose, being bound by CBO's estimates, it is whatever they say. Now, I have been advised that they say perhaps \$200 billion the first year and anywhere between a billion and two point some billion over five years.

This was a matter of discussion at the budget summit during the last week at which I was present, and the appropriators represented by Mr. Whitten and Mr. Byrd, as well as the Ranking Members said, well, look, we have to go by CBO scoring. The Administration is saying, fine, we understood you have to, we would be willing to make adjustments in the base line to accommodate that. You have to live by a different measuring stick.

Mr. PORTER. Mr. Secretary, could I ask one final question? Did you consult with anyone in the Congress prior to the leak of this information? Did anybody in Congress have any inkling about this loan forgiveness plan?

Mr. EAGLEBURGER. Not as far as I am aware, no, sir.

Mr. PORTER. Nobody?

Mr. EAGLEBURGER. I don't think so.

Mr. PORTER. Thank you all very much.

Mr. OBEY. Well, gentleman, let me get back to the question of cost estimates. You have indicated that you estimate that it is going to be zero budget cost. CBO has as their preliminary estimate, as I understand it, about \$2.4 billion over five years.

I understand that one of the reasons those numbers look different is because CBO still expects that a moratorium interest would have to be made. Is that your understanding?

Mr. DIEFENDERFER. That is what I have been told, but I have not been told that directly by CBO.

Mr. OBEY. If that is the basis for their determination of the cost, tell me why you would disagree with the CBO budget estimate and what is your attitude with respect to that question of moratorium interest?

Mr. DIEFENDERFER. The reason our estimate was made and why we would disagree is our International Affairs Division, when it looked at the specific case of Egypt, felt that Egypt would not be in a position to pay us one dime and if we were to say \$200 million, agree with CBO, we would have inflated receipts over the advice of our best people who work on this part of the budget. So it is as simple as that.

We didn't think they would be in a position to pay us anything.

Mr. OBEY. Okay, the problem is when you get into this stuff, you are damned if you do and damned if you don't sometimes.

Mr. DIEFENDERFER. That is correct.

Mr. OBEY. Let me ask a question. Are you saying that you are estimating that since the U.S. will not be receiving debt repayments from Egypt, then forgiving that country's debt under FMS would have no real budgetary cost?

Mr. DIEFENDERFER. In the five-year period, yes, sir.

Mr. OBEY. Right. I guess the question, then, is what relationship is there between your budget scoring pattern and the real value of these debts?

Mr. DIEFENDERFER. Well, we can provide you with—I don't have it with me—a history on our predictions year-by-year what would be repaid and what was actually repaid.

Mr. OBEY. Here is what I am getting at. As I understand it, the commercial debt of foreign countries sells in secondary markets at a discount value. What does Egypt's debt sell for in the secondary market right now?

Mr. DIEFENDERFER. I don't know the answer to that, but I don't think they could sell it.

Mr. MULFORD. You mean their commercial bank debt?

Mr. OBEY. Yes.

Mr. MULFORD. Their commercial bank debt is—it is a very thin market. It is fire sale market, but—and don't forget that some of it has the support of government guarantees, which gives it some considerable additional value. I am told that the price of commercial bank debt of Egypt is, give or take a bit, around 40 cents.

Mr. OBEY. My understanding was 35 or 40 cents on the dollar.

Mr. MULFORD. But much of that is government guaranteed.

Mr. OBEY. I understand.

Mr. MULFORD. And that probably explains why, for example, it is traded at a higher level than a lot of the Latin American debt.

Mr. OBEY. I understand. What does Poland's commercial debt sell for on the secondary market?

Mr. MULFORD. Well, I think the last I heard, I am a little bit out of date, but I think about 17 cents, something like that.

Mr. OBEY. Okay. So theoretically, were we forgiving commercial debt, which we are not talking about. If we were, we would theoretically be giving up more money by forgiving Egyptian debt than Polish debt. Wouldn't that be correct, if we were talking about their commercial debt?

Mr. MULFORD. Well, yes, but that is because we would have been behind that debt a guarantor. We could be looked to as a source of payment.

Mr. OBEY. I understand. Let me simply ask this question. Why should not the U.S. budget reflect in some way the value that is ascribed to pieces of the debtor nation's debt? Don't we need a better way to actually estimate what it is that it is going to cost us in terms of budget if we are going to talk about forgiveness?

I mean, it seems to me that if we don't have it, any administration can simply at the beginning of the year peg a number, have a game plan in mind, come at us later and say, well, boys, because we already figured this in, it is not going to cost us anything. And so, Katie, bar the door. Shouldn't there be a different way to determine the value of this debt?

Mr. DIEFENDERFER. Absolutely, in the budget summit and for the last several years we have been advancing—that is before I was at OMB, something called credit reform where the subsidy factor of all loans and loan guarantees are figured in, and monies appropriated to account for those guarantees when they are made.

It is now something I believe that both the Budget Committees—

Mr. OBEY. But my understanding is that the summit credit reform has not addressed the question of debt forgiveness. They have only addressed the question of future debt incurred.

Mr. DIEFENDERFER. Well, the summit is addressing loan guarantees that you make from this point on, and that would include a calculation for if you made a loan to—

Mr. OBEY. But that means my statement is correct, doesn't it?

Mr. DIEFENDERFER. Yes.

Mr. OBEY. Okay. Go ahead.

Mr. DIEFENDERFER. That is okay. If you just wanted an answer to that question, then the answer is, yes.

#### EGYPT'S DEBT: THE NEED FOR MULTILATERAL ACTION

Mr. OBEY. Let me ask you with respect to Egypt, Egypt's owes debts to a lot of other countries. It is in arrears to many of them. As I understand the cost of this situation to them, it is expected that Egypt's balance of payments will worsen by about \$1.8 billion because of the crisis, because of oil prices, remittance, all the problems that were just mentioned.

As I understand it the net effect of forgiving the FMS debt payments is only about \$600 million in decreased liabilities per year for Egypt because Egypt, at least according to some estimates, would still be required to pay moratorium interest.

Now, we have got a difference on that. If it is true, it means that even if this were to be passed, Egypt would still have a very large problem of about \$1.2 billion that this did not address.

Assuming that that problem can be worked out, let me ask you this. How will this really result in benefit to the Egyptian populace as a whole? Isn't this simply going to relieve their requirement to pay Uncle Sam so that they are simply in a better position to pay other government debtors?

I mean, aren't they in arrears to other governments to the tune of about \$10 billion?

Mr. MULFORD. Yes, they are in arrears to other governments, and they have substantial official bilateral debt with other governments. During the course of our visits around the world on the question of contributions to front-line states, we did in fact raise in each case with major creditors of Egypt the fact that we were contemplating the question of debt forgiveness, and if we did that, we would hope that they would follow suit.

The second largest—

Mr. OBEY. Do we have any commitments that they will?

Mr. MULFORD. We have talked to the French who have about \$5 billion, West Germany has about \$2.5 billion, and Japan, \$2.5 billion. I can't give you what portion of that debt is military in the case of France, but they all, of course, said this would be extremely difficult and gave reasons—

Mr. OBEY. France, I understand is \$1.6 billion in military?

Mr. MULFORD. I think it is just shy of \$2 billion. It might be a little higher, than \$1.6 billion. 1.9 billion seems to be the number I remember, but their total bilateral debt is \$5 billion. My guess is about 1.9 billion or 2 billion.

The point the French made was that unlike the United States, they do not distinguish in their program between military debt and all other export debt, so they say if they were to forgive military debt, the contagion to other kinds of debt would be very severe and they would face problems in Morocco and elsewhere. That is the answer we got.

Mr. OBEY. But therein lies the problem, it seems to me. If Egyptian debt relief does not take place within the context of a multilateral agreement, then it seems to me all the U.S. taxpayer is going to be doing is acquiescing in the forgiving of Egyptian debt to us, so that Egypt is in a better position to write a check to somebody else.

Mr. MULFORD. There is that risk and that is why we asked the others to please follow suit. We are waiting for their answers. We haven't had their answer.

Mr. OBEY. Well, when you have got their agreement, would you please let us know.

Mr. MULFORD. Yes.

Mr. OBEY. Because it would seem to me that that would be the appropriate time for us to move with this package if we were going to move at all. Otherwise, I see no benefit going to Egypt. I see ben-

efit going to France. I see benefit going to other European creditor countries, but I don't see much benefit going to Egypt.

Mr. MULFORD. I think, Mr. Chairman, in a case where we are the major player in terms of debt, and there are others that have exposure and it is substantial, but compared to us, rather minimal—I am not trying to play down the importance of it—when you are in a position of leadership sometimes you just have to act, and make the decision without waiting for the other guy to follow.

Mr. OBEY. Well, it is interesting to me because when I was in Poland, just before I went to Saudi Arabia last month, I talked to Polish officials about their debt problem. What they said to us is they wanted us to lead by example, because they said that they felt that if we did and our action led to expectations on the part of other countries, we might get a multilateral result rather than a bilateral or a unilateral result.

So it seems to me that that is a correct view with respect to Poland, and it seems to me that if we are going to do it with respect to Egypt, we ought to know that there is a tie in.

What would be wrong if we were going to do this? What would be wrong in saying that the effective date for any action we were taking here would be the date on which other creditors do likewise so that we are in fact helping the fellow we are supposed to be helping, rather than helping European treasuries?

Mr. MULFORD. Well, I suppose that in the military debt field, I would have to look at the numbers, the only other large provider of debt for military purposes is probably France. The other debt is probably not military debt.

#### BROOKE-ALEXANDER AMENDMENT

Mr. OBEY. But then that gets us into the other problems, because as I understand, Mr. Mitterrand has been suggesting there are a list of 40 some countries for whom we should be considering debt reduction or debt relief, because, as he indicated, of the increased oil prices around the Third World. That gets me back to the other question I was asking Mr. Eagleburger, which is, if we are going to do this, what is the cost going to be by the time the last shoe gets dropped.

You can see the reaction coming from this committee. When I talked to the President this morning, I told him I was going to try to help, and I am going to try to help, but my question is, how do I do it in the midst of all of these unanswered questions, in the midst of the legitimate questions raised by every member of this committee?

I mean, you can see what chance you have got at this point to get this baby through this committee.

Mr. EAGLEBURGER. Mr. Chairman, let me try to help you help the President. There is a factor with regard to the FMS debt that you can't ignore, and it is Brooke/Alexander, and the situation we face—

Mr. OBEY. So why can't we simply waive Brooke?

Mr. EAGLEBURGER. Because then all we are doing, as I indicated earlier, is piling the debt up, plus interest, to the point that it continues to be unmanageable. The fact of the matter is if we don't get

this debt out of the way, Brooke/Alexander means we are prohibited from any further military assistance to Egypt.

Mr. OBEY. But, Mr. Secretary, everybody understands, if they are paying attention, that we are going to have to waive Brooke. If you want a shot at getting something done, and I want to help you, it seems to me that rather than being up here asking to squeeze it into the supplemental before anybody gets to ask any questions or, much less, get them answered, it seems to me the best thing to do is to deal with this in the conference on the regular bill, which is going to occur within the next 30 days anyway.

That gives you more time to try to structure an approach that can gain more support than this has this morning. It gives us more time to explain the differentiation that has to occur between different countries, and it gives us more time to see whether, in fact, our allies are going to help in the process or simply take advantage of the situation.

Mr. EAGLEBURGER. With all respect, Mr. Chairman, as I tried to explain earlier, this is, in our view, critical, it is in our view going to be a very serious problem for us in Egypt if it does not proceed. If you can't manage it, then we will have to face those consequences, but I don't see—in fact I think I can tell you now we do not believe it should be separated from the supplemental. We feel it is urgent. We feel it makes good sense both politically and economically to proceed with this.

Simply waiving Brooke—you as the man who rightly time and time again tells us we have got to stop piling up the problem for later, all waiving Brooke does is exactly that.

Mr. OBEY. Not if you provide a moratorium on interest.

Mr. EAGLEBURGER. It doesn't—it still piles up the problem.

Mr. OBEY. It would not build up a dime if you did that. It also gives you more time.

Mr. EAGLEBURGER. It also sends a very bad signal. I can't say anymore than that.

Mr. OBEY. I would suggest having this thing go down in flames on the Floor sends a worse signal from your standpoint. I will be very frank about it. Everybody knows Mr. Broomfield is opposed to this package. I was just talking to Mr. Broomfield in the hall on the way back from the vote, and I won't tell you what his statement was of the votes this would get on the Floor, but it wasn't very high.

Mr. EAGLEBURGER. What he is going to get or what we are going to get?

#### DIFFERENTIATION: EGYPT VS. POLAND

Mr. OBEY. What you are going to get. I am telling you, this proposal has to be reworked and it has to be dealt with in the context of some of these other problems, and you have to find a good clear way to distinguish between what happens here and what happens elsewhere.

Mr. MULFORD. Mr. Chairman, if I could just make a suggestion there, I think we have differentiated the military debt of Egypt. First, I tried to show that among the various major military debtor countries to the United States, Egypt is unique and different, and

it is possible to fence that off and to say, no, to others who might come forward and ask for similar treatment.

It is clearly different from our other bilateral debt in other parts of the world. The only problem, it seems to me, that you have raised is a difficult one why haven't the French followed suit. I think the answer to that is we are the leader here. We have the lion's share of the debt. We have made a decision. We are going to go forward. We will continue to push the French to follow, and indeed they may.

Mr. OBEY. Does that mean we are going to wait on Poland's debt until Germany moves because Germany is the largest holder with respect to Poland?

Mr. MULFORD. I think, to answer a point you made a few minutes ago, the United States has been leading on Poland. We raised the issue at the economic summit in Houston, and this was shortly after the President's announcement about Latin America, where we did outline a program for reducing official debt under certain agreed conditions.

We discussed Poland, and the result of that discussion was that everybody agreed, first of all, that it is an enormously complex problem and that we would look into it. It will be discussed again at the ministerial meeting this weekend, and an attempt will be made, I am sure, over time to seek ways multilaterally to try to come up with options for Poland.

Now, if we decided that we were going to do for Poland what we are proposing to do in Latin America, I think you would agree that the result for Poland would be very, very small, given the sort of debt they have. If we were willing to go a step further and say let's just forgive all of Poland's debt to us, we would only be talking about \$3 billion out of \$30 billion. While it might make an example, it would also create tremendous resentment and resistance.

It seems to me it is better for the time being to work within a multilateral format to try to find ways to structure debt reduction options and interest reduction options for Poland that others can buy off on and that will actually produce a favorable result for Poland.

That may take a little time, but I think it is clear where we stand on that.

#### DEBT SERVICE RATIO

Mr. OBEY. I don't necessarily disagree with that, but let me just ask you a few specific questions. What debt service ratio do you think begins to be indicative of a country's being in severe economic trouble?

Mr. MULFORD. Well, I can give you the debt service to export ratio level that according to the World Bank indicate you are seriously indebted, and that is 30 percent.

I think in Treasury we might take the view that that figure should be closer to 27, maybe something like that, but we wouldn't argue with 30.

Mr. OBEY. As I understand, Egypt's debt service to export ratio is 63 percent.

Mr. MULFORD. No, their debt service to export ratio is 27 percent in 1988.

Mr. OBEY. Twenty-seven percent?

Mr. MULFORD. They have a large amount of concessional debt. That is one of the problems. Egypt, if you take the three main criteria, which are debt to GNP, debt to exports and debt service to exports, Egypt qualifies on two, but doesn't qualify on number three.

Mr. OBEY. Well, why does the World Bank publication indicate the total debt service ratio as being 63.34 percent?

Mr. MULFORD. I can't answer that. I would have to check with my staff to see—

Mr. OBEY. Are you referring to after the Paris club rescheduling?

Mr. MULFORD. I am using World Bank figures here, and selected FMS debtors data that we have here in the Treasury.

Mr. OBEY. Well, the World Bank book that I am looking at, page 134, says 63 percent. Let me ask you, what is the same debt service ratio for sub-Saharan African countries?

Mr. MULFORD. I don't have that figure, but it is—again, it varies depending upon how much concessional debt a country has. Bangladesh, which was mentioned earlier, has quite a lot of debt, doesn't have much commercial bank debt. It has much concessional debt, and therefore its ratio is relatively low, even though it is heavily indebted. It is a very hard figure to sort out—that is why we don't just look at one figure.

Mr. OBEY. What is Poland's?

Mr. MULFORD. Poland, I don't have that handy here, not without looking for a moment.

Mr. OBEY. My understanding, using the same numbers that the World Bank uses, is Poland is at 88 percent.

Mr. MULFORD. I don't have that figure handy.

Mr. OBEY. Well—

Mr. MULFORD. I don't know if that is right, but I would imagine that Poland's is very high.

#### CONTRIBUTIONS FROM OTHER COUNTRIES

Mr. OBEY. Let me ask you one other question before I try to end this. When I was discussing this with Mr. Broomfield and several others, the question they raised is, well, since we are going around asking other countries to help pay the cost of this operation, why shouldn't Saudi Arabia, the principal beneficiary of our action in the Middle East at this moment—except perhaps for Kuwait—pick up a piece of this tab?

What would your response be to Mr. Broomfield's question?

Mr. EAGLEBURGER. I already answered that, Mr. Chairman, I thought. We looked at this. We thought about it with regard to Saudi Arabia. We thought about it with regard to Kuwait. Our view was we want money from both of them, yes, we want it for aid to the front line states.

We want it for assistance in picking up the costs incidental to our deployment to the Middle East; that that money really—

Mr. OBEY. But Mr. Broom—

**Mr. EAGLEBURGER.** Can I finish? That money ought to go to those particular costs. If it is drawn out and used to pay off the Egyptian FMS debt, it comes to us, yes, but it doesn't meet those needs, and because the President was interested in demonstrating U.S. support for Egypt, given what it was doing for us.

**Mr. OBEY.** Well, great, but Mr. Broomfield's response to that would be, well, look, that is fine and good, but why don't you simply recognize that the administration says this is being done to help Egypt because of what is happening in Saudi Arabia, why shouldn't Saudi Arabia participate, and so simply say that well, because we want to get aid to the front line states isn't going to be a satisfactory answer to Mr. Broomfield, I don't think. And it is an example of the kind of problem we are going to run into if we try to bring this baby to the Floor at this time.

**Mr. EAGLEBURGER.** Mr. Chairman, when I was going through figures earlier, I said that the Gulf states were contributing \$12 billion of which a large part, I don't know how much at this stage, is Saudi Arabian. It is not as if Saudi Arabia and Kuwait are not contributing substantially to this joint venture. They are.

The only issue—not the only issue, obviously, but the only issue from our point of view, maybe not Mr. Broomfield's, is where does that money go, and what is it the U.S. can do as an earnest show of our support for Mr. Mubarak. I have to tell you in listening to the last few minutes of this discussion, I understand the points that are being made, but they do ignore, with all respect, and Mr. Broomfield apparently ignores, the fact that there is a crisis; that we are trying to demonstrate solidarity with the President of Egypt and support him at home. Therefore, to some degree at least, this whole issue needs to be looked at, and not simply as a question of book-keeping, and I don't mean that in the wrong way.

But it also needs to be looked at in the psychological, political situation in which we find ourselves in the Middle East, and I am concerned to hear that it is so much not appreciated.

#### REFUGEES

**Mr. OBEY.** Well, I will respond to that in a moment, but before I do, let me simply ask one totally different question. With respect to refugees, the Administration has no request up here for refugees. Is there not need at this point, given the incredible movement of refugees across borders, because of these events—will there not be demands made upon the United States to increase our refugee assistance funding, and can we be assured that if we do not move independently to put some additional money in for refugees, that the amount previously appropriated will be sufficient to cover use for the refugees that it was intended for?

**Mr. EAGLEBURGER.** As far as I know now, Mr. Chairman, there is still a balance of \$14 million in the ERMA. We have spent \$10 million. In total, I think we have committed \$28 million to the refugee exercise in the area. To the degree I can answer your question, our objective, and thus far with some success, has been to tell a number of the other states contributing that we think they ought to be picking up the refugee costs and, indeed, over \$200 million has been spent on that.

Most of it has been contributed by others. We are hopeful we can get others to continue to contribute and hang on to the \$14 million in the ERMA for any other emergency. I do not think at this stage that we believe it is necessary to come in with a request for more money, but I can't promise you that if the world turns really nasty, we won't have to. But as of now, we won't have to.

#### BASE RIGHTS

Mr. OBEY. One other quick question. With respect to section 9121, the defense authority you are asking the other subcommittee for, which allows Defense to enter into an agreement with any foreign government for the reciprocal provision of logistic support, supplies and services, etcetera, could that authority be used to pay base rights countries from the DOD budget for various services provided?

Mr. EAGLEBURGER. I have no idea. We will have to get you an answer.

[The information follows:]

The question appears directed to what is now Section 1451 of the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510). That section provides for agreements under which the United States agrees to provide logistic support, supplies, and services to the military forces of certain other countries in return for reciprocal provision of logistic support, supplies, and services by that country to the U.S. Armed Forces. This section does not provide for agreements under which the United States makes payments for the provision of logistic support, supplies, and services to countries where the United States operates bases.

#### CHAIRMAN'S SUMMARY STATEMENT

Mr. OBEY. Gentlemen, I appreciate your staying here so long. I know you need to get away. As I told the President this morning, I want to work with him. I understand the need to respond to Egypt's situation.

But with all due respect to the argument you just made, let me simply say that I don't think it is accurate, were you to assume that because we might have a disagreement or a series of doubts about the specific instrument, that you choose to deliver your policy decisions; that just because we deliver with that, that somehow we don't appreciate either the conduct of Egypt or the need for you to respond.

You can agree that your son needs an allowance, but it doesn't necessarily have to be \$50 an hour. We are not—I am not unhappy with the fact that you have raised this question with respect to Egypt, because the committee has been trying to get people to understand around here for a long time that this is a massive problem and that it has been hidden under the rug.

I mean, the administration is not asking us to approve something which is going to cost us billions of dollars, in my judgment, because we weren't going to get the money anyway. Anybody who honestly believes that Egypt in 1993 is going to be able to pay us a billion and a half dollars when we are providing them military aid of \$815 million, is mistaken.

It just is not going to happen. But the fact is that having said that, I just have to say that this has to be presented in a different context if we are going to have an opportunity to be of help. With

respect to the debt question, we do have to have an understanding of what the other costs are.

We need to know at least privately, if not publicly, what you expect this whole package to eventually look like because three years from now our committee does not want to wind up facing a responsibility to appropriate X billions of dollars for FMS or any other program and to be told by the Administration, "well, sorry, but because of commitments that we made back in 1990 in October, you have got no choice." So we need to know up front at least the range of what the whole bundle could contain.

We also, in my view, need to have a clear understanding of how the Polish issue is going to be dealt with, and the reason I come back to that is very simple. Secretaries of State and Treasury are in for a period of time and then they leave and are replaced by new ones. Members of Congress tend to be around for a bit longer, and so we don't just have to worry about what happens on your watch.

We have to worry about what happens on the next guy's watch and the next guy's watch, because we are sitting in these chairs and we have to answer for the long-range implications of what was done every time we were in a crisis management situation along the way. That means we have got to take a broader view.

We have to take a longer view than the Administration. We have to have some understanding of how it is you are going to deal with the problem that everybody knows is sitting there, which is the Polish debt situation. As I have said before, in 1953, we forgave over 40 percent of the debts of Germany; the country that caused World War II, the country whose actions resulted in millions of people being slaughtered, and the country that led to Poland becoming a victim.

For the last 45 years Poland has been operating under a government imposed by the Soviets with the acquiescence of the West. We now have a democratic government. Whether that Polish government succeeds with the momentous economic reforms it has undertaken is going to have, I think, a fair amount to do with the kind of faith that the Soviets had in moving toward dramatic economic reform.

But in my view, we don't have a lot of time to deal with the reality of the Polish situation. When you have a country which has moved to democracy, and when so far the results of moving to democracy has been a one-third drop in the standard of living, you have got a problem in terms of persuading people that democracy is a long-term good deal. We need to face the fact that Germany has an obligation to do for Poland what the world did for Germany at the end of World War II, and we need to face the fact that we can play a key role in that by perhaps simply saying publicly, okay, we are going to take action in recognizing the uncollectability of Polish debt on the same date that the Germans face up to their responsibility to do so.

It seems to me that that gives us the opportunity to deal with it in a multilateral context, but it still seems to me that we have got to push the thing along. I think we have got a right to know what is going to happen on that, what is the Administration specifically

planning to do and when. What is their estimate of when something is going to happen on this?

If we assume that our foreign policy is going to be Persian Gulf centered and Middle East driven to the exclusion of all other relationships, to the solution of all other geopolitical realities around the world, and that is the problem we have got, I simply want to say that I think we are going to have a difficult time dealing with this within the supplemental. I am convinced that if, given what is happening in the budget summit at this point, we were to put this in the supplemental, it would go down in a heap. And I don't want to do that to you, to Egypt, to the President.

The President is correct to raise this issue. The President is correct to try to do something about it. I want to help him, but I really do think it has to be reshaped, and I think we need to talk with Mr. Edwards and others around here about how we are to do that because what you are trying to do is important. A good measure of it, in my view, is justified, but we need to take into account the context in which it is being handled, and we need to have a better measurement of what the other implications are of everything we are doing, including the Saudi arms sales situation, which I consider to be important. I recognize we need to do something with respect to Saudi Arabia.

But, I think the package that is being contemplated is grossly oversized and will drive a new arms race in the Middle East like none we have seen before. So I simply want to say, I do want to help you. I will try to help you, but we have got to have more flexibility. We have got to have a reshaping of this package, taking into consideration some of the other realities.

Mr. EAGLEBURGER. Thank you, Mr. Chairman.

Mr. OBEY. Thank you.

[CLERK'S NOTE.—The following material has been inserted for historical purposes: 1. Copy of the Administration Request for Egyptian Military Debt Forgiveness, 2. P.L. 101-513 Legislative Authority Granted for Egyptian Military Debt Forgiveness, 3. Administration Egyptian Debt Valuation Report and other required certifications or determinations.]

**REQUESTING DIRE EMERGENCY APPROPRIATIONS**

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**COMMUNICATION****FROM****THE PRESIDENT OF THE UNITED STATES****TRANSMITTING**

**A REQUEST FOR DIRE EMERGENCY APPROPRIATIONS FOR FISCAL YEAR 1990 AND APPROPRIATIONS TRANSFER LANGUAGE FOR THE DEPARTMENT OF DEFENSE—MILITARY; AND LANGUAGE THAT WOULD CANCEL EGYPTIAN DEBT FOR FOREIGN MILITARY SALES, PURSUANT TO 31 U.S.C. 1107**



**SEPTEMBER 17, 1990.—Referred to the Committee on Appropriations and ordered to be printed**

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**U.S. GOVERNMENT PRINTING OFFICE**

FUNDS APPROPRIATED TO THE PRESIDENT  
TITLE V - GENERAL PROVISIONS

CANCELLATION OF CERTAIN DEBT

SEC. 603. Notwithstanding any other provision of law -- (a) the Secretary of Defense shall (1) issue to the Secretary of the Treasury sufficient notes or other obligations to purchase all notes made by Egypt evidencing amounts owed by Egypt to the United States (or any agency of the United States), other than amounts already owed to the Secretary of Defense, as a result of loans made before October 1, 1990, by the United States (or any agency of the United States) to Egypt under the Arms Export Control Act (all such loans being hereinafter collectively referred to as the "AECA Loans"), and (2) purchase all such notes made by Egypt, such purchase being considered in discharge of the responsibilities of the Secretary of Defense as guarantor of such notes; (b) the President shall hereupon cancel all amounts owed by Egypt to the Secretary of Defense as a result of all AECA Loans; and (c) the President shall also cancel all amounts owed by the Secretary of Defense under all notes or other obligations issued by the Secretary of Defense to the Secretary of the Treasury that are related to any guarantees of any AECA Loans, including all notes or other obligations issued under subsection (a).

This proposed language would permit the cancellation of certain debts owed by the Government of Egypt to the United States. This proposal would not affect fiscal year 1990 outlays.

Senate Amendment Providing for  
Egyptian Military Debt Forgiveness

**(176) SUPPORT FOR EGYPTIAN MILITARY DEPLOYMENTS  
IN THE GULF**

**SEC. 599E. (a) SENSE OF THE SENATE.**—*It is the sense of the Senate that—*

(1) *United States deployments in the Persian Gulf are dependent upon the support of United States friends and allies in the region;*

(2) *deployments of Egyptian armed forces in Saudi Arabia, and Egyptian logistical support for United States air operations in the region, are an essential element to the success of Operation Desert Shield;*

(3) *Egyptian troops in Saudi Arabia have deployed with United States-made and supplied equipment, which are supplied under United States military loan and grant aid programs;*

(4) *in addition to their role in support of Egypt's security, these deployments serve direct United States national security interests; and*

(5) *the forgiveness of debts on United States military aid loans to Egypt will enhance Egypt's ability to maintain deployments in Saudi Arabia and is in the direct national security interests of the United States.*

(b) *DEBT.*—Notwithstanding any other provision of law—

(1) the Secretary of Defense shall (A) issue to the Secretary of the Treasury sufficient notes or other obligations to purchase all notes made by Egypt evidencing amounts owed by Egypt to the United States (or any agency of the United States), other than amounts already owed to the Secretary of Defense, as a result of loans made before October 1, 1990, by the United States (or any agency of the United States) to Egypt under the Arms Export Control Act (all such loans being hereinafter collectively referred to as the "AECA Loans") and (B) purchase all such notes made by Egypt, such purchase being considered in discharge of the responsibilities of the Secretary of Defense as guarantor of such notes;

(2) the President shall thereupon cancel all amounts owed by Egypt to the Secretary of Defense as a result of all AECA Loans; and

(3) the President shall also cancel all amounts owed by the Secretary of Defense under all notes or other obligations issued by the Secretary of Defense to the Secretary of the Treasury that are related to any guarantees of any AECA Loans, including all notes or other obligations issued under paragraph (1).

*(c) In conformity with the requirements of subsection (d), the President shall convene an international conference on Egypt's debt crisis and the need for multilateral relief of Egypt's debt to all donor nations, for the purpose of securing multilateral agreement by all donors for a comprehensive solution to Egypt's international debt problem. Such a conference shall be convened at the earliest possible time after enactment of this Act, and shall focus not only Egypt's military assistance debts, but, for those countries which have not made military assistance loans to Egypt, shall also focus on economic assistance debt owed by Egypt. The President shall submit a report to Congress, not later than January 1, 1991, containing such information as the President deems appropriate regarding the results of such efforts, and recommending any additional steps needed to work effectively to resolve successfully the issue of Egyptian debt on a multilateral basis.*

*(d) The authorities provided in subsection (b) shall not become effective until December 31, 1990. As soon as possible after enactment of this Act the President shall issue invitations to Egypt's principal creditors and allies for an international conference. Such conference should be convened and concluded prior to December 31, 1990.*

## PUBLIC LAW 101-518—NOV. 5, 1990

## SUPPORT FOR EGYPTIAN MILITARY DEPLOYMENTS IN THE GULF

**SEC. 592. MULTILATERAL DEBT NEGOTIATIONS.**—The Congress finds that Egypt has official debt obligations that far exceed the amounts owed to the United States. The Congress further finds that Egypt's debt situation can be addressed effectively only in a multilateral context involving its major creditor governments and addressing both military and economic debt.

Therefore, before the authority contained in subsection (b) is exercised, the President shall seek to convene a multilateral conference of the major official creditors of the Government of Egypt for the purpose of adjusting Egypt's official debt in a manner which reflects the real collectability of that debt.

The President in such negotiations shall explicitly and strongly encourage other governments holding major amounts of Egyptian military debt to give that debt the same treatment that it is being accorded by the United States.

(a) **DEBT MORATORIUM.**—(1) There shall be a moratorium on the payment obligation by Egypt beginning on October 1, 1990, and ending on March 31, 1991, with respect to the notes described in paragraph (2).

(2) The notes with respect to which this moratorium shall apply are all notes made by Egypt evidencing amounts owed by Egypt to the United States (or any agency of the United States) as a result of loans made before October 1, 1990, by the United States (or any of its agencies) to Egypt under the Arms Export Control Act (all such loans being hereinafter collectively referred to as the "AECA Loans").

(3) Section 518 of this Act, section 620(q) of the Foreign Assistance Act of 1961, and any other provision that similarly restricts the furnishing of assistance to countries in default on payment to the United States of principal or interest shall not apply during the moratorium described in paragraph (1) with respect to amounts owed by Egypt under the AECA Loans.

(4) Nothing in this subsection shall interfere with, or otherwise diminish, the obligation of the Secretary of Defense as guarantor with respect to the AECA Loans.

(b) **DEBT CONSOLIDATION IN THE DEPARTMENT OF DEFENSE.**—As soon as feasible after the enactment of this Act, the Secretary of Defense shall—

(1) issue to the Secretary of the Treasury sufficient notes or other obligations to purchase all notes made by Egypt evidencing amounts owed by Egypt to the United States (or any agency of the United States), other than amounts already owed to the Secretary of Defense, as a result of AECA Loans; and

(2) purchase all such notes made by Egypt, such purchase being considered to discharge the responsibilities of the Secretary of Defense as guarantor of such notes.

(c) **PRESIDENTIAL REPORT ON THE REAL VALUE OF EGYPTIAN DEBT OWED TO THE UNITED STATES AND PRESIDENTIAL MILITARY DEBT REDUCTION AUTHORITY.**—After the Department of Defense has taken the actions described in subsection (b)—

(1) the President shall submit a report to Congress in which he determines the value of the AECA Loans and all other loans owed by Egypt to the United States based on realistic payment expectations as of October 1, 1990, and an explanation of the factors considered by the President in determining the value; and

(2) after the President has submitted the report to Congress provided for in paragraph (1), the President may—

(A) reduce the amount owed by Egypt to the Secretary of Defense to an amount that equals the value of the AECA Loans as determined by the President in the report described in paragraph (1);

(B) direct the Secretary of Defense to amend, modify or otherwise alter the notes described in subsection (a)(2) so that the amended, modified or altered notes (the "amended notes") evidence a principal amount owed by Egypt to the Secretary of Defense equal to the value of the AECA Loans as determined under paragraph (1), and contain such terms and conditions as the President may determine consistent with the purposes of this section, provided that such terms and conditions shall not—

(i) reflect any interest accrued in respect of the period between October 1, 1990, and March 31, 1991; and

(ii) require Egypt to make any payment before March 31, 1991; and

(C) reduce the amount owed by the Secretary of Defense under all notes or other obligations issued by the Secretary of Defense to the Secretary of the Treasury that are related to any guarantees of any AECA Loans (including all notes or other obligations issued under subsection (b)) by multiplying it by a fraction, the numerator of which shall equal the value of the AECA Loans as determined under paragraph (1), and the denominator of which shall equal the sum of (i) the amount owed by the Secretary of Defense under notes issued to the Secretary of the Treasury pursuant to subsection (b)(1), plus (ii) the amount owed by Egypt as a result of the AECA Loans to the Secretary of Defense as of October 1, 1990, plus (iii) the amount that Egypt would have owed as a result of the AECA Loans to the Secretary of Defense in respect of the period beginning October 1, 1990, and ending immediately before the President makes the reduction described in subsection (c)(2)(A).

The military debt reduction authority provided by this subsection shall be limited such that no reduction shall result in a decrease in the principal value of the AECA Loans below the discounted net present value which would result from a restructuring of the AECA Loans according to the terms and conditions which apply to the loans of the International Development Association (principal shall be repayable over 40 years and shall bear no interest, and there shall be a 10 year grace period after which period 2 per centum of the loan shall be repaid annually for a period of 10 years, and 4 per centum of the loan shall be repaid annually during the remaining years).

(d) **DEBT CANCELLATION AUTHORITY.**—(1) The President, notwithstanding any other provision of law, in the context of the multilateral debt negotiations provided for in this section may reduce to zero the amended notes (in the manner specified in subsection (c)(2) (A) and (B)) only if other major holders of Egyptian military debt agree to equal or comparable reductions. If such other creditors do not agree to comparable reductions in their Egyptian military debt the President shall so report to Congress.

(2) If the President reports to Congress under paragraph (1) then he may further determine that it is essential to the national security interests of the United States to unilaterally cancel the requirement of Egypt to repay the United States for such Egyptian military debt.

(e) **CONSIDERATIONS.**—(1) In making this determination under subsection (d)(2), the President may consider—

(A) the unique nature of Egypt's contribution to Desert Shield, and its leadership role in supporting international efforts in the face of Iraqi aggression in the Arabian Peninsula;

(B) the impact on the Egyptian economy of the events surrounding the Iraqi aggression;

(C) the long-term prospects for economic growth and stability in Egypt, and the effect on those prospects of such a determination;

(D) the role that Egypt's assumption of FMS debt played in furtherance of the common security interests of Egypt

and the United States, and the role if any that such debt was expected to have relative to other forms of official debt in generating income and promoting growth in the Egyptian economy;

(E) the willingness of other countries to participate in efforts to address the issue of official Egyptian military debt on a multilateral basis; and

(F) any other national security interests of the United States.

(2) If the President determines in the report provided for in subsection (d) that doing so is essential to the success of Desert Shield, or to enhance peace and stability in the Middle East, then he is hereby authorized to reduce to zero—

(A) the amount owed by Egypt to the Secretary of Defense under the amended notes; and

(B) the amount owed by the Secretary of Defense under all notes or other obligations issued by the Secretary of Defense to the Secretary of the Treasury that are related to any guarantees of any AECA Loans, including all notes or other obligations issued under subsection (b)(1).

(f) The President may carry out the purposes of this section notwithstanding any other provision of law.

**DEPARTMENT OF THE TREASURY**

**Report to Congress**

**on**

**The Real Value of Egyptian Debt**

**Owed to the United States Government**

**November 1990**

Report on the Real Value of Egyptian Debt  
Owed to the United States Government

**Legislative Requirement**

Section 592 (c) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991 (Public Law 101-513) requires the President to submit a report to Congress in which he determines the value based on realistic payments expectations as of October 1, 1990 of (a) the loans made by the United States Government (or any of its agencies) to Egypt under the Arms Export Control Act (AECA loans) and (b) all other loans owed by Egypt to the United States. The report would include an explanation of the factors considered by the President in determining the value.

The legislation further authorizes the President to reduce the AECA loans to an amount that equals the "real value" under terms and conditions that he might specify. However, the military debt reduction authority is limited such that no reduction shall result in a decrease in the principal value of AECA loans below the discounted net present value which would result from a restructuring of the AECA loans according to the terms and conditions which apply to the loans of the International Development Association (IDA).

This legislation was stimulated by Egypt's vital leadership in resisting Iraqi aggression in the Gulf. It was based fundamentally on geopolitical and military grounds in recognition of Egypt's unique, unparalleled strategic contributions to the pursuit of peace and security in the Middle East. Congress also recognized Egypt's precarious financial and economic situation and urged adjusting Egypt's official debt in a manner which reflects the real collectability of that debt. Reduction of Egypt's military debt to the United States is an integral part of on-going efforts to restore the rule of international law in the Gulf.

The purpose of this report is to value the AECA loans to Egypt, value all other loans owed by Egypt to the United States Government, explain the factors considered in determining the value, and determine the value of the AECA loans if they were restructured on IDA terms.

**Debt Owed to the United States Government by Egypt**

Total U.S. Government direct loan exposure to Egypt (including arrears) amounts to \$12.5 billion, as of September 30, 1990. These loans were provided under (a) the Arms Export Control Act, (b) the Foreign Assistance and Related Acts, (c) Agricultural Trade and Development Assistance, (d) the Commodity Credit Corporation Charter Act, and (e) the Export-Import Bank Act.

Table 1 summarizes U.S.G. exposure to Egypt by program, including arrears, as of September 30, 1990.

TABLE 1

**EGYPT'S DEBT TO THE U.S. GOVERNMENT**

(in \$ millions)

	<b>PRINCIPAL OUTSTANDING (as of 9/90)</b>	<b>ARREARS (as of 9/90)</b>	<b>TOTAL DEBT OUTSTANDING (as of 9/90)</b>
FMS	\$5,871.16	\$855.34	\$6,726.51
ESF/DA	\$2,563.73	\$87.77	\$2,651.51
PL-480	\$2,817.13	\$5.49	\$2,822.62
CCC	\$230.65	\$0.00	\$230.65
Eximbank	\$79.81	\$7.65	\$87.46
Total	\$11,562.48	\$936.26	\$12,498.74

### The Egyptian Economy

Egypt's economy is stagnant and its debt burden is severe. This year, real GDP growth is expected to be negligible, with inflation breaching 20 percent. The 1990/91 budget (for the fiscal year beginning July 1, 1990) is expected to produce a large deficit of 7.5 percent of GDP based on a yet-to-be fully implemented adjustment program. Egypt's per capita GDP is estimated to have fallen below \$700, the threshold for eligibility for concessional loans from the International Development Association.

Prior to Iraq's August 2 invasion of Kuwait, the IMF had estimated that, even with a strong adjustment policy effort, exceptional financing totaling about \$1.7 billion would have been required in 1990/91 if real output were not to decline. This assistance would have been in addition to a Paris Club rescheduling.

An Egyptian economy that was strained before August now faces even more serious difficulties. Worker remittances from the Gulf, tourism, Suez Canal revenues, and a number of capital inflows are projected to decrease substantially during the coming year. Additionally, the Government of Egypt is faced with absorbing several hundred thousand returning migrants and financing at least part of Egypt's contribution to regional defense. This disruption to the Egyptian economy is expected to continue, although to a lesser degree, for a number of years to come.

At the time the President decided to recommend cancellation of the Egyptian military debt owed to the United States, Egypt faced extraordinary balance of payments gaps that could not be addressed solely through a traditional Paris Club rescheduling and faced imminent default on its external payments. It had accumulated some \$10 billion in arrears since its May 1987 Paris Club rescheduling. Recent IMF projections indicate that Egypt's exceptional financing requirements have jumped to about \$3.4 billion in 1990/91, despite higher oil receipts. Cumulative total financing requirements through June 1996 would amount to \$27 billion, equivalent to about half of Egypt's outstanding debt. Commitments of extraordinary assistance through the Gulf Crisis Financial Coordination Group total \$3.8 billion for 1990/91.

In addition, projections of Egypt's medium-term balance of payments indicate continuing difficulties, with a deteriorating trade balance and significant medium-term financing gaps. Even assuming strong adjustment, successive Paris Club reschedulings through 1996 on the same terms as the 1987 rescheduling, and forgiveness of \$6.3 billion in debt by certain Arab countries and the Gulf Organization for the Development of Egypt (GODE), exceptional medium-term financing

gaps remain: \$2.1 billion in 1993/94, \$3.2 billion in 1994/95, and \$3.3 billion in 1995/96. Egypt's external debt would increase significantly, exacerbating its medium-term external financing difficulties. In summary, given its current economic and financial situation, it is highly unlikely that Egypt would be able to meet its debt service obligations in the foreseeable future, unless more fundamental measures are taken.

#### Egyptian External Debt Situation

Egypt's total external long-term debt at end-June 1990 amounted to about \$46 billion (not including arrears). Table 2 summarizes the Egyptian debt profile. Official bilateral debt of about \$36 billion accounts for the bulk of Egypt's long-term debt. About two-thirds of Egypt's non-military bilateral debt is on concessional terms, and about half of its multilateral official debt is also concessional.

Egypt's debt burden is heavy, expressed in terms of standard ratios such as total debt to GDP, total debt to exports, and debt service to exports of goods and services for 1990/91. The United States Department of the Treasury roughly estimates that Egypt's 1990/91 debt/GDP ratio is about 110%, debt/exports ratio 460%, scheduled debt service/exports ratio 53%, and scheduled interest service/exports ratio 27%. Each of these ratios is considerably above World Bank thresholds for defining heavily-indebted countries. In the World Debt Tables 1989-1990, the World Bank noted that Egypt's situation has deteriorated since 1988 and, based on recent data, would classify Egypt as severely indebted.

#### Valuation of Egyptian Debt

The assessment of the real value of Egyptian debt must recognize Egypt's particular circumstances and reflect realistic payments expectations. Key factors to be taken into account in making this assessment include, *inter alia*, (a) actual historical payments modified to reflect future expected payments, (b) Egypt's current and prospective economic and financial situation, (c) where appropriate, the secondary market price on commercial debt, and (d) as suggested by Congress, the value of the outstanding debt as if restructured on IDA terms. Basic methodologies for valuing Egyptian debt imply either (1) applying a "price" to the stock of debt which reflects realistic payments expectations or (2) determining the net present value of realistic future expected payments, discounted by the cost of funds to government.

One possible starting point for determining realistic payments expectations for Egyptian military and economic debt to the United States is to review recent historical payments, in particular Egypt's payments record since it required a Paris Club rescheduling. The time period used to measure historical payments should be a function of particular country

TABLE 2

**STOCK OF EGYPTIAN DEBT: ALL CREDITORS**  
(\$ MILLIONS, END-JUNE 1990)

<b>MEDIUM AND LONG-TERM DEBT:</b>	
<b>BILATERAL NON-MILITARY DEBT</b>	<b>\$28,149</b>
<b>BILATERAL MILITARY DEBT</b>	<b>\$9,722</b>
<b>MULTILATERAL DEBT</b>	<b>\$5,785</b>
<b>TOTAL</b>	<b>\$41,656</b>
<b>SHORT-TERM DEBT</b>	<b>\$4,344</b>
<b>TOTAL EXTERNAL DEBT</b>	<b>\$46,000</b>

circumstances. For many debtor countries, recent payments performance subsequent to a rescheduling may act as a barometer for a debtor country's ability to pay its external debt, assuming all other important economic and financial factors remain unchanged. If the economic and financial environment deteriorates or improves significantly, however, recent payments performance by itself would not be sufficient to value the debt properly. To arrive at a value which represents realistic payments expectations, the historical payments performance would have to be adjusted to reflect the changed circumstances and expected developments in the future.

Due to continual balance of payments difficulties, Egypt's payments record on U.S. government debt in recent years has been very poor. Egyptian debt (both military and economic) was rescheduled for the first time in 1987. Given Egypt's specific country circumstances, the period FY 1988-90 is considered representative of Egypt's particular payments record. The payments were very low during FY 1988 as a result of the rescheduling, continued low during FY 1989 reflecting the rescheduling and an accumulation of arrears, and increased significantly during FY 1990.

The Egyptian payments record on the military debt after the 1987 rescheduling was much poorer than its payments record on other USG debt, with a substantial accumulation in arrears on the AECA debt during FY 1989. Payments resumed at higher levels in FY 1990 primarily in order to avert application of the Brooke-Alexander amendment, which would have cut off U.S. economic assistance to Egypt.

Table 3 summarizes average annual payments for the period FY 1988-90 for each of the USG agencies with outstanding loans to Egypt. As of September 30, 1990, Egyptian arrears to U.S. Government agencies totalled \$936.3 million, of which \$855.3 million were on military debt.

A number of different scenarios are possible for estimating realistic payments expectations:

- (1) One possible method for valuing the debt would be to assume that the average of actual annual payments in recent years represent reasonable estimates of realistic average payments expectations on such debt. Under this method, it is assumed that this level of payments would be maintained indefinitely, and the resulting payments stream would be discounted by the cost of money to the U.S. Government. The cost of money to the U.S. Government would be 8.2%, the projected long-term Treasury rate assumed in the President's economic assumptions for the 1992 budget.
- (2) However, as indicated earlier in this report, the financial and economic situation in Egypt has deteriorated significantly in the past six months and Egypt's prospects

TABLE 3

**EGYPT'S DEBT TO THE U.S. GOVERNMENT**  
**Repayment Flows (\$ millions)**

	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>Actual Average FY 1988-90</u>	<u>One-half FY 1988-90 Average</u>
FMS	\$21.50	\$0.19	\$583.00	\$201.56	\$100.78
ESF/DA	\$12.78	\$54.33	\$101.00	\$56.04	\$28.02
PL-480	\$5.08	\$75.78	\$111.43	\$64.09	\$32.04
CCC	\$6.45	\$22.32	\$35.69	\$21.49	\$10.74
Eximbank	\$33.45	\$34.70	\$23.02	\$30.39	\$15.20
Total	\$79.26	\$187.30	\$854.13	\$373.56	\$186.78

difficulties of Egypt would be the value of the outstanding debt as if restructured on IDA terms. Under the terms specified in the law, the restructured loans would bear no interest, and principal would be paid over 40 years, with a 10-year grace period, 2% amortization for years 11-20, and 4% amortization for years 21-40.

We have determined that a reasonable method for estimating the value of Egyptian debt is to use actual historical payments modified to reflect realistic future expected payments. In our view, maintaining payments at historical levels would be unrealistic, in particular because of persistent projected financing gaps in the medium-term and likely perpetual reschedulings in the Paris Club in the future. Nonetheless, assuming no capability to make payments to any USG agency over the next five years may be an overly pessimistic scenario. We also determined that, in the particular case of Egypt, the secondary market was too thin to provide an accurate method for determining the value of Egyptian debt.

Valuation of AECA Loans: Actual historical payments on AECA loans during FY 1988-90 averaged \$201.5 million per year. We could have assumed (as in option 3 above) that Egypt would make no payments through FY 1995, with payments thereafter at about one-half the FY 1988-90 average, or about \$100.75 million per year. The net present value of this payments stream, discounted by 8.2 percent, would be \$776 million.

However, our determination assumes that Egypt would be expected to seek a Paris Club rescheduling and would make virtually no payments on AECA loans in FY 1991-92. This reflects Egyptian payments performance on AECA loans during the two-year period after the 1987 rescheduling in which virtually no payments were made to the USG. Under this scenario, Egypt would resume payments in FY 1993 at about one-half the historical average, or about \$100.75 million per year. It should be noted that this payments stream roughly corresponds to moratorium interest payments after a rescheduling, assuming subsequent generous reschedulings. The net present value of this payments stream, discounted by 8.2%, would be \$997 million.

It also should be noted that restructuring outstanding AECA principal and arrears on IDA terms, as suggested in the legislation, would result in a payments stream, discounted by 8.2 percent, with a net present value of \$945 million. This value is slightly lower than the real value of the AECA loans as determined in the second scenario above. We have therefore determined the valuation of AECA loans to be \$997 million.

Valuation of Other USG Agency Loans to Egypt: The same basic methodology could be applied to outstanding loans of other USG agencies. However, given Egypt's somewhat better payments performance with respect to these agencies after the 1987 rescheduling, it is assumed virtually no payments would be

received for only one year (FY 1991) rather than two years, as was the case with the AECA loans. Payments at one-half of the historical levels would commence in FY 1992. Table 4 summarizes the estimated value of the debt for each USG agency based on this methodology.

It should be noted, however, that even with reduction in Egypt's military debt, Egypt still faces a heavy debt burden in the foreseeable future.

TABLE 4

## VALUE OF U.S.G. AGENCY LOANS TO EGYPT

(AS OF OCTOBER 1, 1990; \$ MILLIONS)

	<u>VALUE</u>	<u>REALISTIC EXPECTED REPAYMENTS</u>					
	<u>NPV</u> <u>Q 8-215</u>	<u>FY</u> <u>1991</u>	<u>FY</u> <u>1992</u>	<u>FY</u> <u>1993</u>	<u>FY</u> <u>1994</u>	<u>FY</u> <u>1995</u>	<u>FY</u> <u>2000</u>
FMS	\$907.28	\$0.00	\$0.00	\$100.78	\$100.78	\$100.78	\$100.78
ESF/DA	\$301.18	\$0.00	\$28.02	\$28.02	\$28.02	\$28.02	\$28.02
PL-480	\$344.47	\$0.00	\$32.04	\$32.04	\$32.04	\$32.04	\$32.04
CCC	\$115.48	\$0.00	\$10.74	\$10.74	\$10.74	\$10.74	\$10.74
Eximbank*	\$87.00	\$0.00	\$15.20	\$15.20	\$15.20	\$15.20	\$15.20

\* Under this methodology, Eximbank debt is fully repaid by the year 2000.

THE WHITE HOUSE  
WASHINGTON

December 27, 1990

Presidential Determination  
No. 91-10

MEMORANDUM FOR THE SECRETARY OF THE TREASURY  
THE SECRETARY OF DEFENSE

SUBJECT: Presidential Determination on Egyptian  
Foreign Military Sales (FMS) Debt

Section 592(d)(1) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991 (Public Law 101-513) (the "Act") authorizes me, notwithstanding any other provision of law, in the context of certain multilateral debt negotiations, to reduce to zero certain notes related to Egypt's FMS debt if other major holders of Egyptian military debt agree to equal or comparable reductions. I have concluded that such other creditors do not agree to comparable reductions in their military debt.

By virtue of the authority vested in me by section 592 of the Act, I hereby determine that it is essential to the national security interests of the United States to unilaterally cancel the requirement of Egypt to repay the United States for such Egyptian military debt; and that it is essential to the success of Desert Shield and to enhance peace and stability in the Middle East to reduce to zero the amounts described in section 592(e)(2) of the Act.

By virtue of the authority vested in me by the Constitution and laws of the United States of America, including section 592 of the Act, and section 301 of title 3 of the United States Code, I hereby delegate to the Secretary of Defense the functions under section 592(e)(2) of the Act, provided that the functions conferred by subparagraph (B) thereof shall be exercised by the Secretary of Defense in consultation with the Secretary of the Treasury.

The Secretary of the Treasury is authorized and directed to publish this determination in the Federal Register.



THE WHITE HOUSE  
WASHINGTON

December 27, 1990

Dear Mr. Speaker:

Pursuant to the authority vested in me by section 592(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991 (Public Law 101-513) (the "Act"), I hereby report under paragraph (1) thereof. The basis for this report is described more fully in the attachment to this letter entitled Status of U.S. Efforts on Egyptian Debt.

I am simultaneously providing copies of a memorandum, signed by me today, in which I make certain determinations under section 592(d)(2) and 592(e)(2) of the Act. These determinations form an integral part of my report under paragraph (1) of section 592(d) of the Act. The attached Memorandum of Justification Regarding Presidential Determinations under Section 592 sets forth more fully the basis for these determinations.

Accordingly, I have authorized the Secretary of Defense and the Secretary of the Treasury to take the appropriate steps to reduce to zero amounts owed in connection with Egypt's remaining Foreign Military Sales debt.

Sincerely,



The Honorable Thomas S. Foley  
Speaker of the  
House of Representatives  
Washington, D.C. 20515

THE WHITE HOUSE  
WASHINGTON

December 27, 1990

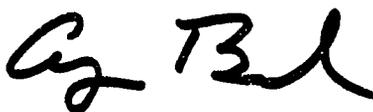
Dear Mr. President:

Pursuant to the authority vested in me by section 592(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991 (Public Law 101-513) (the "Act"), I hereby report under paragraph (1) thereof. The basis for this report is described more fully in the attachment to this letter entitled Status of U.S. Efforts on Egyptian Debt.

I am simultaneously providing copies of a memorandum, signed by me today, in which I make certain determinations under section 592(d)(2) and 592(e)(2) of the Act. These determinations form an integral part of my report under paragraph (1) of section 592(d) of the Act. The attached Memorandum of Justification Regarding Presidential Determinations under Section 592 sets forth more fully the basis for these determinations.

Accordingly, I have authorized the Secretary of Defense and the Secretary of the Treasury to take the appropriate steps to reduce to zero amounts owed in connection with Egypt's remaining Foreign Military Sales debt.

Sincerely,



The Honorable Dan Quayle  
President of the Senate  
Washington, D.C. 20510

**MEMORANDUM OF JUSTIFICATION REGARDING  
PRESIDENTIAL DETERMINATIONS UNDER SECTION 592**

The determination to reduce Egypt's outstanding Foreign Military Sales debt to zero pursuant to the authority in Section 592 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991, is essential to the national security interests of the United States and to enhance the chances for peace and stability in the Middle East. Without FMS debt relief Egypt's participation in Operation Desert Shield would be at risk, jeopardizing our ability to help restore stability to this volatile region. Thus FMS debt relief is essential to the success of Desert Shield.

Among our partners in the international effort to resolve the Gulf crisis, Egypt has of its own accord accepted a major share of the risks and a major share of the responsibilities. It is in our own national interest to continue to encourage Egypt to play this key role by eliminating the financial burden placed on Egypt by FMS debt. The FMS loans have fulfilled their purpose. Egyptian soldiers are standing shoulder to shoulder with American troops and those of other nations countering Saddam Hussein's aggression and ensuring our mutual security.

Egypt's leadership in the Gulf crisis, its contribution of troops to Desert Shield and the unique role it is playing in supporting the international effort against Iraqi aggression make it imperative that the United States, in turn, continue to offer strong support to Egypt. Given Egypt's heavy debt burden, its unique contributions to our collective security, and willingness to commit major resources to Desert Shield for an extended period of time, it is imperative that we remove the remaining burden of FMS debt from Egypt in order that we not diminish Egypt's ability to continue to pursue these worthy objectives that are vital to the success of the international community's efforts to convince Iraq to withdraw from Kuwait.

Egypt's military contributions have been extensive. On President Mubarak's orders, Egyptian troops were among the first to arrive to defend Saudi Arabia. Egypt now has a troop presence in the Gulf second only to that of the United States. With the deployment of the second of two heavy divisions well underway, Egypt will soon have a troop force of over 40,000 soldiers in place to defend Saudi Arabia and counter Iraqi aggression in Kuwait.

Egypt's political leadership at this time of crisis is invaluable. Immediately after Iraq invaded Kuwait President Mubarak called a meeting of the Arab League Foreign Ministers in Cairo which resulted in Arab condemnation of Saddam Hussein's attack and demanded Iraqi withdrawal. A week later Egypt convened an Arab League Summit in Cairo that supported UN Security Council resolutions on the Gulf crisis and called for Arab countries to send troops to the defense of Saudi Arabia.

-2-

President Mubarak has since pursued an unwavering course opposing Iraq and working for peace in the region. Egypt's strong leadership in the Arab world and close relationship with the United States must continue if we are to restore the legitimate government of Kuwait and return stability to the Gulf.

Egypt's actions carry with them tremendous political risks and grave economic costs. Already strained, Egypt's economy is suffering the consequences of its actions in the Gulf. Loss of exports due to sanctions, loss of remittances from workers evacuated from the Gulf, lost Suez canal revenues and income from tourism are seriously hurting Egypt's main sources of revenue. Estimates are that these losses will approach a billion dollars in 1990. Egypt's remaining FMS debt and FMS debt payments add significantly to Egypt's load at this critical time.

Our military relationship with Egypt began shortly after the Camp David Accords were signed. At that time FMS loans were the only way to help Egypt modernize its military and turn it away from reliance on the Soviet Union. These loans have served their purpose well of creating a military partnership between Egypt and the United States. But these loans have no capacity to generate income to help in their repayment. The heavy burden of FMS debt service further limits Egypt's possibilities for economic growth.

The positive results of our multilateral conference on Egyptian debt and our consultations with Egypt's other major creditors are described separately. Following the U.S. initiative to cancel U.S.-held military debt, Egypt's major Arab creditors have forgiven their official Egyptian debt, Canada has announced forgiveness of significant arrears and payments due on development assistance debt, and other countries have indicated a willingness to consider debt relief, both unilaterally and multilaterally. Our efforts to garner multilateral support for Egypt have borne fruit, and will not cease.

The determination to cancel the remaining Egyptian FMS debt will demonstrate that the United States and Egypt will stand in partnership for our mutual security. It will enable Egypt to continue to contribute to the multilateral efforts for a lasting peace in the Middle East, and allow Egypt to give undiminished support to Operation Desert Shield. Therefore, pursuant to Section 592 of the Foreign Operations Appropriations Act, authority has been granted to reduce to zero the amount owed by Egypt to the Secretary of Defense and the amount owed by the Secretary of Defense to the Secretary of the Treasury related to guarantees of AECA Loans.

## STATUS OF U.S. EFFORTS ON EGYPTIAN DEBT

### Legislative Requirement

Section 592 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991 (Public Law 101-313) authorizes the President to undertake steps to reduce the value of Egypt's FMS loans after seeking to convene a multilateral conference of the major official creditors of the Government of Egypt for the purpose of adjusting Egypt's official debt in a manner which reflects the real collectability of that debt.

An Administration report on the real value of Egyptian debt owed to the United States was submitted to Congress on November 21 in accordance with Section 592 (c) of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1991. Following submission of this report, the Defense Department reduced the value of Egypt's FMS debt to the U.S. Government from \$6.7 billion in outstanding principal to \$997.28 million.

Prior to reducing Egypt's AECA debt to zero, Section 592 (d) requires the President to report to Congress if other creditors do not agree to comparable reductions in their Egyptian military debt.

This memorandum summarizes the results of the multilateral conference on Egyptian debt held in Paris on November 16 and the on-going efforts of the Administration to encourage other bilateral official creditors of Egypt to adjust their claims to reflect their real collectability.

### Egypt's Official Bilateral Debt

Egypt's total external debt at the end of 1989 was around \$46 billion, according to official statistics of the Egyptian Government; of this, bilateral official debt, including military debt, amounted to about \$36 billion, or around 78 percent of the total debt. The remainder was owed to multilateral creditors, such as the World Bank and the IMF, and commercial banks. Besides the United States, France and Spain are the other substantial holders of military credits to Egypt. US-held debt totalled over \$12 billion. FMS debt, at \$6.7 billion, was the largest portion of this.

### Administration Efforts in Support of Egyptian Debt Relief

The Administration has launched an international effort designed to ease Egypt's debt burden. Our ongoing strategy is both bilateral and multilateral.

Our bilateral effort has centered on relieving Egypt of the

burden of servicing the \$6.7 billion in FMS debt Egypt owes to the United States in the interest of removing a severe bilateral irritant and taking pressure off Egypt's financing difficulties. On September 14, the Administration submitted legislation to authorize the forgiveness of this debt.

Our multilateral efforts have centered on the Paris Club. In numerous Paris Club deliberations, the United States has indicated that we intended to forgive Egypt's FMS debt to the United States and that we looked to other Paris Club creditors to provide comparable relief. We noted our continued support for the most forthcoming and generous treatment possible for Egypt in the this forum, including extension to Egypt of the Paris Club's most generous terms.

Key to the success of our multilateral strategy is the successful conclusion of talks between the Egyptian government and the International Monetary Fund. Once the Government of Egypt has agreed to a Fund-supported program which addresses the Egyptian economy's fundamental imbalances, the Paris Club is expected to reschedule -- and, we hope, to reduce -- Egypt's official debt.

#### Multilateral Conference on Egyptian Debt

To help ensure the success of our efforts to gain genuine debt relief for Egypt and in accordance with recently-enacted legislation, on November 10, on behalf of the President, Acting Secretary of State Eagleburger and Treasury Secretary Brady invited twenty of Egypt's other official bilateral creditors to a multilateral conference in Paris. The conference was designed to secure for Egypt debt relief from the full range of official creditors, both within and outside the Paris Club.

We urged attendance at the conference to demonstrate strong support for President Mubarak's leadership role in opposing Saddam Hussein's aggression. We noted that action comparable to our own debt forgiveness by all of Egypt's official creditors would not only promote our common security but would stabilize and strengthen the Egyptian economy as well.

The conference convened in Paris on November 16.

The invitees were: Australia; Austria; Belgium; Canada; Denmark; Finland; France; Germany; Italy; Japan; Kuwait; the Netherlands; Norway; Qatar; Saudi Arabia; Sweden; Switzerland; the United Arab Emirates; the United Kingdom; and the USSR. All but Qatar and the Soviet Union attended the conference.

The nineteen countries that attended the conference hold more than 90 percent of all official loans to the Government of Egypt. Representatives of the Paris Club, the International Monetary Fund and the World Bank were also present at the conference.

In the opening statement, the U.S. chair stated that the United States Congress recently enacted legislation that would enable the President to reduce and ultimately to forgive \$6.7 billion in military debt owed to the U.S. by the Government of Egypt. The purpose of convening the conference was to urge other bilateral creditors of Egypt to take comparable action to adjust Egypt's official debt in a manner that reflected its real collectability. The United States noted that it believed that such action would not only promote our common security, but would demonstrate strong support for the substantial Egyptian contribution to the international effort to oppose Iraq's invasion of Kuwait.

The U.S. chair urged all holders of Egyptian debt, military and economic, to take steps necessary to reduce that debt so that Egypt could stabilize its economy and continue to play the vital role that it had taken in the effort to oppose Saddam Hussein's aggression and in the effort to find lasting peace and stability in the Middle East.

Delegates from the Gulf states said they were in the process of cancelling all their official bilateral loans to Egypt. Some delegates indicated that they were considering unilateral measures to provide special relief on ODA obligations. Most delegates expressed willingness to consider generous approaches within the Paris Club forum to deal with Egypt's official debt once Egypt has reached agreement on a stand-by arrangement with the IMF.

The Paris Club vice-chair reported that during the meeting with the Egyptian delegation the previous day, the Paris Club creditors (who account for over 70 percent of Egypt's official bilateral debt) indicated they were willing to consider new approaches to help ensure that Egypt's balance of payments position remained stable over the medium term.

The conference closed with the U.S. chair encouraging that debt reduction for Egypt be undertaken both multilaterally and bilaterally and that the attendees, who have so much at stake in the Middle East crisis, support Egypt in meeting the economic challenges of the current crisis and demonstrate international support for Egypt's courageous stand.

#### Outcome of U.S. Efforts to Gain Debt Relief for Egypt

Since we launched our debt relief campaign, a number of governments have indicated their intention or have moved to forgive roughly \$16 billion in Egyptian debt. At the conclusion of its debt forgiveness exercise, the U.S. will have forgiven \$6.7 billion of Egypt's FMS debt. In response to U.S. appeals, Kuwait forgave \$3.2 billion in Egyptian debt. Saudi Arabia announced plans to forgive \$4 to \$4.5 billion in government-to-government loans, Saudi Fund for Development

TUESDAY, MARCH 5, 1991.

## THE SECRETARY OF THE TREASURY

WITNESS

SECRETARY NICHOLAS F. BRADY

### CHAIRMAN'S OPENING REMARKS

Mr. OBEY. This morning we have before us Secretary of the Treasury, Nicholas Brady.

We are discussing the Administration's request for appropriations for the coming fiscal year.

Mr. Secretary, we have a whole lot on the plate this year and not a whole lot of time to deal with it. We have, as you know, the Administration's request with respect to the International Monetary Fund. We have some five authorizations which have to be dealt with before this Committee can provide money for the attendant programs.

We have the Third World debt and the Administration's Enterprise for America's program to respond to. We have the question of international financial institutions and their approach to the problem of dealing with soft economic issues.

So there is a whole lot on your plate, and a lot of that is on our plate. We welcome you here. Why don't you simply make whatever remarks you think are appropriate, and we will get right to the questions.

### SECRETARY BRADY'S OPENING STATEMENT

Secretary BRADY. Thank you, Mr. Chairman.

I have a shortened statement. With your permission, I would like to have my full remarks incorporated in the record.

Mr. OBEY. Surely.

Secretary BRADY. It is a pleasure to testify before you today on the crucial role of the IFIs as instruments to achieve U.S. economic policy objectives in the world economy. We greatly appreciate this committee's strong support for these important institutions.

### NEW WORLD ORDER

This morning I would like to present a brief oral statement. Today the world finds itself at the dawn of a new order of multilateral cooperation. This order, emerging from the fundamental economic and political changes underway throughout the world, holds forth the prospect for durable global peace and prosperity. Leaders of East European and Latin American countries are rejecting statist approaches to economic world organization. People throughout the world are beginning to recognize that market economies are

the best means to secure prosperity and freedom. Interdependence amongst our economies is growing, and no longer can any one country—not even the United States—achieve its economic policy objectives in isolation.

Multilateral efforts utilizing the international financial institutions are critical to support our policy objectives. Through their support for a sound world economy, the international financial institutions have strengthened U.S. growth. In 1990 alone, exports accounted for more than 40 percent of the U.S. growth. Estimates suggest that roughly one out of every four jobs in the United States is related to merchandise exports. In addition, U.S. business benefits substantially from our participation in the MDBs. Cumulatively, U.S. firms have received almost \$17 billion in business from the World Bank, which is more than 10 times our paid-in capital of \$1.6 billion.

The international financial institutions have been at the forefront of efforts to address the serious economic consequences of the Gulf crisis and stand ready to assist the region in the aftermath of the war. These institutions are playing a leading role in Eastern Europe's bold and dramatic effort to restructure economic and political life. In Latin America and the Caribbean, the IMF, the World Bank and the Inter-American Development Bank will be critical to our efforts. In Africa, the IFIs are at the center of a concerted international strategy designed to provide concessional resources to help the poorest countries achieve sustained growth.

If the IFIs are to meet the global challenges of the 1990s in a manner that serves our foreign economic policy interests, we must stand squarely behind them and ensure that they have adequate resources to do the job.

#### IMF QUOTA INCREASE

The resource needs of the IMF are reviewed periodically to ensure that the Fund has sufficient financing to meet its global responsibilities. Last year, the IMF concluded negotiations on a 50 percent increase in its resources from \$130 to \$195 billion. The U.S. share of the increase is some \$12 billion at current exchange rates for which we would be seeking congressional appropriations and authorizations as part of the 1992 budget.

Passage of this legislation is essential. The increase in IMF resources is vital if the Fund is to provide financial assistance throughout the world and to secure U.S. objectives. Overall, Fund lending is expected to more than double in 1991 to \$16 billion in disbursements and remain high in subsequent years. In addition to bolstering Fund liquidity to meet these near-term financing needs, the quota increase must provide for adequate Fund resources over the medium term as well.

The United States, as the leading and largest member of the IMF, has responsibility to do its part in and for the organization. Failure of the United States to support the quota legislation would seriously erode the effectiveness and credibility of the IMF. In this context, the United States, with some 19 percent of the IMF voting power, has an effective veto over key IMF decisions such as quota increases and amendments to the IMF articles.

The IMF is also extremely cost-effective in supporting U.S. interests. First, the transfer of dollars to the IMF is equivalent to putting money in a checking account, which is interest bearing and can be drawn automatically. In recognition of this unique monetary character of the IMF, Congress has agreed in the past that the use of the U.S. quota involves no net budgetary outlays. Under the recent budget agreement, a specific provision was made to account for the unique budgetary treatment of this quota increase. While use by the IMF of the U.S. quota will increase Treasury's borrowing requirements, the interest earned on our position in the Fund provides an offset to this cost.

The IMF also leverages our scarce resources, which is particularly important at this time of budget restraint. For every dollar we put in, others put in four.

As an integral part of the quota negotiations, the U.S. gained agreement on a strengthened strategy to tackle the large and growing problems of arrears to ensure that additional contributions are wisely spent. This strategy combines incentives for countries to clear their overdue obligations with disincentives to deter new arrears.

#### MDB APPROPRIATIONS

Mr. Chairman, as you know, supporting the MDBs requires appropriating U.S. financial resources on an annual basis. This year the Administration is requesting \$1,685 million for U.S. paid-in contributions to the MDBs. Through financing specific projects and sectoral economic reform activities, the MDBs complement the broader role of the IMF.

I want to thank you and your committee for your leadership last year in reducing significantly the U.S. shortfall in scheduled payments to the MDBs. I believe it is important that we clear up our remaining funding shortfall this year.

The \$12.5 million arrears funding request for the Inter-American Investment Corporation (IIC) represents the fourth and final payment for the institution's initial capitalization. The IIC is helping meet the capital needs of the region by mobilizing from private sources up to an average of four times the amount of IIC commitments. IIC operations also help fulfill the U.S. economic policy objective of expanding the size of the private sector as the engine of sustained growth.

The Asian Development Fund, which serves important U.S. interests in that region, has now reached the point where it must receive the \$175 million U.S. arrears funding in full near the beginning of fiscal year 1992, or cease its concessional lending operations early in the calendar year 1992 for very poor countries such as Bangladesh.

Mr. Chairman, since my complete statement goes into some detail on our MDB request, I will simply summarize the request.

We are seeking \$25.5 million for the paid-in portion of the first of two installments to participate in the Special Capital Increase for the Asian Development Bank, \$135 million for the first of three payments to participate in the African Development Fund; and we

are reviewing a capital increase proposed by the International Finance Corporation.

#### INTERNATIONAL DEBT STRATEGY

The international debt strategy, which has been shaped in large part through U.S. leadership, has called on the IMF and World Bank to assume pivotal roles, and they have proven effective. The economic reform programs that countries undertake with these institutions enable countries to gain credibility with their creditors and to proceed with negotiations of commercial bank agreements.

The IMF has committed \$2.8 billion, and the World Bank \$2.7 billion to support specific debt and debt service reduction instruments in countries that have reached agreements with their commercial banks under the strengthened debt strategy. Seven countries have reached agreements which are producing results by helping restore investor confidence and stimulate new investment flows.

The United States is also leading the effort to reach a consensus with other major creditors to reduce Poland's official debt. Reduction of Poland's large debt overhang is essential to support the dramatic economic reforms Poland is undertaking. The United States has favored a substantial reduction of Poland's debt, and we have been encouraged by our recent progress with other key creditor governments, although the final components of a package and the extent of debt relief have not yet reached a satisfactory level.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

Latin America and the Caribbean, of vital interest to the United States, have been plagued by ten years of slow growth and debt overhang, thwarting opportunities for our hemisphere. The President's Enterprise for the Americas Initiative (EAI) addresses these problems by joining in a single endeavor the three economic issues of greatest importance to the region: trade, investment, and debt.

To move toward the goal of a hemispheric free trade system, we are pursuing a Free Trade Agreement (FTA) with Mexico and Canada. The President has just sent a formal request to Congress seeking an extension of the fast track authority, which will hopefully enable us to negotiate effectively such an FTA.

To help countries attract private investment both from abroad and at home, the Inter-American Development Bank (IDB) is developing an investment sector lending program which will help countries evaluate, open, and liberalize their investment regimes. We expect the first such loans to move forward over the next three to four months.

During the last session of Congress, we gained authority to undertake reduction of concessional PL-480 debt for countries pursuing strong economic reform programs, including investment regime liberalization. This authority will be an important incentive for countries to sustain reforms, and we will be discussing such debt reduction with them as they become eligible.

The Initiative will also provide significant benefits for the environment. Interest payments made in local currency on the reduced

PL-480 and, eventually, AID debts will remain in the country to support a broad range of environmental projects. We expect local nongovernmental organizations to play a strong role in determining the use of these environmental funds.

We are requesting funding in fiscal year 1992 for debt reduction and the creation of a multilateral investment fund in the IDB to support policy reform. The bulk of our request, \$310 million, would cover the cost of reducing PL-480 and AID debt and the cost of selling Ex-Im Bank loans and CCC assets for fiscal year 1992.

The remaining \$100 million of our request is the first installment of the U.S. contribution to the Multilateral Investment Fund (MIF) which the President proposed be established in the IDB. We have been discussing this proposal in detail with the IDB and other creditor governments. The MIF would make technical assistance grants to identify and implement investment reforms, facilitate privatization, and mitigate dislocations caused by restructuring through the development of human capital. It could also provide micro- and small-size enterprises with credit and equity financing at market rates, thereby addressing their lack of access to capital.

The President sent to Congress last week legislation seeking authority to implement fully the investment and debt elements of the Initiative.

#### PROTECTING THE ENVIRONMENT

Mr. Chairman, the Treasury has championed the important U.S. policy of improving the environmental performance of the IFIs and making them more effective agents of environmental reform.

Our focus is on, number one, establishment of environmental impact assessment procedures; two, protection of tropical forests; and three, promotion of energy conservation and fisheries, including integrated least-cost planning and renewables.

We have pressed hard to mobilize more support for these issues over the past year: at the meetings of the MDBs, in the Joint World Bank/IMF Development Committee, at the Economic Summit in Houston last July, and in the African and Asian Fund replenishment negotiations. I believe we are at the point of institutionalizing fundamental changes in the way the MDBs address environmental issues.

What we are able to accomplish over the next year and a half will be critical in this respect. We will look for new opportunities to influence policies and procedures and promote specific projects, particularly in energy efficiency and conservation and in forest programs. We have also offered to provide up to \$150 million in parallel financing to the World Bank's Global Environmental Facility over its three-year life.

#### REDUCING POVERTY

The alleviation of poverty has long been a driving force in the work of the IFIs. The U.S. has worked to ensure that IFI programs both protect and are designed to help the poorest segments of the population. In the IMF, with our urging, there is now a heightened emphasis on incorporating measures to establish social safety nets to mitigate the effects of poverty on the poorest and to help coun-

tries meet basic human needs. The World Bank, consistent with the objectives of U.S. legislation, is embarking on an effort to design assistance strategies that will contribute more effectively to the reduction of poverty.

In conclusion, Mr. Chairman, the relationship between U.S. national interests and the activities of the international financial institutions is vital and closely linked. Your strong leadership, Mr. Chairman, and that of your committee has been critically important to the success of these programs and the achievement of U.S. foreign economic policy goals.

Thank you.

[The information follows:]

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STATEMENT BY  
THE HONORABLE NICHOLAS F. BRADY  
SECRETARY OF THE TREASURY  
BEFORE THE  
SUBCOMMITTEE ON FOREIGN OPERATIONS  
COMMITTEE ON APPROPRIATIONS  
U.S. HOUSE OF REPRESENTATIVES  
MARCH 5, 1991

Mr. Chairman and Members of the Committee:

It is a pleasure to testify before you today on the critical role of the international financial institutions (IFIs) as instruments to achieve U.S. economic policy objectives in the world economy, and international and bilateral efforts underway to support economic reform.

Today, the world community finds itself at the dawn of a new order of multilateral cooperation. This order, emerging from the fundamental economic and political changes underway throughout the world, holds forth the prospect for durable global peace and prosperity.

Many East European and Latin American leaders are rejecting statist approaches to organizing economic development. A revolution of thought is sweeping these countries, as well as those in Africa and Asia. People throughout the world are beginning to recognize that market economies are the best means to secure prosperity and freedom.

Interdependence amongst our economies is growing, and no longer can any one country -- not even the United States -- achieve its economic policy objectives in isolation. Economic issues increasingly dominate the international agenda.

These developments confront us with both unique opportunities and challenges. We will all need to work together as we approach the future to secure the gains of the new order. In so doing, we will also need to call increasingly upon the IFIs to play a continuing central leadership role in helping to manage the world economy and implement U.S. policy objectives.

Multilateral efforts are critical to supporting strong economic policies and sustained growth throughout the world. Our close relationship with Latin America and the Caribbean, however, also warrants a distinct bilateral approach on the part of the United States to advance hemispheric prosperity. We are pushing ahead on the President's Enterprise for the Americas

Initiative announced in June 1990. This Initiative will respond to difficulties faced by Latin America and the Caribbean over the past decade and support the commitments of many of the region's new leaders to undertake economic reforms.

The political and economic evolution now underway throughout the world is still young. Our support -- both multilateral and bilateral -- for the process of economic reform will be an important determinant in the success and longevity of the new world order.

#### Global Role of the International Financial Institutions (IFIs)

We are fortunate to be able to rely on the international financial institutions as vehicles for pooling multilateral efforts. Over the years, these institutions have served U.S. policy well. They have helped us to reconstruct the world from the ashes of World War II, reform the international monetary system, address the problems of external indebtedness in the developing countries, and tackle poverty. They have done so in every corner of the world by promoting sound market-oriented economic policies, consistent with U.S. foreign economic policy interests.

Through their essential support for a sound world economy, these institutions have strengthened U.S. growth, which supports our economic well being. In 1990 alone, the external sector accounted for more than 40 percent of the U.S. growth. Estimates suggest that roughly one out of every four new jobs in the United States is related to merchandise exports.

More recently, the international financial institutions have demonstrated anew the vital contribution they are making to promote a sound world economy and to support U.S. foreign economic and national security objectives.

These institutions have been at the front of international efforts to address the serious economic consequences of the Gulf crisis, and stand ready to assist the region in the aftermath of the war. In response to U.S. proposals, the International Monetary Fund (IMF) adapted its procedures to provide fast-disbursing assistance, and has already committed \$2.8 billion of increased financing to help countries offset higher oil costs. The World Bank has intensified its lending plans for the front line states such as Turkey and Egypt, as well as other countries seriously affected by the crisis such as the Philippines and Bangladesh.

The IFIs are playing a leading role in Eastern Europe's bold and dramatic effort to restructure economic and political life. The IMF is currently backing sweeping reforms in Poland, Hungary, and Czechoslovakia; and support for Bulgaria and Romania should soon be in place. Most recently, the IMF has completed negotiations on a new \$2 billion three year program for Poland to support

structural reforms. Final approval by the IMF Executive Board is expected soon. In Eastern Europe overall, the IMF may commit \$8 billion in 1991. Moreover, the World Bank is planning to lend \$9 billion to Eastern Europe over three years, and the IFC will play a key privatization role. In addition, the European Bank for Reconstruction and Development (EBRD) will be ready to assist the region later this year.

These institutions are also providing essential support for economic policy reforms and development in Latin America and the Caribbean -- particularly in the context of the international debt strategy and the President's Initiative. The IMF serves as the primary catalyst for establishing the broad basis for sound economic policies designed to mobilize savings and investment and to reverse capital flight. The IMF has committed \$12.5 billion to support economic policy reform in the region. The World Bank and the Inter-American Development Bank (IDB) are important agents in mobilizing private sector and government resources to finance the basic infrastructure and service projects that improve productivity and living standards. Last year the World Bank Group provided \$6.0 billion and the IDB \$3.8 billion to support policy reforms and projects for the region. The IMF, World Bank, and Inter-American Development Bank will be critical to our efforts to encourage further reforms, creating a productive environment for the success of the President's Enterprise for the Americas Initiative (EAI).

In Africa, the IFIs are at the center of a concerted international strategy designed to provide concessional resources to help the poorest countries of the world achieve sustainable growth, meet basic human needs, and alleviate widespread suffering. Total IMF commitments to these countries under the concessional Enhanced Structural Adjustment Facility (ESAF), and its predecessor facility, exceed \$3.5 billion. Last year, the World Bank Group and African Development Bank Group made total commitments of \$7.2 billion to the region.

If the institutions are to meet the global challenges of the 1990s in a manner that serves our foreign economic policy interests, we must stand squarely behind them and ensure that they have adequate resources to do their job.

#### The International Monetary Fund (IMF)

The resource needs of the IMF are reviewed periodically to ensure that the Fund has sufficient financing to fulfill its global responsibilities. Last year, the IMF concluded negotiations on a 50 percent increase in its resources from \$130 to \$195 billion. The U.S. share of the increase is some \$12 billion at current exchange rates, for which we will be seeking Congressional appropriations and authorization as part of the FY 1992 budget.

Passage of this legislation is essential. The increase in IMF resources is vital if the Fund is to provide financial assistance

throughout the world and to secure U.S. objectives in the new order of multilateral cooperation. As I have already observed, the IMF is providing vast amounts of resources in Eastern Europe, Latin America, Africa, and Asia, to promote comprehensive market-oriented reforms and to address the costs of the Gulf crisis. Overall Fund lending is expected to more than double in 1991 to \$16 billion in disbursements and remain high in subsequent years. In addition to bolstering Fund liquidity to meet these near-term financing demands, the quota increase will provide for adequate Fund resources over the medium term.

The quota increase will also help the Fund to keep pace with the growth in the world economy. Over time, the size of the Fund's quotas has fallen significantly to roughly 4 percent of world imports. If the Fund is to be an effective lender of last resort, it must be perceived as being of a meaningful size relative to the problems at hand in the world economy in order for countries to adopt appropriate adjustment measures and to catalyze resources from other lenders.

Furthermore, the United States, as the leading and largest member of the IMF, has a special responsibility to do its part in the organization. Failure of the United States to support the quota legislation would seriously erode the effectiveness and credibility of the IMF.

In this context, the United States, with some 19 percent of the IMF's voting power, has effective veto over key IMF decisions, such as quota increases and amendments to the IMF's Articles, requiring an 85 percent majority. This veto power has often proven essential to ensure that the Fund operated in a manner consistent with overall U.S. interests.

The IMF is also extremely cost-effective in supporting U.S. interests. First, the transfer of dollars to the IMF is like putting money into a checking account which is interest-bearing and can be drawn automatically. In recognition of this unique monetary character of the IMF, Congress has agreed repeatedly over the years that use of the U.S. quota involves no net budgetary outlays. Under the recent budget summit agreement, a specific provision was made to account for the unique budgetary treatment of the quota increase. While use by the IMF of the U.S. quota will increase Treasury's borrowing requirements, the interest earned on our position in the Fund offsets this cost. Furthermore, the IMF leverages our scarce resources, which is particularly important at this time of budget restraint. For every dollar we put in, others put in four.

During the quota negotiations, a number of steps were taken to ensure that U.S. resources would be used far more effectively by the IMF. Thus, at U.S. insistence, as an integral part of the quota negotiations, the United States gained agreement on a strengthened strategy to tackle the large and growing problems of arrears in payments to the Fund. In recent years, arrears to the

Fund have grown to some \$5 billion, roughly twice the level of IMF reserves.

The strengthened arrears strategy is designed to protect the Fund's financial position and to ensure that additional contributions are wisely spent. This strategy is well balanced, combining incentives for countries to clear their overdue obligations with disincentives to deter new arrears cases.

Mr. Chairman and Members of the Committee, the IMF is serving vital U.S. interests throughout the world. It is an extremely cost-effective organization. To ensure continued strong U.S. leadership in this critical global organization, I urge you to support the proposed increase in the U.S. quota share in the IMF.

#### The Multilateral Development Banks (MDBs)

Mr. Chairman, as you know supporting the MDBs requires appropriating U.S. financial resources annually. This year the Administration is requesting \$1,685 million for U.S. paid-in contributions to the MDBs:

- ♦ \$1,286.8 million to meet previously agreed scheduled payments to the MDBs;
 

\$70.1 million	World Bank
\$1,060.0 million	International Development Association
\$57.3 million	Inter-American Development Bank (IDB)
\$20.5 million	IDB Fund for Special Operations
\$8.9 million	African Development Bank
\$70.0 million	European Bank for Reconstruction and Development
- ♦ \$25.5 million for the first installment to a Special Capital Increase (SCI) for the Asian Development Bank (ADB);
- ♦ \$187.5 million to cover U.S. funding shortfalls in the agreed payments schedules to the Asian Development Fund (\$175 million) and the Inter-American Investment Corporation (\$12.5 million); and
- ♦ \$185 million for "other" MDBs.

Of special note among previously authorized MDB programs, the \$70 million funding request for the European Bank for Reconstruction and Development (EBRD) represents the second installment of the U.S. contribution to this new institution.

The Bank will hold its inaugural meeting next month -- April 15 -- and is expected to begin operations by early summer. We expect the Bank to make a significant contribution to the unprecedented transformation of the countries of the region to a market economy. The U.S. contribution to the Bank will not only promote economic and political stabilization in a region of

the world that is very important to us, it will also help promote U.S. business interests in the region.

The Special Capital Increase for the ADB, in which Japan, Sweden, and the United States participated, was approved by the ADB Board of Governors in 1988. Japan sought the increase to make up for the decrease in its percentage ownership that resulted from the entry of China in the Bank and a previous SCI for several European countries. The United States joined in the increase to maintain parity with Japan.

When the ADB was established in 1966, the United States and Japan, as the two pre-eminent economic powers in the region, each subscribed to the same number of shares in the Bank's capital stock. The presumption was that equal ownership would be reflected in equal influence in the policies and operations of the Bank.

Although the situation has changed since then -- most notably with Japan's rapid growth and the expansion of its influence in Asia -- the United States' involvement and stake in the economic and political development of the region remains strong. Keeping our relative share in the ownership of the Bank's capital will enable us to maintain our influence in the ADB. We will thus avoid ceding a measure of our influence in Asia in general, the world's most rapidly growing region.

Mr. Chairman, I want to thank you and your Committee for your leadership last year in reducing significantly the U.S. shortfall in providing scheduled payments to the MDBs. I believe it is important that we clear up our remaining funding shortfall this year.

It is true that because of exchange rate changes and lower-than-expected lending levels in the past the Asian Development Fund (ADF) has managed to mount a credible lending program despite U.S. funding shortfalls. The ADF has now reached the point, however, where it must receive the U.S. funding shortfall in full near the beginning of FY 1992, or cease its lending operations early in calendar year 1992. This must not happen because the ADF provides financing on concessional terms to its developing member countries, which are among the poorest in the world. We have a strong stake in encouraging their economic growth and development, and the ADF makes a major contribution to achieving this objective.

The \$12.5 million funding request for the Inter-American Investment Corporation (IIC) represents the fourth and final installment for the institution's initial capitalization. The U.S. payment can be invested in equity operations, and, as part of the capital base, can be borrowed against to fund additional IIC activities. The IIC is helping to meet the capital needs of the region by mobilizing from private sources up to an average of four times the amount of IIC commitments. IIC operations also

help fulfill the U.S. economic policy objective of expanding the size of the private sector as the engine of sustained growth.

In late February, the U.S. met all of its major policy objectives for the sixth replenishment of the African Development Fund (AfDF), and as a result, agreed to support a 3.5 percent real increase in the resources of this institution. In the near future, the Administration will submit a budget amendment requesting that \$135 million be transferred from the MDB "other" category to the AfDF to provide for U.S. participation in AFDF-6. Full implementation of the agreement will result in a fundamental improvement in the quality of this institution's operations and signals a new commitment by the donor community and management to make the AfDF a more effective and productive development institution.

The bulk of the Fund's resources will now be allocated to countries that are providing the economic environment conducive to development and growth. Countries not pursuing sound economic policies will be restricted to core operations that can be implemented successfully even in the face of adverse economic circumstances and policies. To improve loan quality, donors agreed on new Board procedures allowing executive directors with economic or technical concerns on a loan to return it to the Loan Committee so that these concerns may be addressed. We also reached agreement to strengthen the Fund's environmental staff, and increase emphasis on protection of forests and promotion of energy efficiency and conservation.

Up to \$50 million remaining in the MDB other category could be allocated to the International Finance Corporation (IFC) for a capital increase. No decision has been made at this time about U.S. participation, however.

The IFC serves our policy goals in promoting the private sector. Nevertheless, the IFC could be more effective in both promoting needed developing country policy changes, and in encouraging the rest of the World Bank group to give higher priority to the private sector. The United States is, therefore, reviewing the IFC capital increase proposal in the broader context of the need for the entire World Bank group to give significantly greater priority to private sector developments in the 1990s. The World Bank's private sector activities should be strengthened and enhanced, and there should be better coordination between the World Bank and the IFC on key policy issues regarding private sector development. We also want the IFC to be more selective in the countries and sectors in which it operates.

#### The International Debt Strategy

The international community has called on the IMF and World Bank to assume pivotal roles in its efforts to address external debt problems of developing countries.

The international debt strategy, which has been shaped in large part through U.S. leadership, has proven effective. Under the debt strategy, we have seen real progress in reducing the debt burdens of countries with strong economic reform programs. Seven countries have reached agreements with their commercial banks on packages that include debt and/or debt service reduction. These countries account for almost half of the total commercial bank debt of the major debtor countries. The benefits are substantial. For example:

- ♦ The Mexican agreement reduced annual interest payments by 33 percent (\$1.5 billion); commercial bank debt was reduced by 38 percent; and the burden of \$42 billion in principal payments was removed.
- ♦ The Costa Rican agreement reduced that country's commercial bank debt by 62 percent and cut annual debt service payments by 74 percent.

Chile, Venezuela, Morocco, the Philippines, and Uruguay have also reached agreements involving significant reductions in debt burdens, and several other countries are continuing discussions with their banks.

These debt reduction agreements enable debtor countries and commercial banks to address their disparate needs. Furthermore, these agreements are producing results for debtor economies by helping restore investor confidence and stimulate new investment flows.

The support of the IMF and World Bank is vital to achieving these agreements. The economic reform programs countries undertake with these institutions enable countries to gain credibility with their creditors and to proceed with negotiations. The IMF has committed \$2.8 billion and the World Bank \$2.7 billion to support specific debt and debt service reduction instruments in countries that have reached agreements with their commercial banks under the strengthened debt strategy. Under the President's new Enterprise for the Americas Initiative, the Inter-American Development Bank is joining the IMF and World Bank in providing support for these commercial bank packages.

The ongoing support of these institutions will help debtor countries achieve real gains through economic reform and commercial bank debt reduction.

The United States is also leading the effort to reach a consensus with other major creditors to reduce Poland's official debt. Reduction of Poland's large debt overhang is essential to support the dramatic economic reforms Poland is undertaking. The United States has favored a substantial reduction of Poland's debt, and we have been encouraged by recent progress with other key creditor governments, although the final components of a package and the extent of debt relief have not yet been determined.

### Enterprise for the Americas Initiative

In a further effort to strengthen the economies of our neighbors in Latin America and the Caribbean and to improve trade opportunities in the hemisphere, President Bush announced last June the new Enterprise for the Americas Initiative (EAI).

This region is of vital interest to the United States. Ten years of slow growth and debt overhang have plagued the economies of Latin America and the Caribbean and thwarted opportunities for the hemisphere as a whole.

The Enterprise for the Americas Initiative aims to address these problems through action in three areas -- trade, investment, and debt. It thereby joins in a single endeavor the three economic issues of greatest importance to the region. It also seizes, in terms of timing and concept, on important developments already underway in the region -- including the spread of democracy and a clear commitment on the part of many leaders in the region to pursue reforms that will improve their economic prospects and make them more competitive in attracting capital.

We are making real progress in implementing the vision laid out in the Initiative. To increase trade and move toward the goal of a hemispheric free trade system, we are pursuing a Free Trade Agreement (FTA) with Mexico and Canada. The goal of this agreement is to foster sustained economic growth for all three countries, which together compose a market of over 360 million people and \$6 trillion in output. This FTA should expand and lock in recent trade and investment liberalizations achieved by the Salinas Administration. As you know, the President has just sent a formal request to Congress seeking an extension of fast track authority, which will enable us to negotiate effectively such an FTA agreement.

In announcing the Initiative, the President also indicated our willingness to enter into an FTA with countries or groups of countries throughout the region. We are negotiating framework agreements on trade and investment to establish the basis for progress with a range of countries. These agreements establish the context for addressing technical issues and beginning to remove barriers to trade and investment. We are using the framework agreement with Chile to explore their interest in an FTA.

Rapid progress can also be made on the investment front. Latin American and Caribbean countries are competing for scarce capital with other dynamic economies. They need to attract private investment both from abroad and at home, and to reverse capital flight, which in many cases is believed to be as large as their total external debt. The Inter-American Development Bank is developing an investment sector lending program to help countries to open and liberalize their investment regimes. The IDB has begun evaluating the necessary changes to achieve meaningful

reform in individual countries, and we expect that the first investment sector loans will be moving forward over the next several months.

The debt reduction proposed under the Initiative will be an important incentive for countries to carry out investment reforms. We gained authority from Congress during the last session to undertake reduction of concessional PL-480 debt for countries pursuing strong economic reform programs, including liberalization of their investment regimes. We will be discussing such debt reduction with individual countries as they become eligible.

The Initiative will also provide significant benefits for the environment within the hemisphere pursuant to EAI Environmental Framework Agreements negotiated with each eligible country. Interest payments made in local currency on the reduced PL-480 and, eventually, AID debts will remain in the country to support a broad range of environmental projects. We expect local non-governmental organizations with expertise in the environment and conservation to play a strong role in determining the use of these environmental funds.

The President transmitted to the Congress last week legislation seeking authority from Congress to implement fully the investment and debt elements of the Initiative. The Administration is also requesting funding for implementation of debt reductions and the creation of a multilateral investment fund to support policy reform.

The bulk of these resources -- \$309.7 million -- would cover the cost under the new credit reform budget procedures of reducing PL 480 and AID debt, and selling Eximbank loans and CCC assets in FY 1992.

The remaining \$100 million is the first installment of the U.S. contribution to the multilateral investment fund which the President proposed be established in the Inter-America Development Bank (IDB). We have been discussing in detail this proposal with the IDB and other creditor governments. The Fund would make technical assistance grants to implement investment reforms, build privatization expertise, and develop human capital. It could also provide micro and small-sized enterprises with credit and equity financing, addressing their lack of access to capital in the region. We envision the Fund placing special emphasis on smaller countries in the region, such as those in Central America and the Caribbean. We will be seeking \$500 million in total over a five year period.

#### Protecting the Environment

In recent years the issues of protecting the environment has taken on added importance. Treasury has taken an active role in championing this important U.S. policy goal in the IFIs.

Our objective has been to improve the environmental performance of these institutions and make them more effective agents of environmental reform. Our focus is on: establishment of environmental impact assessment (EIA) procedures, protection of tropical forests, and promotion of energy conservation and efficiency, including integrated least-cost planning and renewables. We have pressed hard to mobilize more support for these issues over the past year: at the annual meetings of the MDBs, in the Joint World Bank/IM' Development Committee, and at the Economic Summit in Houston last July.

The EIA process is particularly important. We have a legislative mandate to bring about a fundamental reform in this area by the end of this year. Significant progress has been made in implementing the EIA process in both the World Bank and the Inter-American Development Bank. Our overall assessment is that effectively functioning EIA systems should be in place by the end of this year.

The Asian Development Bank has upgraded its environmental unit and made budgetary provision for increases in environmental staff. It has said it will seek to strengthen its procedures for appraising environmental issues. At this point, however, we are not yet certain that the Bank will have in place by the end of the year an EIA system that meets our criteria.

EIA was highlighted as a key element of the African Development Fund Replenishment Agreement concluded in Rome last month. Our judgment, however, is that it will be extremely difficult for the AFDB to meet our criteria by the end of this year. We intend to work more closely with both the African and Asian banks over the next year to help them improve their capability in this area.

Energy efficiency and conservation is another area in which we have an important legislative mandate. In response to our efforts over the past year, the World Bank has restructured its Energy Sector Management Assistance Program (ESMAP) and created a special unit for energy efficiency and conservation for its operations in Eastern Europe. It is reassessing the approach it has taken to energy issues in the past.

We have also continued our efforts to encourage greater protection for tropical forests. This has included our effort to reform forest policies in both the World Bank and the Inter-American Development Bank and an initiative to reform and strengthen the Tropical Forestry Action Plan (TFAP). A meeting designed to broaden public participation in TFAP is scheduled for later this month in Geneva. We hope this meeting will produce a more open process and provide the international impetus that is needed to help preserve large areas of primary tropical moist forests.

Significant progress is being made on these issues, although more progress is needed. We still have problems with specific loans,

and the MDBs need to place more emphasis on energy efficiency and conservation. I believe, however, that we are at the point of institutionalizing fundamental changes in the way the MDBs address environmental issues. What we are able to accomplish over the next year and a half will be critical in that respect. We will look for new opportunities to influence policies and procedures and promote specific projects, particularly in energy efficiency and conservation and in forest programs.

We have also offered to provide up to \$150 million in parallel financing to the World Bank's Global Environmental Facility over the three year life of the facility. This is meant to foster greater interest in pilot projects that can become part of the regular lending program in future years.

The United States is also at the forefront in encouraging the IMF to enhance its environmental focus. Widespread recognition has emerged that IMF macroeconomic policy advice and prescriptions can have at times an important, though indirect, impact on environmental protection. In particular, the IMF has decided to establish a group of economists that will serve as a liaison with other organizations on environmental research and advise the Fund on addressing environmental concerns. Also, most IMF country documents now discuss environmental concerns. The IMF has also strengthened its collaboration with the World Bank with respect to taking into account structural measures for environmental protection into its work.

#### Reducing Poverty

The alleviation of poverty has long been a driving force in the work of the IFIs. Many developing countries face macroeconomic and structural imbalances requiring the adoption of comprehensive adjustment measures. In this context, the U.S. is working to ensure that IFI programs both protect and designed to help the poorest segments of the population. In the IMF, with our urging, there is now a heightened emphasis of incorporating measures to establish social safety nets to mitigate the affects of poverty on the poorest and to help countries meet basic human needs.

The World Bank, consistent with the objectives of U.S. legislation, is embarking on an effort to design assistance strategies that will contribute more effectively to the reduction of poverty. In negotiating the ninth replenishment of resources for the International Development Association (IDA-9), the United States and other donors agreed that a borrower country's economic performance, including efforts to alleviate poverty, will receive greater weight as criteria for allocation of resources.

The World Bank's 1990 "World Development Report" (WDR) focussed on identifying the key factors associated with reducing poverty. Bank management -- in response to a request from the U.S. and other executive directors -- prepared a paper elaborating the operational implications of the 1990 WDR. We generally endorse

the recommendations enunciated in the Bank paper, particularly the recommendation that borrowing countries formulate their own "National Strategy for Development and Poverty Elimination" with the support and encouragement of the Bank. However, we have expressed concern to the Bank that these measures can only be implemented if the Bank addresses seriously the issues of adequate incentives for Bank staff and the implications of the staff-intensity of the proposed recommendations. This is an issue that we will be monitoring closely, Mr. Chairman.

### Conclusion

Mr. Chairman, I have briefly reviewed the role of the international financial institutions (IFIs) in promoting U.S. national security interests -- from their financial support to regions of the world such as the Persian Gulf, Africa, and Latin America, to their involvement in functional issues like protecting the global environment and alleviating poverty. I have also presented an overview of President Bush's Enterprise for the Americas Initiative. I have also discussed their important role in promoting a stronger economy in which U.S. jobs and exports can thrive.

The relationships between U.S. national interests and the activities of the IFIs are inextricably linked. Your strong leadership, Mr. Chairman, and that of your Committee, has been and will continue to be vital to the success of these programs.

Mr. OBEY. Thank you, Mr. Secretary. I have a number of questions that I will have to ask you to make sure we cover, so I think before I do that this morning, I will simply ask the other Members of the committee to ask questions.

Mr. McHugh.

#### MIDDLE EAST DEVELOPMENT BANK

Mr. McHUGH. Thank you very much, Mr. Chairman, and Mr. Secretary, welcome again. It is good to have you back.

In the aftermath of the war in the Persian Gulf, which we are all grateful has concluded and concluded very successfully, one of the problems that not only the United States, but others will face, is attempting to deal with this gap between the oil wealthy states of the Arab World and the poor ones.

The Secretary of State, I think, in testimony before the Senate, indicated the possibility of establishing a Middle East Development Bank.

Is that something which is actively under consideration by the Administration; and if so, has there been any discussion with other countries about the advisability of such a bank?

Can you tell us where this idea may be at the moment?

Secretary BRADY. To answer your last question first, there is no active discussion with other countries concerning the establishment of such a bank. It has been put forward as one of a number of options which could be used to deal with the problem that you cited of differences of wealth in various countries in the Middle East. That problem could be addressed through an independent, new, multilateral bank. It could be tackled through existing offices in the World Bank. However, there is an organization, the Gulf Financial Crisis Coordinating Committee, that is operating well, in my opinion, right now. That 26-nation committee has received commitments of some \$14 billion and disbursed roughly \$7 billion over the last six months. It seems to me that that committee, which seeks to take funds, none of which come from the United States, and to distribute them in the Gulf area now, primarily for the so-called front line states, is a particularly effective form of cooperation.

Mr. McHUGH. So essentially this idea, which was floated, is not really being actively pursued at the moment?

Secretary BRADY. Not at this moment.

As you know, there are four regional development banks. I think the suggestion was put forward because we have got MDBs in other regions, and that the Middle East could be a region where it was also a possibility.

#### EASTERN EUROPEAN DEVELOPMENT BANK

Mr. McHUGH. Could you tell us what the status of the Eastern European Development Bank is? How far along is it and how successful is it going from your point of view?

Secretary BRADY. It is in its formative stages. I believe the first annual general meeting will be held in April. The organizational efforts are underway. People are being hired, positions are being

filled, and the organization is being rationalized, but obviously no money has passed hands yet.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

**Mr. McHUGH.** Now in this proposal, there is a suggestion for the Enterprise for the Americas Initiative fund. I wonder if you could take just a few minutes and outline in some further detail what the purpose of this would be and why it is necessary to establish a separate fund at all?

**Secretary BRADY.** I would pause for a moment to tell you that I accompanied the President on his trip to Latin America. At every stop in the five countries that we went to, the president of the host country made a cornerstone of his remarks the importance that he placed on the EAI.

And of course, part of the EAI is the multilateral investment fund that you referred to. It is part of the overall strategy to improve the effectiveness of market-oriented economies. The investment fund will be in support of that goal.

Your question is why not have this fund administered by AID or by some arm of the United States Government. The answer is two fold: one, we wanted the fund to have a regional character. In other words, we wanted to emphasize that this was a plan agreed on between countries of the region and not a plan dictated by the United States, the neighbor to the north. But perhaps more important from a practical point of view, was the idea that we could attract funds from other countries by creating a multilateral fund, whereas if it was a contribution to AID, it would be just a one-time contribution on our part.

So it was an attempt by the United States to exercise leadership and to get an equal amount of money from Japan and the EC countries to try to leverage our contribution.

**Mr. McHUGH.** I think the multilateral effort makes sense. It does leverage more resources for our particular goals, which are certainly consistent with the interests in these countries.

Why does it have to be a separate fund? It is to be administered, I understand, by the Inter-American Development Bank, which is the multilateral institution for that region. Why do we need a separate fund? Why can't it be done through the existing mechanisms of the bank?

**Secretary BRADY.** Well, The EAI is primarily trying to provide economic incentives to nations in Latin America and the Caribbean to advance towards market-based economies. I can tell you that the combination of debt forgiveness, the Multilateral Investment Fund, and the possibility of establishing free trade areas has produced an enormous amount of excitement. It is hard to describe unless you have been in Latin America and talked to the people yourself. But the EAI is very meaningful to the countries of that region. To the extent that the presidents of Latin American countries have been up here on the Hill, they have seconded that motion.

## ENTERPRISE FOR THE AMERICAS: DEBT RELIEF

Mr. McHUGH. Parallel to this multilateral effort, I understand there will be bilateral debt relief by the United States for certain of these countries, including PL-480 debt relief.

And as you know, there is a controversy here with respect to whether or not the Administration can go forward under Title VI of the Farm Bill without further action by the Appropriations Committee.

Is this something with which you are personally familiar?

Secretary BRADY. To some degree, but Charles Dallara, who is Assistant Secretary of the Treasury for International Affairs, is here with me, if you have any questions for him.

Mr. McHUGH. Well, I think from an institutional perspective, those of us in Congress who may be sympathetic with the purpose of the legislation and want to encourage the kind of economic growth that you are talking about would nonetheless be concerned that, under the terms of the legislation, additional action be taken by the Congress.

The language from our perspective is fairly clear and states, and I quote, "The authorities under this section, may be exercised only to the extent provided for in advance in appropriations acts," unquote.

It seems to me and to others here that before proceeding with this kind of debt relief that it would be necessary under the law to come up and get advance authorization through an Appropriations Act; and I would simply indicate that the Administration should not proceed unilaterally under this language, not that we are necessarily opposed to what you want to do.

But it seems to me you are inviting, if you go forward unilaterally, you will be inviting institutional controversy that might not be necessary.

I would also say one other thing, and that is that if the Administration wants to proceed with debt relief, for good and valid reasons in this region, I would personally encourage the Administration to proceed in a parallel way under Title IV of the Farm Bill with relief for African countries, which certainly in terms of their economic situation are much worse off than these Latin countries.

And so it seems to me from an equity perspective, it would be inadvisable to proceed with debt relief under PL-480 for Latin countries and not proceed with debt relief for African countries.

As you know, the Administration, under authority provided by Congress, has been moving in the past with debt relief for African countries under other programs. And I think that has been very constructive and has followed through on legislation that we initiated for that purpose.

So paralleled with that, I would think that if we proceed in Latin America with PL-480 relief, it would be appropriate at the same time to proceed similarly in Africa.

That is something that you don't need to respond to at this point, but I would put that out there for your consideration.

Secretary BRADY. Thank you.

Mr. OBEY. Could I simply interject on that point if the gentleman would yield?

I want to make it clear in my view this committee will not even consider the Administration's request to fund this entire approach down the line unless Treasury recognizes the clear congressional intent of the Agriculture Bill last year.

So if the Treasury is saying that there is something Treasury can get away with for a year, I am telling you it is going to cost them down the line if they try to play that game.

#### IMF QUOTA INCREASE

Mr. McHUGH. Mr. Chairman, just one other thing.

Mr. Secretary, you have covered this a bit in your statement, the IMF quota increase. Because of the significant amount of dollars that are involved, I would anticipate that we would have some resistance from some quarters on the Hill.

I would simply like to give you the opportunity to say something more about the importance of this quota increase. Perhaps putting it in the negative, what happens if Congress does not authorize this quota increase? What consequences might ensue from that kind of resistance here?

Secretary BRADY. Well, Congressman McHugh, I don't want to be overly dramatic, but I would say that would be a step backwards leading towards the forfeiture of our role as the leading economic country in the world. It would be a backward step not only in economic terms, but perhaps in political terms as well. As you know, the IMF is at the center of most activity of an international economic nature. The dramatic changes in Eastern Europe, the encouragement that we are trying to give to Latin America and to developments such as they may be in the Soviet Union, all of these cross the path of the IMF in an enormously significant way.

A significant amount of our day at the Treasury is involved in dealing with the IMF and trying to put forward as strongly as we can U.S. foreign policy goals as they affect the international economy. To a very large extent, our ability to promote those goals is dependent on maintaining our role as the leading country and recognized as such, in the IMF.

In an era when, because of the changes in the budget agreement in 1990, our funds for bilateral aid are limited and to some extent proscribed, it is absolutely essential that we keep our position not only in the IMF but in the World Bank at the center of our concerns in terms of funding by this country. It is just absolutely essential.

It would be a tragic step if we took any other course.

Mr. McHUGH. Thank you very much, Mr. Secretary.

Mr. Chairman, thank you.

Mr. OBEY. Mr. Gray.

Mr. GRAY. Thank you, Mr. Chairman. Mr. Secretary, it is certainly always a pleasure to see you. I'd certainly rather see you here than at Andrews Air Force Base.

Secretary BRADY. I am still recovering.

Mr. GRAY. That makes two of us.

## CARICOM DEBT

I only have one issue. CARICOM debt, Mr. Secretary, has the Treasury Department ever undertaken any studies that focus specifically on CARICOM debt and the best way to address these nations' debt problems?

Secretary BRADY. We have, but I will ask Charles Dallara if he would respond to that particular question. That is his area.

Mr. DALLARA. Congressman Gray, we certainly have looked at the CARICOM debt problem, although we don't feel that we have a comprehensive answer to it at this stage. It was, in fact, the particular debt problems in Jamaica that, in part, lay behind the entire motivation for the Enterprise for the Americas Initiative. Jamaica's debt was very heavily oriented toward the official community, whereas the initial efforts to address debt problems, as bold and comprehensive as they had been, had been focused on commercial bank debt to the developing countries.

We are also engaged in working through the Inter-American Development Bank in supporting the efforts of CARICOM through the IDB's onlending program to the Caribbean Development Bank.

But certainly countries such as Jamaica, Trinidad and Tobago and other countries in that region are receiving our considerable attention, and we hope, in fact, that Jamaica will be one of the early beneficiaries under the President's Enterprise of the Americas Initiative.

Mr. GRAY. When I look at the Enterprise of the Americas Initiative, I see definite benefits for Jamaica. However, I do not see enough focus on the smaller islands. This was a major problem with CBI and now history seems to be repeating itself with the Enterprise Initiative. I would like to submit for the record, Mr. Secretary, is a list of specific questions pertaining to the Initiatives impact on CARICOM.

In conclusion, Mr. Secretary, I want to express my strong concern that once again the United States is excluding, ignoring and overlooking, CARICOM. CARICOM deserves more than we're providing in the area of debt relief. Mr. Secretary, I urge the Treasury Department to give this region greater attention.

Secretary BRADY. We would be glad to respond to those questions.

[The questions and answers for the record appear at the end of the transcript.]

Mr. GRAY. Thank you, Mr. Secretary. Always good to see you.

Mr. McHUGH [presiding]. Mr. Coleman?

## DEBT STRATEGY AND MEXICO

Mr. COLEMAN. Thank you, Mr. Chairman.

I might, Mr. Secretary, welcome you again and thank you for your answers.

Last year I noticed that we had an opportunity to explore the potential benefits of what we call our strengthened debt strategy. I guess that this would be an appropriate time to talk to you about that progress and the progress that you have been able to report.

I was able to note in your statement that the overall debt strategy, certainly with the United States' leadership, has been impor-

tant. I was particularly interested in Mexico's commercial debt burdens and economic reforms that were anticipated last year with the agreement that we signed. Was that February a year ago, I believe?

I wonder if you might care to comment on how that is working?

Secretary BRADY. Well, I think it has worked, Congressman, on two levels. First, on the mechanical level where we have seen actual reduction in the stock of Mexico's debt to commercial banks. Second, because of the purchase of zero coupon bonds to provide for the ultimate repayment of Mexican debt, the burden of some \$40 billion or \$50 billion of that debt has been forever removed from the people of Mexico.

But I think really the key element that we should keep our eye on is the resurgence of energy, enthusiasm, and solid, sound economic activity that is taking place in Mexico now. It is always possible that we caught a wave at its crest, and that these things were underway when the debt package was reached. Whether that is actually what happened, or whether the operations of the transaction that we have made with Mexico were responsible for the change that is going on there, I don't know. The point is, even if the United States' effort is only support for our most important neighbor in the south, that is an enormously important thing.

I think you would agree that President Salinas, Finance Minister Aspe, and their colleagues have achieved an enormous amount of economic improvement, which I think will affect all of the people in Mexico, not just in the urban areas, but in the poorer country provinces as well. It is very exciting.

Mr. COLEMAN. I think the World Bank took some leadership in the concept of privatization, making those efforts on behalf of Mexico, and is something that our country has been encouraging for all the debtor nations.

Secretary BRADY. No question about it.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

Mr. COLEMAN. Let me say to you, I think that the concept of the Enterprise for the Americas Initiative seeking justification for a separate fund is going to be more and more important as we move to the legislative process.

I have to say at the outset, I happen to believe very strongly in the message the President delivered last year with respect to the initiative, but I think it has been ignored for too long. I think at long last we have an Administration that understands the importance of the region.

I would say to you, Mr. Secretary, that the question Mr. McHugh asked earlier needs to be developed a bit more about why a separate fund would, in fact, be required.

I think one question that a lot of commissions or agencies have to answer is why do we have to have another fund? And I know that is a simplistic attitude, but I have to be honest and tell you we have to answer those questions.

Secretary BRADY. Why we have to have another—

Mr. COLEMAN. Yes, sir.

Mr. McHugh asked the question earlier about why we would have a separate one when, in fact, we know that Inter-American Development Bank would be the one that administered it.

Secretary BRADY. We thought long and hard about it when we put the EAI together. I can only repeat for you, Congressman Coleman, what I told Congressman McHugh. We have found that these programs, initially the Brady Plan, but now the EAI, gain the most momentum when they involve a region as a whole. Rather than dictate to country X to do such and so and the United States will do this and that, we wish to convey that we believe in the region, that it is important to us, and that we are going to put our faith in the IDB to carry out this initiative.

Secondly, and this is a practical consideration, but it is important. There is no way we are going to get contributions from Japan and other countries for our own AID program. It is just not going to happen.

That is why this multilateral fund was suggested. The United States has proposed to put down its \$100 million a year for five years, with targets for other countries. We will try to make sure that the money comes in, just like you do in any fund-raising effort. In every G-7 meeting we raise the issue. We say, we have put our money in, where's yours? We have found that that drum-beating exercise is the way to get the most money for a program.

Mr. COLEMAN. Maybe we can——

Mr. McHUGH. Will the gentleman yield?

Mr. Secretary, I don't want to beat a dead horse, but the question is not so much why a multilateral approach. I think we agree that that makes sense. It hopefully will bring other resources to play on the issue.

The question is, why do we need a separate fund as opposed to simply additional contributions to the Inter-American Development Bank, which already exists? Is it simply to give more highlight to the initiative in a political sense, which isn't necessarily a bad thing.

But I am having difficulty understanding why we need a separate fund when we already have the Inter-American Development Bank.

Secretary BRADY. It is, as you have suggested, to highlight the effort. But in highlighting the effort, it also points out the fact that not every aspect of what the IDB does is right down the line with U.S. foreign policy and international economic policy. The EAI is the United States's program, and I think it will articulate our foreign policy for this continent in a way that is going to be enormously important over the next several years. In trying to make that initiative important, new, and an United States initiative, it was thought that it was best to put it in the form of a separate fund. Investment policy reform, of course, is part of the EAI. I hate to be captious, but it is working.

Mr. COLEMAN. Well I think that is the question that I wanted to get to, and I am glad you illuminated it a little bit. I was wondering if the answer was that the development and investment sector lending program is more intense with respect to the privatization concept, and I was trying to think of the rationales for the creation of this separate entity.

Secretary BRADY. I understand.

Mr. COLEMAN. I thank the Chairman.

Secretary BRADY. Mr. Chairman, could I just take one second? I wonder if you would let me submit to you this piece of paper, which is for the record? It is a summary of the comments from the presidents of the various countries that we visited. I will just read one sentence talking about the EAI by President Carlos Andres Peret—it says, "I do sincerely believe, Mr. President, addressing the President of the United States, that your initiative has cleared the way for burying the historical misencounter that is so much disconcerted and distanced us.

Could submit this to you for attachment to my remarks? I will send each of the Members here a copy of this, because I found this to be enormously helpful in trying to understand the import that this initiative has had.

Mr. OBEY. Surely.

[The information follows:]

STATEMENTS ON THE ENTERPRISE INITIATIVE FROM THE  
PRESIDENT'S TRIP TO LATIN AMERICA

"The Bush Plan heralds the United States' will to build a constructive agenda vis-a-vis Latin America. It is also a sign that the United States wishes to assign an effective priority to economic cooperation with our region...I deem the Bush Plan to be a promising possibility to definitively reconcile the unity of the Latin American nations with the strengthening of hemispheric cooperation."

President Collor  
Brasilia, December 3, 1990

"Your historic Initiative of the Americas...was scarcely unveiled when we realized that it implied a qualitative change in the hemispheric relations and because of this, Mr. President, we hastened to support and praise it...We look forward to the effective implementation of your proposal."

President Lacalle  
Montevideo, December 4, 1990

"The integration of Latin America is today something more than a project. It is as irreversible as its democratic systems...It is in this spirit that Argentina sees with hope the promising possibilities which may emerge from the proposals contained in the Enterprise for the Americas..."

President Menem  
Buenos Aires, December 5, 1990

"The Enterprise for the Americas Initiative proposed by you, Mr. President, opens interesting perspectives...Your vision of a free trade area covering the whole continent is a bold concept, in line with the aspirations and interests of all Americans...This could be an historic opportunity, and we should not let it slip through our fingers."

President Aylwin  
Santiago, December 6, 1990

"I do sincerely believe, Mr. President, that your Initiative has cleared the way for burying the historical mis-encounter that has so much disconcerted and distanced us."

President Perez  
Caracas, December 7, 1990

"This Initiative is not going to be an empty slogan; I am determined to follow up on this...let me gun down, let me shoot down in flames this concept that some bureaucracy in our government will block this Initiative. It will not. This Initiative will be successful."

President Bush  
Santiago, December 6, 1990

## AUTHORIZATIONS

**Mr. OBEY.** Mr. Secretary, you have five separate authorizations which have to be approved before this committee can fund the bulk of your requests. These include the IMF quota increase, the IFC, the Asian Development Bank, the African Development Fund and the Enterprise for Americas Initiative.

What is your honest estimate of how long it is going to be before all of those work their way through the authorization cycle?

**Secretary BRADY.** Well, Congressman Obey, you are a lot more experienced at this business than I am.

**Mr. OBEY.** Not with the authorizations.

**Secretary BRADY.** I know you have been in Congress a long time and I know you are informed on this subject. I would hope that we will get action on each of these items, but I have had that hope before and it hasn't always turned out to be the case.

We have put forward what we think are the authorizations that we need. I am hopeful that all of them will be acted on.

**Mr. OBEY.** I know you have got a lot on your plate, but I would urge you to work very closely with the Banking Committee, because we have a specific time table. We need to have this bill ready so that we can mark it up in May, or early June at the very latest, and the Treasury stocking is going to look pretty empty if we don't have some way to get those issues resolved.

## WORLD BANK AND SOVIET UNION

Let me ask a question with respect to the Soviet Union and World Bank. The World Bank, as you know, was making a number of noises about possible economic relationships with the Soviet Union. President Bush at one point had suggested a special status for the Soviet Union in the World Bank and the IMF.

Could you tell us at this point what is your understanding of what the World Bank study actually said about the Soviet Union and what the President had in mind? I recognize this stuff is on hold for now, but can you give us a little idea of what your analysis is of that World Bank study and the President's initial comments?

**Secretary BRADY.** Well, you have answered the second part. The associate status proposal is on hold, pending developments that are going on in the Soviet Union at this particular point in time.

But why don't I just summarize what the bank study produced, and then ask Charles Dallara if he wants to supplement in any way.

Basically, it said that there is an enormous amount to do. References to concepts such as private property, business systems, or social programs of one kind or another, by the Soviet Union is a long way away from actually achieving what those words represent. The whole concept of private property—one that we understand and agree to and expect in this country—does not exist in the Soviet Union. So the technical expertise that is needed to establish a system of private ownership is enormously hard to come by. We have heard just in the last several months, since the study came out, the arguments that are going on back and forth inside the country, as some of the particulars of moving toward a private property system are discussed. I think that the main import of the

study was that there is much technical ground to go over. If you are going to establish business and free enterprise, you have to establish cost accounting systems to see whether you are making a profit or a loss. Those things just don't exist and are very hard to institute. I think that the bank plan aimed at this kind of technical assistance.

Mr. OBEY. Well, I have a number of other questions with respect to that which I will ask you to respond to for the record, if you would.

[The questions and answers for the record appear at the end of the transcript.]

#### ENVIRONMENTAL EFFORTS

Mr. OBEY. Working backwards toward the front, I know that your area is not the world environment, but the United States funds International Financial Institutions, and they are supposed to be taking into account in their actions the world environmental problems and especially the well publicized problem of the global warming.

I guess what I would simply ask you, from your perspective in Treasury, is why do you think the United States has retreated from the position that it expressed last year that the U.S. ought to proceed aggressively on the emissions reduction and international frameworks and strategies for global emissions reduction, despite the lack of an absolute scientific consensus on the issue?

The reason I say that is that I understand the United States has committed only to keep its overall greenhouse emissions stable at 1987 levels through the year 2000. I think that has tremendous implications for our ability to lead the World Bank or anybody else in trying to be more sensitive to environmental problems.

So, while I recognize this isn't your direct responsibility, you are the lead pony in pushing for bank funding, I wanted to ask you what your thoughts were on it.

Secretary BRADY. Well, Congressman Obey, I would defer to Bill Reilly, our EPA Administrator on this subject. It is his major concern. In posing the question, you have answered part of it. The key to progress on emissions standards are the standards themselves. I agree with Bill Reilly that until we get those standards more readily understood and agreed to that it is hard to push the subject too far. But I really would defer to him.

But if I could just take your question as a question about the commitment of the Treasury and the Administration to environmental progress, I would say that the Treasury has taken the lead role in pushing the World Bank and sister organizations to regard environmental concerns as paramount concerns. On a day-to-day basis, Charles Dallara has been dogged in his pursuit of these aims with the World Bank and other organizations. That showed up first and foremost in the establishment of environmental impact statements. That is a very hard thing. You would think it would be something that would be easily agreed to by the World Bank, but it was very hard to push through that organization and bureaucracy. I think the Treasury, by most commentators, would be given great credit for having done that.

With respect to rain forests, I think that we have been enormously diligent in that area as well. We also have done what you have to do when you are trying to push a particular point of view. We have gone through individual loan applications and decided that a project is environmentally insensitive and that we are not going to vote for it. And moreover, we are going to go around and get some of our allies not to vote for it. So it is a question of doing the pick and shovel work on a day to day basis. I think, in following up on some of the concerns that we have discussed these last two years with your committee, we are doing a pretty good job.

Mr. OBEY. Well, Mr. Secretary, I would simply say that with respect to the retreat in the position you have taken with respect to CO<sub>2</sub> emissions, I think we have done, frankly, a surprisingly weak job. And I think that that makes it very difficult for us to convince the rest of the world that we are very serious with respect to our so-called demands on World Bank behavior.

I have a number of other questions on that subject, which I would also like to ask you to respond to for the record.

Secretary BRADY. I will be glad to do so.

[The questions and answers for the record appear at the end of the transcript.]

#### PRESIDENTIAL LETTER ON IMF QUOTA

Mr. OBEY. Let me ask you a question with respect to the IMF. The last time we had an IMF increase, the Reagan Administration asked the Congress to vote for it. We did, and then afterwards the Republican Congressional Campaign Committee sent out messages to all of their candidates, and even helped design advertisements, attacking Democratic candidates who voted in support of the Administration position.

My question is, what kind of specific documentation are we going to have from the Administration this time, before we vote on this issue, to spell out that, in fact, a vote for the IMF is a vote in support of the President?

Will we have a specific letter from the President asking Members to vote for that proposal? And how hard is the Administration going to come down on the political thugs around this town who try to deceive the public into thinking that something is happening, when it isn't?

I would hope you would agree that for the Republican Congressional Campaign Committee to run advertisements against Democratic candidates after we voted in support of the President's position last time, was certainly not on the up and up, and I, frankly, think we have a right to absolute assurances that that isn't going to happen again.

Secretary BRADY. I can remember you mentioning this to me when I was only in the job about two weeks, Congressman Obey, and I didn't quite understand the import of your statement at that time, but I do now. You have repeated it any number of times. And I think you are, frankly, entitled to that support, with the caveat that the campaign committees on both sides of the aisle don't always do what the Administration or the leaders in the party want them to do. I would only focus our attention on the last cam-

paign where one of the committee members suggested that the President not come to his state because of his stand on the budget negotiations. I guess that gentleman isn't there any longer, but at least at that particular point in time took that view.

But this President is strongly behind the IMF. You know, as I am sure most people do, he has an enormous interest in international affairs borne out of his time at the United Nations, the CIA, and also as Ambassador to China. So I can tell you that, at least to the extent that I have anything to do with it, you won't have that problem again.

Mr. OREY. Good.

#### POLISH AND GERMAN DEBT

Let me ask, Mr. Secretary, a question with respect to the Polish debt situation. As you know, Mr. Walesa is scheduled to be here in just a short period of time. In my view, there is no government in Eastern Europe that has gone nearly as far as has the Polish Government in trying to push responsible economic policy.

Market-oriented policy, which reflects economic realities as opposed to political ideology. And it is very difficult for a government in any country to do the right thing on issues like that, because it is not very popular. And to the extent that we don't give the Polish Government as much help as possible, because they have attacked the core of the problem, we risk the shattering of public support for the Democratic process in that country. And, I would submit, in other countries as it develops, as well.

How close do you think we are to actually getting an agreement with other countries with respect to Polish debt? And is Mr. Walesa going to be able to go home with something that really means that his government is now going to be in a position to pursue economic modernization?

Secretary BRADY. Well, Mr. Chairman, when you say how close we are, we could probably conclude a deal today at a level that you, your committee, and the Administration wouldn't think was satisfactory. However, I don't think we are very far away, and we have been pushing enormously hard. You have been unbelievably helpful in this regard.

David Mulford, Under Secretary of the Treasury, is he leaving today?

Mr. DALLARA. Yes, sir.

Secretary BRADY. He is leaving today to go to Poland to work on the problem. As you know, it takes two to tango, and the Polish authorities want the maximum amount of debt relief, as do we, and we, again with your help, are willing to go a great deal further than our allies.

We could take that step unilaterally, but, as you know, that would result in less debt relief than if we have an agreement from our allies. It would result in less help and assistance on a cash flow basis to Poland than if we can rope the whole creditor group into one final agreement, that would provide the greatest amount of relief. So that is our effort, to focus on cash flow and specific relief, rather than some big number that we hang out there ourselves which would be less meaningful.

Mr. OBEY. Who is dragging their feet at this point?

Secretary BRADY. Most of the other countries. But the truth of the matter is most of them have a lot more debt than we do. So that we are being accused to some extent of grandstanding because of the smaller amount of debt that we have.

No one in the G-7, including Japan, is willing to go as far as we are.

Mr. OBEY. So, the Germans are not yet fully onboard?

Secretary BRADY. Getting closer and closer day by day, but not fully onboard.

Mr. OBEY. Did the Germans describe our action in the early 1950s in forgiving a large amount of German debt as being grandstanding at that time, or were they happy with that?

Secretary BRADY. No, and they have been reminded of that specific case.

Mr. OBEY. Let me simply say that I would—

Secretary BRADY. Could I just say, Mr. Chairman, that we have the visit of Mr. Walesa firmly in mind, and that is why Under Secretary Mulford is on his way over there right now, hopefully to get something that would suit both of us at that particular time.

Mr. OBEY. Let me ask, because I really, frankly, have been very irritated, especially by the Japanese, but also by the German, attitude on this question. And so I will ask you a question which maybe laughed at in the sophisticated circles in this town, but which a lot of people in my district ask me every year. Whatever happened to the German requirement to repay World War I debt?

Secretary BRADY. I am not laughing at it. I just don't know the exact status of it.

Mr. OBEY. Aren't there still \$30 billion in World War I related debts, plus an additional \$2.5 billion in World War I related German debts still floating around on the U.S. Government's books. Isn't that owed to the United States?

Mr. DALLARA. I know there certainly is, Mr. Chairman, official debt still technically on the books. I am not sure of the precise magnitude, but I know that there is debt there, both from World War I and from World War II.

Mr. OBEY. German debt?

Mr. DALLARA. Yes, sir.

Mr. OBEY. What would Germany's response be if Congress insisted that that be repaid?

Secretary BRADY. I don't know.

Mr. OBEY. I would suggest you ask them, because I recognize the Administration is doing everything it can on this issue, and my unhappiness does not lie with you. But it just seems to me that the wise heads in this town, and they were correct to do so, suggested that in the interest of promoting future economic growth to stave off impossible economic problems in Europe, that we recognized there was a greater good than collecting old debt.

I would suggest that the Germans have an obligation to recognize that same thing. And, I would suggest certainly that the Japanese, given the fact that Japan and Germany were the two countries who caused the mess in World War II, which led to the re-drawing of a lot of lines, to the imposition of a lot of governments, which ran up these debts, including the previous communist Polish

Government. Both Japan and Germany have an obligation to shed the last remnants of old thinking and get on with the new realities.

I think Japan ought to be ashamed of itself for the way it has behaved in this instance and I think the Germans have been extremely slow to recognize their responsibilities.

#### POLISH DEBT AND ENVIRONMENT

Let me ask you, if you are in the final stages of a deal in negotiating reduction, would it not be wise to marginally deepen the effect of that reduction with other allies by allowing for the repayment of additional amounts in Polish currency in zlotys to be dedicated in a program for use in the massive environmental clean-up problem that Poland has?

Would the Administration be willing to support that kind of approach, given the fact that they proposed a somewhat similar approach in the Enterprise for Americas Initiative?

Secretary BRADY. Weil, as you can imagine, Mr. Chairman, the fact that we have used that method of finally tying the deal together in Latin America is part of our approach in Poland.

I am not sure that it will be possible to do that, but certainly anybody who has been to Poland and seen the pollution that is there, which is a burden not only to the Polish people, but to countries around them, would be sympathetic to that approach. The theory behind your question is a good one.

#### LEGAL BASIS FOR DEBT ACTIONS

Mr. OBEY. Could I also suggest, Mr. Secretary, with respect to debt-related issues in general, the American Law Division of the Congressional Research Service suggested the legal situation may in fact be very murky in terms of the Administration's authority to deal with debt rescheduling.

I think it would be most helpful if your department could work with this committee to try to see to it that we do, in fact, have clear statutory authority for whatever actions the executive branch needs and wants to take.

#### EASTERN EUROPEAN DEVELOPMENT BANK

Let me ask you a question with respect to the European Development Bank, and then I will ask Mr. McHugh if he has any more questions—I have been told that the East European Development Bank is having difficulty getting started, and that the President of the bank—is it Mr.—

Secretary BRADY. Attali.

Mr. OBEY [continuing]. Is promoting a French agenda over the objections of other donors and loan recipients.

I have also heard that the planned average bank salary would be about \$175,000 per year, but that there is still a problem recruiting staff? Is that, in fact, the case?

Secretary BRADY. I will ask Assistant Secretary Dallara to comment on the last matter, but with regard to the French agenda, I would say to some extent that that is true.

It is important, and we have been very forceful in this regard, to make sure that United States policy interests are reflected strongly

in the general direction that the bank is going. I can tell you that we have been doing that on a very direct and frank basis, so that I think that when the bank gets rolling, U.S. interests will be faithfully and forcefully put forward. But I will ask Charles Dallara to talk about the second part of your question.

Mr. DALLARA. Mr. Chairman, just to add a word to what the Secretary has said, certainly there have been operational problems that we faced in getting this bank up and running, but we feel like progress is being made. And, frankly, until there was an operational plan developed that reflected the priorities that we felt comfortable with, priorities addressing, for example, the environment and privatization, we would not have wanted it to be up and running. We do feel that progress is finally being made, although I would be less than frank if I didn't acknowledge that some of the problems remain to be fully sorted out.

On the salary and compensation part, I think we have actually made more progress in bringing about a realistic and sensible approach to the compensation here than we may have made in some of our other institutions where work is still underway.

The numbers that you cited sound higher than the figures that I am familiar with. I will be glad to check those out, Mr. Chairman.

Mr. OBEY. Well, I hope they are higher, because I think it is going to be difficult to sustain credibility for these institutions if you wind up with average salaries like that.

Mr. DALLARA. I take your point fully, and I believe that the average salaries will be coming in lower than that, but I will certainly check and get back to you. I think they are having difficulties recruiting and that may relate in part to the substantial housing costs, which are not fully covered by the salary and this is a concern, but we feel that the basic compensation system is not a bad one.

#### WORLD BANK LENDING TO CHINA

Mr. McHUGH. We had a provision in the bill last year for World Bank lending to China.

It is my understanding that some loans which were not basic human needs loans were, in fact, extended, and that we have withheld our proportional share.

Can you tell us what the current status of that is? Are my facts correct? Have we, in fact, withheld proportional shares of loans which were not basic human needs loans?

Secretary BRADY. I believe that is correct. Let me just read you these statistics, if I may.

"Only five loans totaling \$590 million were approved in World Bank fiscal year 1990. This is substantially less than pre-Tiananmen Square levels of World Bank commitments to China, which were roughly \$1.5 billion dollars in 1988, and \$1.3 billion in 1989. At the July 1990 economic summit, the G-7 agreed that MDB lending to China should be limited to basic human needs, economic reform or environmental loans. In World Bank fiscal year 1991, the World Bank has approved six projects for China. The U.S. supported the two which met basic human needs and abstained on the four nonbasic human needs loans."

Do you have any further information?

Mr. DALLARA. I might just add, Mr. Secretary, that we have indeed, as Mr. McHugh indicated, withheld \$13.89 million from our

IDA fiscal year 1991 contribution because it did take place in the time frame that was captured by the legislative requirements here with respect to our payments.

We are continuing to monitor the situation very closely. We would ideally prefer to limit the lending to strictly basic human needs loans. However, the summit, in an effort to reach a broad consensus, did indicate a willingness to see some other loans move forward in the areas of supporting market-oriented economic reform and environmental reform. Our concern is that the World Bank may be actually in some cases moving somewhat beyond that, and we are in active contact with senior management in an effort to discourage going beyond those bounds.

Mr. McHUGH. Well, I am a supporter of the World Bank and the IDA. I think those institutions are important in terms of our own economic and political interests.

But I can tell you, and we have talked about this before, I can only reinforce the point that we made previously, that to the extent that the bank makes loans to China which are not basic human needs loans, it makes it increasingly difficult on the Hill to sustain support for the contributions which we make, which are significant contributions.

And as you know, we have had trouble without this problem in the past. So I hope that you will hold the banks accountable on this, and we certainly will send the same message.

Secretary BRADY. Congressman, can I just say that we do try and reflect the opinion that you put forward, and it was a monumental effort to get all of the EDs together and put forward the policy which was very successful in calling attention to the Chinese to our strong feeling about the actions in Tiananmen Square. Any number of times that coalition broke down; we put it back together again; and ultimately, of course, we are where we are now. But it was a significant effort, and it did work.

#### PANAMA AND NICARAGUA

Mr. McHUGH. I would like to ask you about Panama and Nicaragua. Last year, the Administration requested a supplemental which provided funds for both countries, Panama and Nicaragua, and a substantial portion of that supplemental assistance was for the purpose of clearing up arrearages, which both of those countries owed to the multilateral development banks.

We were told that other countries were prepared to help as well, and that this would open up some lending from the multilaterals that was otherwise prevented because of arrearages.

I wonder if you could bring us up to date. Have the arrearages been cleared up at the banks on behalf of both countries, and are they able once more to gain access to lending that they need for economic recovery?

Mr. DALLARA. Congressman, perhaps I could try to respond to your question.

First, the arrears have not yet been cleared. However, we feel that we are, perhaps, not far from that point when they can be cleared.

Indeed, the funds which Congress appropriated for this purpose have been very instrumental in enabling us to obtain commitments from other countries, including Japan, to contribute appropriate magnitudes to this total arrears-clearing effort, which is a substantial effort, in excess of \$500 million, if I recall correctly.

The Panamanians have agreed to an IMF program which underlies one of the essential efforts. They are in discussions with the World Bank, which will also be another important element underpinning this effort to clear the arrears and rebuild the economy.

Although we are not yet in a position to say that it has been completed, we feel that perhaps we are not very far from that state.

Mr. McHUGH. Will you provide the committee with more detailed information about what other commitments were made? You mentioned Japan, specifically; but I think the committee would be interested, and I certainly would, in knowing specifically what other commitments have been made and whether the funds are available.

We provided this funding at least in part because we had an understanding that these other countries would be forthcoming.

Mr. DALLARA. Well, I will be glad to provide the detailed information, but if my memory is correct, I think the breakdown is one-third will be provided by the United States, one-third by the Panamanian Government itself, and one-third by other countries.

We will be glad to confirm the precise amounts for the record, sir.

[The information follows:]

The breakdown is \$390 million in grants or soft loans, of which one-third will be provided by the United States, one-third by the Panamanian Government, and one-third by other countries. The balance of the \$540 million in arrears, i.e., \$150 million, will be cleared by bridge financing to IFI disbursements.

Mr. McHUGH. What about Nicaragua?

Mr. DALLARA. I am not as current on them at the moment. I know we are working actively with the Inter-American Development Bank and with other organizations and with other leaders in Central America, such as Mexico, in an effort to pull that arrears-clearing effort together. I know that their economic reform program has been struggling, and we have been trying to support them. But I will be glad to get you a more complete picture on that for the record, sir.

[The information follows:]

#### NICARAGUA

The World Bank is chairing a Consultative Group for Nicaragua, which is expected to coordinate the clearance of Nicaragua's arrears to the World Bank and the IDB, and to address other requirements for technical and financial assistance. The World Bank has asked international donors to provide a combination of grant and bridge financing to clear Nicaragua's arrears to the World Bank and the IDB, which are expected to total \$390 million by mid-1991. As you are aware, the US has committed \$50 million to clear Nicaragua's IFI arrears. While other donor countries have generally expressed very strong support for Nicaragua, commitments to date fall short of the amounts necessary to clear the arrears. The USG funds will be disbursed when a complete arrears-clearing mechanism is in place.

## GLOBAL ENVIRONMENTAL FUND

Mr. McHUGH. Thank you very much. I just have one other question, Mr. Chairman, and that deals with the World Bank Environmental Fund.

The Administration is requesting a total of \$150 million within the aid budget as our commitment to the World Bank Environmental Fund. As I understand it, our funds would be used to engage in parallel financing with the fund.

Was any consideration given to making a direct contribution to the fund as opposed to using this \$150 million in parallel with the fund; and if you know, perhaps you could explain what the rationale was for not contributing directly to the fund but rather approaching it on a bilateral parallel basis?

Secretary BRADY. I do remember the discussion, Congressman McHugh. I cannot remember the exact reason for doing it that way. I believe that we thought that putting the program inside the Bank and starting the effort there was a way of focusing the World Bank's mind on this problem and its importance.

But what I would really have to do is refresh my recollection. I can remember the discussion. I cannot remember the reason for the decision.

Mr. McHUGH. It raises in my mind a question that we were asking earlier about the Enterprise Fund for our southern neighbors. And it seems that in one case we established a separate fund, and in another case, we did not. I am not quite sure why the differences.

Secretary BRADY. As I remember that particular situation, it was an attempt to focus the World Bank's attention. The Bank is always glad to start anything if you put the money up yourself, and what we wanted to do was start inside the organization so that they knew of the importance of the effort.

But further than that, I cannot remember at this time.

Mr. McHUGH. Thank you, Mr. Chairman.

Mr. OBEY. Mr. Coleman?

Mr. COLEMAN. Thank you, Mr. Chairman.

## MEXICO FREE TRADE AGREEMENT

I guess the other question I had that related again to Mexico was in terms of your department, Mr. Secretary, and its perception about the Mexican debt problem. And now we have a new element added with the Free Trade Agreement being proposed by the Administration.

Is it the Department of Treasury's position that the FTA will help alleviate the Mexican debt problem and the overhang that we discussed a year ago?

Secretary BRADY. Well, I think so, because I think it will help not only Mexico but the United States. The purpose of the Free Trade Agreement is to have a rising tide lift both boats, if you will, and we think that that will take place. Therefore, the Mexican debt, by its relationship to a stronger economy, will be better able to be borne by the Mexicans.

Mr. COLEMAN. Mr. Secretary, I would say to you that certainly, one of the difficulties that any Free Trade Agreement agreement is

going to have is the so-called fast track authority that, as you know, will prevent amendments to such an agreement.

Certainly it is my view that Congress can have input into such an agreement throughout the process and indeed during the 90-day period following the agreement. Over the one or two years or however long it takes to ultimately have an agreement, input by members can be had.

Yet by preventing amendments that actually will be offered in the fast track procedure, which as you know has to be reauthorized this year, and many of us are concerned about whether or not that will even occur, but given the facts, it certainly seems important.

And I hope you would concur that not necessarily as part of the Free Trade Agreement, but on a parallel track such as an addendum to such an agreement, that United States and Mexico address other issues.

I mean, they should range, in my view, anywhere from law enforcement to drugs to environment to infrastructure. And it seems to me, Mr. Secretary, that your department certainly will play an important role.

I noticed that for the 1992 fiscal year the President has recommended in his budget an increase of about 200 Customs personnel over the 15,000 or 16,000 that was recommended for 1991.

I would only urge you and ask you to fully participate with the Secretary of Commerce and with the President's initiative on this Free Trade Agreement to show that bilaterally with Mexico at least, in terms of the Free Trade Agreement, both countries are willing to deal with the infrastructure needs.

I call them infrastructure; they are also personnel issues, naturally. I happen to represent a district that is on that border. All I can tell you is that it doesn't work. Some would say it just doesn't work very well.

I can honestly tell you that sometimes it just plain doesn't work with all of the agencies that are involved at just a border crossing.

We really need your help. International Boundary Water Commission under the Department of State is an example. We have so many agencies involved on everything that is done that Treasury is a key component, however, particularly as it relates to personnel.

And I think if we don't have a better commitment, a stronger commitment than we have had in the last decade in terms of helping to facilitate the transfer of Commerce between our two countries, it will be even more difficult to reach an accord on any agreement, particularly of approval by this Congress.

Secretary BRADY. Well, certainly the system is not perfect. It is certainly working a lot better, and I think that is for two reasons. One, we are pushing a number of the issues that you have raised. But secondly, the Mexicans understand that there is an interrelationship here. They are not going to be able to just talk about VCRs and apples and oranges and a few things like that and get what they want and pay no attention to what we want. They understand that this agreement has to be a two-way street. I think there is pretty good coordination inside the Administration, led by Carla Hills, to get this job done. It won't be perfect, but I am optimistic.

Mr. COLEMAN. I was just going to say, Mr. Secretary, that I really need you to help out the Customs Commissioner. She has brought, I think, a new perception, a new concept to the agency.

A lot of us have very high hopes for her success, but with your personal attention along with other Cabinet-level officials.

We find people are suggesting, for example, that along the U.S.-Mexico border, on both sides of the border, that the economy will be improved.

And yet I can honestly tell you that many people really don't view it that way, and we also see great economic and environmental problems because of the lack of our ability to exchange commerce.

It is astounding to a lot of us. If France and Germany can cross each other's borders and deal with each other by commerce, whether or not we have this agreement, I think the Secretary of Commerce and Minister of Commerce for Mexico said it right; whether or not we have this agreement, there is one thing that is not going to change. Mexico and the United States are still going to be neighbors, and it just seems to me that we are going to have to begin to deal with this problem at the highest levels. And I would appreciate any efforts you can make in that regard.

Secretary BRADY. We have begun.

Mr. COLEMAN. Thank you, Mr. Chairman.

#### EGYPT

Mr. OBEY. Mr. Secretary, a few minutes ago you and I were discussing the question of Polish debt; and in that instance, we were discussing a country that has taken incredible steps really to do the tough things necessary to correct its own economic problems.

We have another country where I think that has not been the case, and that is Egypt. And I would like to raise an issue if you would address it, because I think it needs some attention.

In the case of Egypt, as you know, the Administration asked last year for us to forgive \$6.7 billion in Egyptian military debt.

We did that. We tried to get some strings attached to force other creditor nations to participate in the process so that we weren't left holding the bag, and we were only minimally successful.

But, now we have a situation where we have just cleared Egypt's debt. They still have a miserable situation with respect to their economy, with very serious long-term problems.

And now the Administration is telling us that the Congress ought to be supporting the provision of 46 F-16s to the Egyptians right after Iraq has been decimated.

So, as near as I can see it, there is no immediate need for Egypt to obtain 46 F-16s for their own defense.

We know that they can't pay for them, because they don't have the dollars to do that, and so what it means, frankly, is that every dollar that we sell today is eventually going to be paid for by us.

We will give Egypt aid, Egypt, in turn, will then write a check to us to cover the planes that we are selling them, and the problem is that we run into something called a cash flow financing problem.

If we agree to sell them something in year one, that means in years two, three, four, and five, we wind up having to commit large

amounts of resources to pay ourselves back; it means we are unable to reduce aid to a country such as Egypt because if we reduce it, we reduce their ability to pay us back.

So, we have this cycle going on. And the problem, as I see it, is that here is an instance where, with Egypt experiencing debt forgiveness, we had a window opening up where they could have applied six or seven hundred million dollars of their resources to dealing with their own economic problems.

But instead, they are going to be pumping it into more F-16s. I know this is not, again, your direct responsibility but as the fellow who is in charge of U.S. financial policy, it seems to me that it is in Treasury's interest to take a deep interest in what is happening here.

Because what we are doing is ensuring that Egypt is not going to be strong enough economically to attack its own social problems. They are going to continue to have to rely on the United States, we are going to have to continue to shovel money at them so they can repay us, and it just seems to me that we have an opportunity here, with the successful conclusion of the war, to try to reduce what we are throwing into all of these countries, rather than re-loading everybody's guns.

So, I don't know if you want to comment on it or not, but I am very concerned that in the case of Poland, the world community was very tough in terms of setting conditions under which Poland can get debt relief.

In the case of Egypt, we set virtually no conditions with respect to their own economic performance as a basis for providing military debt relief, and I think we are going to wish we had, given the continuing unraveling of that economy.

I would be interested in your response.

Secretary BRADY. Well, certainly many of the concerns that you have, we also have. I would say that Egypt is making progress on economic reform.

They are moving towards an agreement with the IMF; it is an uphill struggle. The IMF has put forward a program which will make a difference from an economic point of view, and, of course, Egypt will have civilian problems if the program is pushed too far.

So I can't tell you that the problem is solved; it is a long way from solved. I think the F-16s were sold under the FMS financing program, which is on a grant basis, but I am not positive about that.

Mr. OBEY. I understand, but it is our money.

Secretary BRADY. Oh, I understand.

Mr. OBEY. Here is my point.

You say Egypt is on its way toward an IMF agreement. They got one in 1987; within three months they were out of compliance with it.

They got rescheduling on the basis of that 1987 agreement, and now they have been, quote, "moving toward an IMF agreement" for the last two-and-a-half years. I have got dead puppies who move faster than that.

I really think we are walking into a serious long-term problem. If we don't use this moment to deal with it, and if we are going to re-load Egypt with new F-16s, and if we are going to re-load Turkey

and if we are going to re-load every other Tom, Dick, and Harry in the Middle East, how in God's name are we going to do what every single witness that testified before us last week said we ought to do, which is to try to greatly reduce the amounts of arms going into that region.

Secretary BRADY. Well, I think that is an admirable objective. I will say that Egypt's track record over the last number of years has been one that has been helpful to the United States interests, and particularly this last encounter in the Gulf. So I suppose that has some bearing on the matter. The IMF program that you refer to is an uphill struggle. I mean Egypt has a large population and only limited resources. We push and scrape and shove and try to do the best we can, and an IMF program is put into the place and it works for a while—

Mr. OBEY. Mr. Secretary, my point is the public is being conned. The American taxpayer is being conned in this instance, in my judgment, because so long as Egypt does not make sufficient progress economically, every weapon that we sell Egypt is sooner or later going to be paid for by the American taxpayers, not the Egyptian taxpayers.

And to the extent that we don't insist that Egypt reform economically, we are going to have to continually up the ante in terms of the military help we provide Egypt and we are going to have to up the economic ante, because they won't get their own house in order.

Sooner or later that has got to stop. I find it incredible that every Member of Congress had to go home and explain to their constituents why we forgave \$6.7 billion in Egyptian debt last year on the military side and now we are in the process of selling them more things they can't pay for.

Secretary BRADY. Well, on the economic side, it is not a perfect process as we have discussed, and that—

Mr. DALLARA. If I could add a word, Mr. Secretary, and Mr. Chairman.

I have seen the Egyptian economic reform efforts over the years and I can actually understand your deep skepticism, but the fact is they have moved a long way in their commitment toward economic reform since 1987. The past year they have put into place for the first time, to my knowledge, an exchange rate system that is market-based. They have taken some difficult fiscal, monetary and pricing reform measures.

Mr. OBEY. But couldn't they take a lot more steps if we weren't in the business of selling them a whole bunch of new military aircraft that right now they simply don't need?

Mr. DALLARA. There is always additional effort that could be made, but I wanted to underscore that I do see clear signs of a basic commitment to economic reform in Egypt over the last six to twelve months that I had not seen in previous years and we are working very hard to encourage them to take the needed steps. I see a number of very difficult steps taken by President Mubarak in the economic lead over the past months.

Mr. OBEY. Mr. Porter.

## AID TO THE SOVIET UNION

Mr. PORTER. Thank you, Mr. Chairman.

Secretary Brady, I apologize for being late. They managed to schedule the secretaries at both of my subcommittees on the same day, and I apologize for that.

Let me say, Mr. Secretary, that you are doing an excellent job and I particularly like your low-keyed professional approach to your responsibilities. We have a good deal of demand on American aid resources across the world, not only perhaps in the Gulf, but in Eastern Europe, that has gone off of our front pages. It remains a very, very high priority.

Eastern Europe's success, its movement into free enterprise models and democratic pluralism is extremely important, and yet we have the Soviet Union that seems to want to get into the picture, if not directly, at least through the new European Bank for Reconstruction and Development, to which we are a ten percent partner.

The articles of the EBRD state that the borrowing countries should be applying the principles of multi-party democracy, pluralism, and market economies.

The Soviet Union would have the right to borrow from this fund a substantial amount of money in the first three years that it is in operation, and given their record in the Baltics with repressing human freedom and preventing self-determination, what can we do or what should we be doing regarding any kind of aid to the Soviet Union?

Secretary BRADY. Congressman Porter, as you know, there are the caveats that you have referred to in the charter and bylaws of the European Bank for Reconstruction and Development. Obviously the State Department would have a very important contribution to make in determining whether the Soviet Union met those criteria, although at this particular point in time, it is very hard to see how the actions that they have been taking would permit borrowing under those guidelines. As I said, this is something that the State Department will be heavily involved in, but at this particular time I would agree with you. It is hard to see how those two things match up.

Mr. PORTER. Is there any kind of—

Secretary BRADY. Let me also say, Congressman—excuse me for interrupting you—I think that is the view of a number of our G-7 allies as well.

## DEBT REDUCTION AND ENVIRONMENT

Mr. PORTER. Mr. Secretary, you and I have talked a year ago and the year previous to that about debt, particularly debt of lesser developed countries, and particularly how we can achieve for them debt reduction and at the same time meet some of our priorities regarding the environment, particularly debt-for-nature-type arrangements. I wonder if you could give us an update or a new perspective on that, particularly regarding the Latin American countries, and also address the question of whether, if our debt relief is unilateral, doesn't this simply increase the value of other debt that

is outstanding, and don't we need a broader based effort to promote these kinds of priorities?

Secretary BRADY. Well, to some large extent, it obviously is unilateral, but you face the horns of the dilemma. If you don't go ahead and move, nothing happens, and if you do go ahead and move, obviously you have increased the worth of other countries' obligations.

It has been our feeling that what Congress wanted and certainly what the Administration wanted is that we should go ahead and move when we see worthwhile projects, and try to bring other people along with us. But if that is not possible, we should go ahead and move anyway. We should try to exert leadership to get the whole flag of environmental concerns up high with the hope that the rest of the world will follow, and I think that is happening. I think, going back from when we first discussed the problem two or three years ago, there is a marked change among the other countries of the world who now realize that the environment is important, and that they are willing to put their shoulder to the wheel. So the burden of moving ahead is the fact that you diminish your claims and other countries' claims are stronger. The virtue of it is that you get some real bite in the environmental effort. I think it is worth it.

Mr. PORTER. Do you think that the World Bank and other multi-lateral lenders are placing this kind of concern at a high enough position in their own policies?

Secretary BRADY. Well, it isn't as high as we would want it. Again, I can say that, since I first came on this job in the fall of 1988, the progress has been rewarding. Simple things like environmental impact statements which were fought off and thought to be a hindrance and bother, at that time, are matters that are ordinary procedure today.

Loans, which had environmentally harmful sections to them, which would have skipped through the approval process two or three years ago without being halted and examined now would not be put forward unless they are environmentally sensitive. So I think we are getting there. Our concern for forestry around the world is well known. I was just amazed to hear at the last summit, either the Germans or the French, I can't remember which, putting it forward as an idea of their own. It wouldn't have happened two or three years ago.

Mr. PORTER. This may be an unfair question, but our Executive Director at the World Bank takes a pretty strong position on environmental questions. Who are his allies?

What other countries are helpful to our efforts, and is that improving or not?

Secretary BRADY. Let me ask Charles who has more knowledge than I do on the subject.

Mr. DALLARA. Well, Congressman Porter, our allies' reactions, depending on the particular environmental issue before the board, have been mixed. I would generally say, however, the Canadians, on a number of issues; the British, on certain issues, although perhaps not as many as others; with the Germans it really has varied. We have had to work to build a coalition, and we are still working

to build that coalition and sustain it across the front of environmental issues.

It seems that there is broad support on the need for environmental impact assessments. When it comes to facing down and voting against a loan that is not environmentally sound, of course, perhaps other countries are not as willing to take the stand as we are.

We are, I can assure you, working very actively, however, to build and maintain that consensus.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

Mr. PORTER. Mr. Secretary, if the Enterprise for the Americas Initiative is a good thing for the Americas, and this may be jumping the gun, should we be looking at this same kind of initiative in other regions of the world that suffer the same kinds of problems?

Secretary BRADY. Well, I think it would be a good idea to look at it. In order to put one of these programs together, you need a matrix of things that work at the same time—such as a level of debt that we can affect significantly. Even in the case of the EAI, we have problems getting the Public Law 480 and the AID debt write-downs that are necessary with the speed that we need to get them done.

I would say that in terms of success—before you came into the room I asked that a brief summary of what the leaders of the five countries that the President visited this last December had to say about the program be incorporated in the record. Their comments were extraordinary. Nobody prompted them to say what they had to say, but each one put forward an enormously strong statement of support. And I would say with regard to the EAI, it has really articulated a plank—maybe the main plank—of U.S. foreign policy with regard to this continent and that is going to be terribly important to us.

So it is a blueprint that could be followed elsewhere. Each area that you point at has something that distinguishes it in terms of getting the details done, and I must say the details are enormously hard to overcome and crush down in order to allow movement.

Mr. PORTER. Mr. Secretary, thank you for the fine job you are doing. Thanks for answering my questions.

Thank you, Mr. Chairman.

#### CENTRALIZED DEBT MANAGEMENT REPORT

Mr. OBEY. Thank you, Mr. Secretary.

In our fiscal year 1990 Conference Report, Congress requested the Treasury and OMB develop a plan for centralized debt management. It was due March 5 of 1990.

Last year when we started this hearing, we had a list of requests of Treasury, some of which we still haven't received. This is one of them. We finally in June 1990 got an interim report.

When are we going to receive the final report?

Secretary BRADY. I am loathe to say very shortly, but that is what my information is. My information also says that Representative Obey expressed displeasure that the report had not been submitted. But my answer is very, very shortly.

## CENTRALIZED CREDIT RATING

Mr. OBEY. Well, let me make a point. We have a real problem with respect to credit reform, because it appears that agencies of the U.S. Government, the Ex-Im Bank, the Agricultural Department, a number of other agencies, all make separate judgments about the credit worthiness of an individual country, and so they can be repaying their bills through one window and welching on them in another window. And yet agencies of government will only respond to how that recipient government is dealing with their own repayment schedules for that single agency.

That doesn't add much credibility to the U.S. Government as a whole, it seems to me, in dealing with people who owe us money.

Could I ask why the Administration did not centralize credit rating systems for foreign countries when it started to implement credit reform legislation?

Secretary BRADY. I think the answer is it was being done in a number of provinces, as you set forth. The delinquency in collecting all this information in one place is not an indication of a desire not to do so. Some of the stuff is actually handwritten. It is old and in forms that you wouldn't prescribe if you were the proverbial man from Mars and came down and tried to put a system together. It is a question of trying to make an old system work.

Mr. OBEY. Wouldn't OMB and Treasury have the lead obligations in trying to see to it that the government knows what it is doing in terms of judging the credit worthiness and repayment performance of creditor countries?

Secretary BRADY. Well, one would think so. But, as I say, these programs grew up over the years when the individual departments had control of them, and the OMB and Treasury function wasn't as strong, and we are trying hard to get this report together.

Mr. OBEY. But I am interested in more than just a report. It seems to me that when this committee tried to assess what Egypt's performance had been when we were dealing with forgiveness requests last year, we couldn't get information government-wide on what performance. And it just seems to me that the government simply isn't going to know what the devil is going on unless your agency or OMB is able to provide that information.

I just think that we ought to be able to talk to some person who was at that table and get answers to questions on how a country is performing. And it seems to me that all agencies ought to cooperate in denying access to credit to countries unless the government is agreed that that country is performing reasonably decently under the circumstances.

So, I would urge you to put together an approach so that we can get answers that mean something and so that the government itself has a policy that makes sense.

Secretary BRADY. That is the object of the exercise.

## ASIAN DEVELOPMENT BANK

Mr. OBEY. Why is it important for the U.S. to play "keeping up with the Jones'" by matching Japanese contributions to the Asian Development Bank?

Secretary BRADY. Well, again, I think one could ask the same question about a number of the different banks at various different points in time.

I simply think in a resource-short world that once we cede leadership to other countries, we are ceding our ability to establish U.S. policies. And I would, as we have in our request, Mr. Chairman, urge that we try and make sure that we are up to date on all of our MDB requirements as a basic tenet of U.S. foreign policy and international economic policy.

#### DEBT RESCHEDULING FOR POOREST COUNTRIES

Mr. OBEY. Mr. Secretary, let me address an issue with respect to the view of the indebtedness of the very poorest countries, many of whom are in Africa.

Since 1978, the U.S. National Advisory Council on International Monetary and Financial Policies has had a written policy on debt rescheduling, which, in part, states as follows, and I am reading from it: "When a reorganization involving creditor or guaranteed credits takes place, the United States will participate only if the reorganization agreement incorporates the principles of nondiscrimination among creditor countries, including those not party to the agreement."

Now, as you know, the Paris Club is not one of my favorite clubs—I think it has been a scheme in the past largely to avoid dealing with realities rather than forcing people to deal with realities.

But nonetheless, let me simply note that, as you know, they adopted certain principles for handling debt of the poorest countries, referred to as the Toronto Terms. And under those proposals, there were three options, a, b, and c, for dealing with rescheduling of nonconcessional debt of the poorest countries. Option b provided for no debt forgiveness, although both options a and c did.

In 1989, 12 of the poorest countries rescheduled their debt at the Paris Club and of the debt that they brought to the rescheduling, 20 percent was rescheduled under option b; 29 percent under option a (which involved a one-third reduction in principle); and 45 percent under option c (which involved an interest rate reduction).

Secretary BRADY. Charles, would you comment on that? I am not as familiar with the negotiations.

Mr. DALLARA. I will be glad to try to respond, Mr. Chairman.

Those terms were broadly agreed, as I recall, before the United States was prepared to move into basic debt reduction, the mode we are now fully engaged in. It is my recollection, and I will be glad to double check this, that the options presented there do involve raw comparability in terms of what each creditor is bringing to the table and doing for the debt, and even though the options may have a substantial difference in appearance on the surface, it is my impression that the net present value of these options does involve, broadly speaking, a sense of comparability.

Mr. OBEY. Would you provide that for the record to the committee before we reach mark-up stage and will you provide a full listing of the free-riding creditor countries and the amounts they have rescheduled under option b for each debtor rescheduled, and could

you tell us if that option is being predominately selected by specific countries?

Mr. DALLARA. Yes.

[STAFF NOTE.—The response of the Department of Treasury to this question is contained at the end of the hearing transcript.]

#### PARIS CLUB AND TRINIDAD TERMS

Mr. OBEY. What I am leading up to is this: last September John Major, Britain's new Prime Minister, proposed dealing with the poorest countries' debts under new terms which are now referred to as the Trinidad Terms.

And what I am struck by is the fact that Mr. Major apparently has concluded the entire debt stock of the poorest countries ought to be addressed in crafting a solution to each country's debt crisis. And it would appear to radically alter the Paris Club from being a short-term rescheduling institution into a debt restructuring institution, which, in my view, would make them more believable.

Let me simply ask how you feel about Mr. Major's position. Do you think that it has merit? If so, why? If not, why not?

Secretary BRADY. When John Major proposed the so-called Trinidad Terms, he said in essence it was an extension of the Brady Plan to the poorest countries. Of course, we have to agree with that, although the ability to get policy reforms in those countries, because of their adverse circumstances, is much more difficult. But right off, two-thirds of the debt, which I believe was the amount which he proposed, does present a problem in terms of its applicability to other countries.

We have tried, in the Brady Plan, to observe the principles which John Major, obviously, is using here, but in terms of that country committing itself to reforms which are possible and probable. It is not as clear that that is as true with the poorest countries. So, we are caught between wanting to be sensitive and charitable with respect to those countries and not creating a precedent which the rest of the world can simply follow and not pay back any of the debt. So, believe me, the Treasury Department has been, I believe, on the forefront of trying to recognize that if some of these debts are never going to get repaid we better just go on about our business and try to get the best we can out of it. We are studying the Trinidad Terms to see how that principle might apply.

#### LATIN DEBT PROBLEM

Mr. OBEY. I have two questions about Latin debt. Let me raise a question simply to express my concern about how we evaluate the Enterprise for the Americas Initiative.

As I understand it, total Latin American and Caribbean debt is approximately \$429 billion. Long-term debt is approximately \$339 billion. Official long-term debt is about \$113 billion, or about 34 percent of the total. \$56 billion of the official debt is held by governments and \$58 billion is held by multilateral organizations.

Private debt accounts for \$223 billion or 64 percent of the long-term debt, and 52 percent of that total long-term debt in the regions held by commercial banks, as I understand.

Now, we have your proposal for the region, but in the area of debt, it would proceed to unilaterally address \$12 billion in official debt held by the United States. That \$12 billion is only about three and a half percent of the total long-term debt in the region, and if there is reduction of that debt, you may be looking at perhaps a third, in which case what you are really talking about is cutting total long-term debt by one and a half percent.

Can we really expect to see much progress of the region if that is the only thing that happens with respect to a long-term debt? Don't we have to have more action on the part of other players, other countries, and the private sector in order to really make a significant impact?

I mean, aren't we going through a tremendous effort here to produce—

Secretary BRADY. Well, I wouldn't say so in the sense that it is a start. Again, I can't overemphasize the strong feeling that the countries in Latin America have for the EAI, and also for the establishment of hope that is connected with the debt reduction plans under the so-called Brady Plan. So although it is not all encompassing, I think the fact that it is a start, and that it recognizes the problem in the area, has impelled and energized the countries of the area to do things on their own, which aid and abet these programs. It doesn't solve the problem, but it is a start down the road. Of course—you will remember, and you were of great help in terms of the debt reduction initiatives that we established in 1989—how difficult it was to get both bankers and other countries to come along with us. We simply put it through, and we now have some seven or eight countries that have had significant debt reduction under that plan.

In the case of EAI we have started on down this path on our own. I am hopeful that it will be a positive step, again, even though one could say that it places the United States in a less advantageous position—because it is willing to reduce its debt on a less favorable basis than other countries. I think that is the price of leadership.

Mr. OBEY. Well, Mr. Secretary, I agree with what you are trying to do.

My question is how much it is actually going to acquire without cooperation from other countries, and from the banks, private banks.

I have a number of other questions I would like to ask you with respect to that, and also with respect to the trade pillar in the proposal.

#### INVESTMENT PILLAR OF THE EAI

Let me ask you about the investment pillar. Do you have proposals for human capital grants from the IDB for retraining of displaced workers, and for their relocation expenses for temporary food and shelter, clearinghouses of information to match retraining workers with emerging jobs?

It sounds terrific. But how do you suggest Members of Congress go about selling that to their constituents when we see, for instance, that the Administration this year is recommending a 16

percent reduction in the trade adjustment assistance, which we provide our own workers, a program which is supposed to retrain workers who have been impacted by changing trading positions?

I mean, certainly—I mean, if the workers in Latin America would be impacted by moving to privatization, in the U.S., as we try to move toward more open trade, they are impacted by trade, for a forum that in both instances results the same, meaning that some people are out of work.

How can we justify doing what might be a very laudable thing when the Administration is squeezing out of the budget efforts to help our own people right here at home?

Secretary BRADY. Well, I would point out that with regard to the MIF resources capital facility, that this is the start of a program. There is no such program now, so that—I am not exactly familiar with the 16 percent cut that you referred to in this country.

But with regards to the human resources facility, it is the start of a program which doesn't exist now. So I think that is worthy in its own right.

Mr. OBEY. Well, Mr. Secretary, I recognize you don't have a responsibility for that program, Labor does, but my problem is the Administration is asking us to provide an ability to facilitate change internationally, but at the same time they are being very niggling in terms of their willingness to facilitate change right here at home.

I have to tell you not only is that unjust, but it isn't saleable and it shouldn't be saleable.

The American public doesn't like foreign aid, as you know, no matter how it is couched. They have been willing to tolerate it, even though they haven't liked it, in the past because it has been a grace note in the budget, which they have been willing to accept, so long as economic opportunity is going up for people at home.

But, really, since the mid-1970s, we have had real income for workers, noncollege-educated workers, declining in this country. The worker at the exact mid point of income in this country has actually seen the real value of his wages decline by \$2000 over the past 15 years. That means that grace notes in the international spirit, which they were willing to tolerate during periods of expanding income for themselves, appear to be sour notes to them in times when their own situation isn't improving.

If the government isn't willing to support the same kind of mercy initiatives at home that we are promoting abroad, I don't see how we can carry the bag.

So, I would simply ask that while it is not in your jurisdiction, what happens to DOL programs here at home has a very strong impact on the way Congress is going to receive proposals like this in your area. And I would suggest that you have an interest in getting together with DOL and seeing to it that we are doing the same thing at home that we are doing abroad. Because if we are not, we can't sell something like this.

Secretary BRADY. Well, I understand your concern.

I would just say on the international area, you are absolutely right, that foreign aid has no national sponsor. It is very difficult to do.

This committee takes on a heavy burden when it does it. I do think in a general answer, it isn't a specific answer, that we have seen the results of the work that this committee has done in the last year or so, and those results in terms of the international arena have been spectacular.

Mr. OBEY. Well, I would just suggest that unless something is done to correct what the Administration is doing domestically, not only is foreign aid not going to have some national supporters, it is going to have some national enemies on the part of an awful lot of workers who feel that they are being ignored while we engage in expressing our concerns 4000 miles away, that we don't express here at home.

#### MULTILATERAL HUMAN CAPITAL GRANTS

Let me ask you, did any other multilateral institution spend resources on human capital grants?

Mr. DALLARA. I don't know the answer off the top of my head, Mr. Chairman.

Mr. OBEY. If you can tell us which ones and how much, I would like to know.

[STAFF NOTE.—The response of the Department of Treasury to this question is contained at the end of the hearing transcript.]

#### IDB EXPERTISE IN PRIVATIZATION AND PRIVATE SECTOR

Mr. OBEY. Can you tell us why the IDB and its bureaucracy should be used to provide privatization expertise, and make venture capital and private investment? As far as I know, IDB does not really have any skills or any institutional experience in the area.

This question may have been asked earlier, but in a little different way. Why didn't you simply propose a private enterprise fund for the Caribbean, Central American countries like you did in Eastern Europe, rather than running it through this institution? Wouldn't that give you a better opportunity to really get private sector people who know what they are doing to be involved in issues like this?

Secretary BRADY. Let me just say about private sector initiatives, they are great for starting the ball rolling, in pointing in the right direction, you know, starting, the guidelines for these kind of programs, but in terms of keeping them going, you need an ongoing—some place to place the responsibility of getting them done.

So I think in that particular—

Mr. OBEY. I am not suggesting it be handled by the private sector. My point is you have a private sector process, which is set up with Eastern Europe, trying to do these things.

Why wouldn't you follow that model rather than running through an IFI that does not have any experience dealing with stuff like this?

Secretary BRADY. Well, I think in the case of Eastern Europe, eventually it will turn into a more organizationally-controlled atmosphere. It was just thought that in this particular case of Latin America, the IDB and President Iglesias bought into the program

in a very enthusiastic way, and so that was the locus in which the initiative was placed.

#### MULTILATERAL INVESTMENT FUND

Mr. OBEY. Well, I guess my problem is this. I remember the last time when the Reagan Administration tried to unilaterally propose a new facility for the IDB. It was the Inter-American Investment Corporation. It was proposed in 1983. It took five years to get an agreement for the institution and get its board and staff collected, and, finally, in 1990, it loaned its first funds.

Would you tell us what consulting was done with other countries before the Administration proposed a multilateral investment fund for the IDB?

Mr. DALLARA. Mr. Chairman, I don't recall that there was a great deal of detailed consultation. We had discussed the general parameters of the President's enterprise for the Americas Initiative, but I don't believe we had discussed in any detail the Multilateral Investment Fund notion before it was put forward by the President.

Mr. OBEY. Can you tell us what reaction other countries have had?

Mr. DALLARA. Very mixed, Mr. Chairman. There is an interest in supporting this part of the President's initiative. Clearly, I think there is a recognition broadly, internationally, of the need for this initiative to encourage and foster reform of investment policies in Latin America, and that is one of the functions that this facility can do that the IIC does not do. The IIC is focused on making and capitalizing the equity investment, but not on reforming the investment policy regime.

To be fair, though, in spite of the interest that I pointed out, there is very mixed reaction. We have a lot of work to do encouraging other countries to contribute to this.

Mr. OBEY. Why should the Congress approve of this?

Let me ask you this; Would you tell us whether any other country has committed funds or has clearly stated that they would commit funds for the investment?

Mr. DALLARA. I am not aware. I am certainly sure that no one has firmly committed funds, and I am not aware that anyone has indicated a willingness to commit funds, but there is a willingness to discuss the possibility of committing funds.

Mr. OBEY. Why should the Congress vote to proceed with this before we even have commitments from other countries, or when the reaction we are getting from other so-called partners is, as you say, mixed?

Secretary BRADY. Well, I think that doesn't necessarily prescribe the future, Mr. Chairman. I think that if we had done as Congressman McHugh questioned, just simply added it to an AID program, there would be no possibility of getting anybody else to contribute to it.

What we are trying to do is, by the success of this program, get people to join in. Sometimes we get moments of leverage when we have done something to be helpful to other countries. We can say now we have had this program going for some period of time; we originally put it forward; you indicated you might be helpful; why not now?

**ENVIRONMENTAL EFFECTS OF ENTERPRISE FOR THE AMERICAS  
INITIATIVE**

**Mr. OBEY.** Well, I guess the response to that is, because I am not convinced that this is the best way to do it.

And I think there are some other problems.

The GAO testified that the conditions that a country must meet in order to qualify might actually be so stringent that the environment would actually be harmed more than it would be helped under the initiative.

I ask this question because there has been a lot of publicity given to the environmental piece of this operation, and I am trying to figure out just how significant and how real it really is.

And the reasoning goes something like this: The economic conditionality in the initiative might force countries to curb efforts to control or reverse environmental degradation, that developing countries might need to open up new investment opportunities or plans in areas such as timber cutting, waste disposal, and intensive agriculture production in order to improve their economies to the point where they qualified for funds under the initiative.

So that the small infusion of assistance that would result from qualifying for EAI benefits would not be sufficient to this country's ultimate development plans and that, in fact, it might be counter-productive.

What is your response to that?

**Secretary BRADY.** Well, first of all, Mr. Chairman, with no reflection on this committee, I would like to find something that we do that GAO thought was well done or a good idea. I have yet to find anything, and the world hasn't ended. So I think we are doing something right.

I am a firm believer in lighting a candle rather than cursing the darkness, which seems to be some part of their daily way of handling affairs. But I think it is highly unlikely that this particular set of circumstances that they have set forward would happen.

All I can tell you is, maybe we ought to send the people, although I wouldn't pay a lot of money for it, who wrote that report down in Latin America and let them talk to the people who are on the receiving end of this program and get a little firsthand experience on how these things work and what it means to light a little—to establish hope and provide a way of going forward. I think we would get a better picture of what the future might look like.

**Mr. OBEY.** Well, Mr. Secretary, let me simply say, I know that you feel that way, and I know that you are trying to improve the situation.

I think that, as you know, I have a great deal of respect for you and a great deal of affection for you, and I appreciate the relation-

ship that we have had and that you and your assistants have had with this committee.

But that doesn't eliminate the necessity for us to ask hard questions, because that is the role that Congress has.

Administrations last four years or at most eight years, and so we wind up having to take the heat when initiatives that have been supported by us wind up not turning out quite the way we hoped or expected that they would.

So we have an obligation to take the long term perspective and to ask tough questions to make sure that they are asked internally within the Executive Branch of government.

And, while I also have a varied degree of respect for the GAO, depending upon whether they have ruined or improved a project, nonetheless, I think that they raise a good point to you.

And I don't think, with all due respect, I don't think that your agency has sufficiently responded to that concern. It doesn't argue against the concept, but it may argue against the details.

It may mean that the details and the concept have to be adjusted in order to actually make the environmental piece of this real, because as you know, lots of programs starting with good intentions wind up not being able to perform when they run up against our world reality.

And this is why I raise the question.

#### CREDIT REFORM SCORING

Let me ask just one other question. We have some problems in credit reform scoring.

The problem is that any changes that take place this year have to be, as I understand it, neutral, budget neutral. But starting next year, they don't have to be under the scoring rules.

Doesn't that create an incentive for countries to simply wait until next year to see what kind of help they can get from Uncle Sam in terms of debt reshuffling?

Secretary BRADY. Charles has been intimately involved in this, so I will ask him to answer.

Mr. DALLARA. We have looked at this particular concern that you have just drawn our attention to, but don't feel that we have seen any indications from the debtor countries that they feel they will get a better deal.

And, in fact, we made it clear that whether the debt reduction is negotiated this year or next year, that our approach will be similar, and will not be particularly adjusted because of the change in the credit reform legislation and the change in the way they are treated.

Certainly you are correct in what you stipulated regarding the budget neutrality of our efforts, but we don't intend in any way to move next year arbitrarily to any deeper debt reduction approach simply because we are not bound by those constraints.

Mr. OBEY. Are people going to believe that?

Mr. DALLARA. I think they will when we get down to the business of actually negotiating the debt reduction deals.

Mr. OBEY. I have one last question. Your favorite agency, GAO, has indicated that they believe that payment streams for a country

could actually increase in the short term rather than stay the same or decrease. What is your response to that?

Mr. DALLARA. Well, we have been reflecting on this, Mr. Chairman, and I guess that technically that is possible, but it all depends on whether or not there was a rescheduling in the preceding year.

And that statement is only accurate to the extent that it takes into account the local currency payments which countries may add into their payment picture. Of course, those are almost by definition less demanding on the country's foreign exchange than is the primary principal payment.

Mr. OBEY. Well, Mr. Secretary, I have a number of other questions I would like to ask you to respond to for the record. I appreciate your time.

Mr. OBEY. I should also add, by the way, that my unhappiness with the German and Polish debt rescheduling should also be extended to the Canadians, who I think are equally as obstreperous on that issue.

Thank you.

Secretary BRADY. Thank you.

[Questions and answers for the record follow:]

### Questions for the Record From Mr. Obey

#### SUBMITTED TO DEPARTMENT OF TREASURY

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

#### DEBT PILLAR OF EAI

*Question.* Why should debt be handled on a unilateral basis by the USG? Shouldn't we require that other official creditors must also reduce or sell debt and fund these environmental trust funds? Wouldn't that approach provide far more resources for addressing the environmental problems?

Why should we fund debt reduction in Latin America before we have completed the job on debt reduction for the poorest countries in Africa?

*Answer.* The Administration decided to take unilateral action in case of bilateral debt owed by Latin America and the Caribbean for several reasons:

The US holds a large share of the region's bilateral debt.

It would have been extremely difficult to reach agreement among all bilateral creditors for innovative action on the debt of an entire region.

Given our historical ties with the region, the President has undertaken a leadership role aimed at helping countries with strong economic reforms to restore confidence and attract investment.

We do hope that other creditors will follow our lead both in reducing debt burdens of countries with strong economic programs and channeling resources to support the environment.

We also continue to participate with other donor countries in a variety of programs aimed at addressing environmental problems.

The Administration is moving forward simultaneously on both fronts—the Enterprise for the Americas Initiative and actions for the least developed countries.

We have already forgiven \$850 million of AID debt owed by Sub-Saharan African countries. As countries become eligible, this program will continue.

We have also received authority in the 1990 farm bill and appropriations approval this year to reduce or forgive concessional food assistance (PL-480) debts of least developed countries.

The Administration is currently considering the best means of implementing this program and expects to proceed with initial countries in fiscal year 1991.

#### TRADE PILLAR OF EAI

*Question.* Why don't we wait on dealing with the investment and debt pillars of the proposal until real progress is made on the main event—the trade pillar?

**Answer.** Significant progress has been made on the trade pillar of the EAI. The EAI was intended to encourage Latin American and Caribbean countries to pursue market-based reform, upon which they have already embarked. We will need legislative authority (including extension of fast track implementing authority) to undertake FTAs and ultimately realize a hemispheric free trade zone. However, in such FTAs we will first look for further commitment to trade and economic policy reform by Latin and Caribbean countries.

A major premise of the EAI is that trade liberalization is reciprocal, not unilateral. It is inherently different from the CBI, under which the U.S. made unilateral concessions. Under the Initiative, we will work through bilateral framework agreements to explore liberalization and move towards our ultimate goal of free trade agreements. Framework agreements have already been reached with six countries and negotiations are underway with several countries including Jamaica, Peru, Panama, and a group of countries composed of Argentina, Brazil, Uruguay and Paraguay. We need not wait for completion of our longer-term trade agenda to implement the investment and debt elements of the Initiative.

Each pillar provides important incentives for market-based economic reforms designed to move the region toward the overall goal of sound economic policies and sustained growth. Progress in the investment and debt elements of the EAI will help us move towards our goals under the trade element, by placing countries on a sound economic footing, improving their competitiveness and enhancing their ability to liberalize trade.

Latin American and Caribbean leaders have responded enthusiastically to our efforts to join in a single endeavor the three economic issues of greatest importance to the hemisphere. It is important that we seize upon this emerging consensus on the need for reform and move forward on each element.

#### HUMAN CAPITAL GRANTS PORTION OF EAI INVESTMENT PILLAR

**Question.** Do any of the other multilateral institutions spend resources on human capital grants? Which and how much?

**Answer.** The MDBs in general do not provide the kind of grant assistance envisioned by the MIF Human Resources Facility. MDB grant assistance comprises an extremely small proportion of MDB resources. Of that very small portion, grant assistance may fund either stand-alone support for human health (including disease control) or project-specific support which is tied to project preparation or implementation. Of course, each MDB differs in its specific use of grant resources.

World Bank grant programs are quite small relative to total lending. The Bank does have a Special Grants Program to support international agriculture, human resources, and special technical assistance. The budgeted funding level for FY91 is \$63.76 million, of which about one-sixth or \$10.59 million is earmarked for human resources grants. These grant funds support research and development programs and institution building for control of diseases such as river blindness, leprosy, and malaria. Overall, the grant programs focus heavily on international agriculture, population, and health sectors.

In 1990, the Inter-American Development Bank provided grants and contingent repayment support for technical cooperation totalling \$56.8 million. These funds are for project preparation and institutional strengthening in connection with IDB projects. Once in a while technical assistance grants will include some human capital aspects, such as a recent grant to Peru to provide medical supplies for a cholera epidemic.

The African Development Bank does not provide grants for this purpose. The African Development Fund does, on occasion, have a small grant (technical assistance) component in its "Social Dimensions of Adjustment" loans. These grants are, however, a minor part of the lending program.

In 1990, Asian Development Bank grant-financed technical assistance totalled \$76.1 million, of which \$24.9 million was for project preparation and \$51.6 was for project-related assistance.

#### EAI INVESTMENT PILLAR AND IDB PRIVATIZATION AND PUBLIC SECTOR SKILLS

**Question.** Would you explain why you think the IDB and its bureaucracy should be used to provide privatization expertise and make venture capital and private investment decisions? As far as I know, the IDB doesn't have any personnel with these skills or any institutional experience in this area.

**Answer.** There may be some confusion about just what the IDB and its bureaucracy will be doing with respect to the Multilateral Investment Fund. The Multilateral Investment Fund, of course, is intended to complement and strengthen the efforts of

multilateral and bilateral agencies in eliminating investment constraints in Latin American and Caribbean countries. As a "hybrid" between the policy-based lending of the IDB and the private sector-oriented operations of the IIC, the Fund essentially draws on the same type of expertise that these institutions already have at their disposal. You see, what distinguishes the MIF is not so much the personnel needed to run it as how and to what end MIF resources are channeled.

But with respect to your question on IDB personnel, the IDB is best-positioned to administer the MIF and has personnel with extensive organization and oversight experience.

IDB technical units experienced in relevant areas will be responsible for the administration of specific projects. With respect to privatization, the MIF envisions technical assistance to facilitate privatization but does not envision purchases of state-owned enterprises for its own account. The IIC has personnel with experience in valuing companies, implementing aspects of privatization programs, and structuring large-scale financial transactions. Outside experts such as financial advisors and investment bankers can be retained if and as appropriate.

One more clarification. The Investment Fund of the Enterprise Development Facility of the MIF is not intended to be a "venture capital" fund. It is intended to be a revolving fund, channeling market-priced resources to and through NGOs and domestic financial institutions to stimulate development of smaller-sized businesses. Both the IDB and the IIC have personnel with extensive private sector experience in financial institutions. In particular, the IDB's Microenterprise Division works closely with NGOs that serve microenterprises. The Investment Fund will draw on this expertise as well as retain additional personnel with private sector experience in the field of financial services.

*Question.* Why didn't you propose a Private Enterprise Fund for the Caribbean, Central America, and the Andean Countries like the Administration has been setting up in Poland and Hungary to do these kinds of things?

*Answer.* The economic structures of the two regions differ radically. Conditions in Eastern Europe typically consist of a minuscule private sector and a financial sector not yet transformed into a market-based system. In Latin America and the Caribbean, these sectors are essentially formed but need development.

The conditions dictate the objectives and mechanisms of assistance required to be effective. In the case of Poland and Hungary, the Enterprise Funds support private sector development through investment and loans primarily to small and medium-size businesses. The Multilateral Investment Fund's objective is to open investment regimes in Latin America and the Caribbean. This implies, first and foremost, technical assistance to governments to catalyze policy reform. Loans and equity investments for micro and small-scale entrepreneurs are only one portion of MIF activities.

*Question.* What is wrong with a private enterprise fund with contributions from other countries and with board members from other countries?

*Answer.* In principle we have no basic objection to such an approach. In practice we know of no instance to date where such a mechanism has been established. Each proposal would, of course, have to be judged on its individual merits.

#### DEBT FORGIVENESS FOR THE POOREST COUNTRIES

*Question.* In 1988, in Section 572 of the Bill, this Committee provided the Administration authority for debt relief tied to economic reforms for the poorest countries.

a. Where do we stand now on debt forgiveness for the poorest (sub-Saharan) countries? Who has met the conditions? How much has been promised in reductions and how much has actually been reduced so far?

b. The authority covered DA and ESF debts. Now the Agriculture Committee has provided authority for you to take similar actions with PL-480 debt. Do you intend to use this authority? When and for whom?

c. Do you support doing the same for these poorest countries with Exim/CCC debt? If not, why not?

*Answer.* We have attached a table showing the implementation of Section 572 authority for Sub-Saharan Africa. The table shows that fifteen countries will receive over \$1.1 billion of relief on payments of principal and interest due in FY 1991-92, if they maintain their economic reform programs. Of this total, \$621.7 million has been forgiven so far. In addition, we recently reached agreement with Bangladesh to forgive \$292.3 million of bilateral debt, and implementation of the agreement is under discussion.

An interagency committee has been working on implementation of the authority contained in Section 411 of the Agricultural Trade and Development Act of 1990.

We are reviewing such issues as the countries to be covered and the budgetary effects of debt reduction. We are pursuing this effort expeditiously, and hope to be able to proceed with initial countries in FY 1991.

There are fundamental differences between CCC/Eximbank debt and the AID and PL-480 loans affected by Sections 572 and 411. The latter are intended as economic assistance and are offered at concessional rates and terms; furthermore, much of the new financing under these programs for least developed countries is on grant terms, so debt forgiveness places earlier loans on the same footing as new financing. Eximbank and CCC programs, on the other hand, are intended to support commercial transactions and are offered at market rates and terms.

**SECTION 572 DEBT RELIEF**  
(U.S. \$ Million)

Country	Date Signed	Prin- cipal	FY 1990		Prin- cipal	FY 1991		Prin- cipal	FY 1992		Prin- cipal	TDL	
			Interest	Total		Interest	Total		Interest	Total		Interest	Total
Benin	12/01/89	12.2	5.2	17.4	9.8	5.2	15.0	—	—	—	22.0	10.4	32.4
Cameroon	02/03/90	25.0	6.3	31.3	36.0 <sup>1/2</sup>	6.2	42.2	—	—	—	61.0	12.5	74.2
Cote d' Ivoire	03/12/90	5.0	0.8	5.8	—	—	—	—	—	—	5.0	0.8	5.8
Chad	12/18/89	40.8	17.2	58.0	38.8	17.1	55.9	—	—	—	79.6	34.3	113.9
Guinea	12/07/89	4.5	0.9	5.4	—	—	—	—	—	—	4.5	0.9	5.4
Nigeria	01/09/90	43.1	17.7	60.8	40.0	17.7	57.7	38.7 <sup>1/2</sup>	17.6	56.3	121.8	53.0	174.8
Niger	01/29/90	5.8	1.4	7.2	—	—	—	—	—	—	5.8	1.4	7.2
Malawi	11/27/89	15.0	5.7	20.7	14.0	5.7	19.7	—	—	—	29.0	11.4	40.4
Mali	11/18/89	5.1	1.7	6.8	—	—	—	—	—	—	5.1	1.7	6.8
Niger	01/23/90	2.9	0.6	3.5	—	—	—	—	—	—	2.9	0.6	3.5
Nigeria	12/04/89	30.5	8.5	39.0	31.9	8.4	40.3	—	—	—	62.4	16.9	79.3
Zimbabwe	03/21/90	39.1	13.5	52.6	41.6 <sup>1/2</sup>	13.4	55.0	—	—	—	80.7	26.9	107.6
Uganda	03/20/90	8.8	1.6	10.4	—	—	—	—	—	—	8.8	1.6	10.4
Zaire	12/18/89	44.1	15.1	59.2	52.2	15.1	67.3	49.6 <sup>1/2</sup>	15.1	64.7	145.9	45.3	191.2
Zambia													
<b>TOTAL</b>		<b>281.9</b>	<b>96.2</b>	<b>378.1</b>	<b>264.3</b>	<b>88.8</b>	<b>353.1</b>	<b>88.3</b>	<b>32.7</b>	<b>121.0</b>	<b>634.5</b>	<b>217.7</b>	<b>852.2</b>

254.5

TOTAL 1106.7

**NOTES:** <sup>1/2</sup> IOL Interest = 1 1/2% of loan interest.  
<sup>2/2</sup> Includes undisbursed loans to be converted to grants.

#4168g

## TORONTO TERMS

**Question.** Explain how "Toronto Terms" is consistent with U.S. policy of non-discrimination among creditor countries.

List the free riding creditor countries and the amounts that they have rescheduled under option B for each debtor rescheduled under the Toronto Terms? Is this option being predominantly selected by specific countries?

**Answer.** The purpose of offering a "menu" of options under the "Toronto Terms" was to allow creditor governments to choose the approach that best suits their own circumstances in offering special relief for heavily indebted low income countries.

The current options for rescheduling maturities within a 12-18 month consolidation period are:

**Option A:** One-third cancellation of debt service obligations consolidated, plus rescheduling of the remaining two-thirds over a 14-year period with a grace period of 8 years for non-concessional debt, and over a 25-year period for concessional debt.

**Option B:** Consolidated debt service obligations rescheduled over a 25-year period, at market rates for non-concessional debt and concessional rates for ODA debt, with a grace period of 14 years.

**Option C:** Consolidated debt service obligations rescheduled over 14 years with a grace period of 8 years, at the market rate reduced by 3.5 percentage points or 50 percent, whichever is less, for non-concessional debt, and at concessional rates for ODA debt.

These options were carefully negotiated within the Paris Club to ensure maximum equivalence among the options on a net present value basis: i.e., accepting repaying over an extended period is roughly equivalent to forgoing a portion of receipts due today.

Countries that have made use of Option B are Austria, Belgium, Brazil, Finland, Germany, Japan, the Netherlands, Spain, Sweden, Switzerland and the United States. Of these Austria, Finland, Germany, Sweden, and Switzerland are infrequent users, choosing Option B only in one or two cases each.

The heaviest users of Option B are Belgium, Japan, the Netherlands, and the United States. Japan uses Option A for ODA debts owed by the least developed countries, Option B for ODA debts owed by other low-income countries, and Option C for commercial credits. The Netherlands has used Option B in all but one case. The United States is forgiving bilateral debts for fifteen African countries and Bangladesh using authority provided under Section 572; we use Option B exclusively in Toronto Terms cases.

We do not have a breakdown of the amounts that particular creditor countries have rescheduled under Option B. The total amount rescheduled under Option B from October 1988 to December 1990 is approximately \$1,812 million.

## RESCHEDULING UNDER OPTION B, TORONTO TERMS

We do not have a breakdown of the amounts that particular creditor countries have rescheduled under Option B. We do have a list of creditors making use of that option, and we have a breakdown of the amounts involved by debtor country.

**Choice of Options by Creditors.**—Countries that have made use of Option B are Austria, Belgium, Brazil, Finland, Germany, Japan, the Netherlands, Spain, Sweden, Switzerland, and the United States. Of these Austria, Finland, Germany, Sweden, and Switzerland are infrequent users, choosing Option B only in one or two cases each.

The heaviest users of Option B are Belgium, Japan, the Netherlands, and the United States. Japan uses Option A for ODA debts owed by the least developed countries, Option B for ODA debts owed by other low-income countries, and Option C for commercial credits. The Netherlands has used Option B in all but one case (Tanzania—Option C). The United States uses Option B exclusively in Toronto Terms cases, although separately we have forgiven bilateral debts for sixteen African countries and Bangladesh using authority provided under Section 572.

**Beneficiary Countries.**—From October 1988, when the Toronto Terms began to be implemented, until the end of December 1990, the following low-income countries received Paris Club reschedulings in the designated amounts under Option B:

Country	Debt service consolidated			
	Total	Of which option		
		A	B	C
Benin .....	193	63	28	102
Cent. Afr. Repub. ....	32	13	2	18
Chad .....	38	35	1	2
Equator. Guinea .....	10	.....	7	3
Guinea .....	123	66	26	31
Guinea-Bissau .....	21	4	3	14
Madagascar .....	393	211	117	65
Mali .....	107	48	9	50
Mauritania .....	52	26	13	13
Mozambique .....	719	181	46	490
Niger .....	164	139	16	10
Senegal .....	250	159	34	57
Tanzania .....	576	125	144	307
Togo .....	164	53	42	69
Uganda .....	89	8	3	78
Zaire .....	1,530	300	820	410
Zambia .....	963	72	266	625
Bolivia .....	300	25	206	69
Guyana .....	123	1	30	92
Total .....	5,847	1,528	1,812	2,507

#### TRINIDAD TERMS

**Question.** It seems that restructuring of the debt portfolio of a country rather than rescheduling of country arrears and payments due over a brief period has usually held out more promise in dealing with countries' debt problems.

a. Do you agree that debt restructuring is better than debt rescheduling? If not, why not?

b. Do you agree that the "Trinidad Terms" in the Paris Club would end the problem of the free riding countries?

c. What is the budget estimate of the cost to the USG of implementing Trinidad Terms for the poorest countries and the debts and countries that would be affected?

**Answer.** Debt rescheduling is simply one form of debt restructuring. The form of restructuring (rescheduling, forgiveness, refinancing, etc.) appropriate in a given case depends on the circumstances of the debtor country and whether it is insolvent or merely illiquid.

If the country faces a bulge in payment or a shortfall in resources which temporarily constrains its ability to pay, but its underlying economic situation is sound, we would consider it a case of illiquidity and conclude that rescheduling would be sufficient. On the other hand, if the country clearly has more debt than it can ever service, even under extremely generous rescheduling scenarios, reduction of that debt might be considered.

The question illustrates the difficulty of prescribing across-the-board solutions rather than proceeding on a case-by-case basis.

Because many Sub-Saharan African countries are fundamentally insolvent, and will have very limited access to private capital flows, the Administration has determined that debt forgiveness is appropriate. In contrast, partial debt reduction is more appropriate for Poland, Egypt and the countries of Latin America, in order to encourage investment reforms and increase the rate of domestic and foreign investment.

We have constantly under review the issue of equitable burdensharing, and we do not believe there is a "free-rider" problem with the Toronto Terms. If we were to adopt a "Trinidad Terms" approach, however, we still would have to address the burdensharing issue in designing the options.

The budgetary ramifications of implementing the Trinidad Terms are complex, depending on (a) the timing of the debt reduction, whether in FY 1991 or subsequently; (b) countries for which action would be taken; and (c) a determination of the Administration's legal authority to reduce different types of debt (AID, PL-480, CCC or Eximbank). A two-thirds reduction in the stock of official debt for Sub-Saha-

ran African countries eligible in FY 1991, as suggested in the Trinidad Terms, depending on the scoring methodology, could result in a budget cost of between \$5 and \$45 million. The budget cost in FY 1992 would be considerably higher due to credit reform.

#### FOREIGN DEBTS OWED TO THE UNITED STATES RELATED TO WORLD WAR I

*Question.* Mr. Secretary, the Treasury publication titled "Active Long-Term Credits of the United States" contains a section on long-term debts owed the U.S. arising from World War I. What is surprising about it is that the table shows that there is \$30 billion in these debts plus an additional \$2.5 billion owed the U.S. by Germany.

Would you tell the Committee what efforts the Administration has made to collect these debts?

\$32.5 billion is an enormous amount of money. All other debt to the United States totals about \$65 billion. Would you explain why no efforts have been made to collect these debts even though most of them are owed by highly industrialized and credit worthy countries?

Is the US going around trying to squeeze the highly indebted low and middle income countries to repay their debts to the US while ignoring the large debts owed by the West European countries?

*Answer.* The collection of the delinquent principal and accrued interest on World War I debt owed to this country by our then European Allies presents special problems. Most debtor countries fulfilled their commitments under the debt agreements until the depression. Aside from a few countries, however, the debtor governments have made no payments since 1933. The principal debtor governments (except the Soviet Union, which repudiated all foreign debts in January 1918) have never denied the validity of the debts. Despite their clear legal validity, however, the debts are, as a practical matter, inextricably bound up with the whole question of German war reparations and the intra-European debts generated during World War I.

Many European countries are themselves net creditors on World War I indebtedness, with Germany owing them more than they in turn owe. These nations have, since the early 1930's, steadfastly maintained that they would only resume payments on their war debts to the United States on the condition that the issue of Germany's war reparations was satisfactorily settled. Resolution of the problem of government claims against Germany arising from World War I was deferred "until a final general settlement of this matter" by the 1953 London Agreement on German external debts, to which the United States is a party. This agreement was ratified by the United States Senate and has the status of a treaty.

Regarding the debts owed by the low-income developing countries, the U.S. is taking a leading role in providing debt relief for these countries, both through bilateral debt reduction and debt reschedulings within the Paris Club.

*Question.* Would you provide the Committee a detailed report concerning the origin of these debts for each country and an explanation of their legal status, and what Administration policy is in regard to collecting them and why?

*Answer.* No answer was provided to the Committee.

#### LEGAL REVIEW OF DEBT RELATED LEGISLATION AND ATTORNEY GENERAL OPINIONS

*Question.* Mr. Secretary, last fall I asked the American Law Division of the Congressional Research Service to research all legislation related to international debt and all appropriate Attorney General Opinions. That work is almost completed and a report should be ready soon.

I will tell you that what CRS found was a broad variety of conflicting laws and conflicting attorney general opinions.

A review of the material and the fact that no clear delegation of authority has ever been given to the Executive Branch to reschedule international debt in the Paris Club or to restructure debt in certain circumstances suggests to me that we should work toward a major rewrite of the existing laws in the international debt area in order to clarify their intent and application.

Will you have Treasury lawyers review this CRS material and work toward clearing up these authorities with the Committee or toward the Administration making a proposal in this regard?

*Answer.* We are happy to explore this issue and will be in contact with your staff.

#### ASIAN DEVELOPMENT BANK

*Question.* Mr. Secretary, will you explain why it is important for us to contribute with only the Japanese in a special capital increase for the Asian Development

Bank? The President of the Bank is Japanese and it funds Asian countries where US business is frankly not all that active compared to Japanese business. Why is it important for the U.S. to play "keeping up with the Joneses" by matching contributions for the Asian Bank with the Japanese?

It is important for us to contribute to the Special Capital Increase of the Asian Development Bank in order to maintain parity with the Japanese in terms of influence in the Bank. Although the President of the Bank is Japanese, a large percentage of its senior officers are American. More importantly, by virtue of our position as the other major shareholder, we are able to play a decisive role in the decision-making of the Bank's Board of Directors on its policies and programs. A diminution of our share of the Bank's stock would be taken a sign of a weakened U.S. commitment to it.

This in turn, could result in an erosion in our ability to ensure that the Bank operates generally in support of U.S. economic and political objectives in Asia. As the preeminent development institution in the region, the Bank makes a significant contribution to the economic growth and development of the poorer Asian countries. In the process, it exerts, directly and indirectly, a significant influence in favor of the adoption of market-oriented economic policies and participation in the international economic system.

We need to ensure that the Bank continues to exert its influence in this direction. The United States has a substantial economic stake in Asia: Our trans-Pacific trade is 50 percent greater than our trade across the Atlantic; U.S. direct investment in the region totals almost \$20 billion. It is the fastest growing region in the world and these rapidly developing economic ties to the Asian countries are increasingly important to our economic well-being. We need to maintain all the means at our disposal to encourage the development of economic conditions that will be favorable to the continued expansion of those ties. Contributing to the ADB's Special Capital Increase is one way that we can do so.

#### EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

*Question.* I understand that the East European Bank is having difficulty getting started, that the President of the Bank, Mr. Attali, is promoting a French agenda over the objections of other donors and loan recipients. I have heard that the planned average bank salaries are about \$175,000 per year but that there is still a problem recruiting staff.

Would you comment on all these problems and also provide the Committee for the record the planned staff compensation levels and how they compare to IMF, IBRD, and the other MDB salary structures?

*Answer.* It is true that the Bank has thus far failed to produce some of the detailed operational policy and strategy papers that are needed before the bank can begin actual operations. The Administration has obtained a commitment from EBRD management to give priority to the formulation of individual country strategy papers and operational policy papers in areas such as the environment, financial policy, procurement, project evaluation and human rights.

There is a tendency in the Bank to focus on the integration of Eastern Europe into the Western European economic network. I believe, however, that we will be able to work through high level U.S. staff and the U.S. Director and Alternate Director to ensure that U.S. interests in Eastern Europe are taken into account. Bank management and staff are determined to give the Bank a strong private sector orientation.

The average EBRD salary is close to about 39,000 pounds, which is the mid-point salary for a middle level professional at the EBRD. At exchange rates prevailing on March 19, 1991, this comes to about \$69,600. Although the salary appears to be high, it is not an outrageous salary when the cost of living in London compared to a city like Washington is taken into account. It would be considered a somewhat above average salary for a comparable professional position in the London private sector. It was mainly on London private sector salaries that EBRD professional salaries are based.

There is little concrete evidence that the EBRD is having problems recruiting staff. There is, however, anecdotal evidence that the Bank has been turned down by several professionals, including Americans, working for the World Bank and for private companies in Europe or the United States. The reason given in these cases has been that the EBRD compensation package is not attractive enough to lure some people with satisfactory employment away from their present occupations. Attached is a chart showing mid-point EBRD salaries in relation to comparable positions in the World Bank.

## COMPARISON OF EBRD AND WORLD BANK SALARIES

Grade	EBRD salaries	Comparable World Bank salaries
1.....	\$121,930	\$116,020
2.....	107,761	104,520
3.....	86,722	89,935
4.....	69,598	71,695
5.....	53,080	64,015
6.....	45,230	51,030
7.....	39,250	40,680
8.....	33,233	32,430
9.....	27,181	28,955
10.....	24,742	23,080
11.....	21,770	19,440
12.....	18,120	17,360

*Note.*—All salaries net. As of March 1991. EBRD salaries translated into \$ at exchange rate of 1 pound = \$1.78 (March 19, 1991 rate). Grades 1-7 are professional level. Grade 8-12 are support staff. World Bank grade schedule compressed and averaged in order to make comparable with EBRD grades.

## THE BRADY PLAN

**Question:** What do you see as next steps or next countries in making Brady Plan progress? Will we ever see big debtors like Argentina and Brazil addressed? When will we begin to see commercial bankers having positive net lending to the developing world again?

**Answer.** We continue to see countries reach agreement with their commercial banks on financing packages that include debt and/or debt service reduction. Most recently, Uruguay and Nigeria have entered into such agreements, joining Mexico, Costa Rica, the Philippines, Chile, Venezuela, and Morocco. Nearly a dozen countries—including Bolivia, Brazil, the Cote d'Ivoire, Ecuador and Poland are at various stages of discussions with their commercial bank creditors.

The prospects for agreements for Argentina and Brazil have improved. Argentina is implementing a strong economic reform program, and Brazil recently reached agreement with creditor banks on interest arrears. Dedicated pursuit of economic reform will be the most important factor in bringing about stability and growth and in facilitating comprehensive agreements with commercial banks. Argentina is currently making partial payments to its banks and is reducing its commercial bank debt through a privatization program. Brazil has recently agreed to make partial payments to its banks and is expected to begin discussions on a more comprehensive package in the near future.

As countries in Latin America and the Caribbean complete the course of reform and put in place sound economic policies, including measures to open their investment regimes, they will improve their ability to attract capital. We have already seen evidence of this trend in countries with strong records in implementing reforms. Chile is a good example of a country which has successfully completed a course of economic reform with the IMF and soundly managing its economy; on this basis, the Government of Chile recently accomplished a successful bond issue, providing the country with "new" money. In addition, successfully concluded agreements between Venezuela and Mexico and their respective commercial creditors have helped these countries regain access to the international capital markets.

## WORLD BANK/IMF AND THE SOVIET UNION

**Question:** In December, 1990, the World Bank and IMF, along with the OECD and European Bank, issued a report on the Soviet economy and criteria for Western assistance. President Bush also has at one point suggested a "special status" for the Soviet Union in the World Bank and the IMF. Could you review for us each of these proposals; whether the Bank and/or Fund provided any sort of assistance, technical or otherwise over the past year, and where is that now; what future plans are for the Bank and IMF in dealing with the USSR?

**Answer.** The report by the IMF *et al.* (requested by the G-7) was comprehensive assessment of the Soviet economic situation, recent reforms, and the kinds of reforms necessary to make the transition to a market economy. The report concluded, and we agree, that a radical approach to reform, including both macroeconomic sta-

bilization measures and structural reforms from the start, would have the best chance for success.

As follow-up to the study, last December the President proposed a Special Association of the Soviet Union with the IMF and the World Bank to: (a) provide IFI technical economic and financial expertise to the Soviets; (b) establish an initial Soviet IFI relationship before addressing the issue of full membership; and (c) strengthen the Soviet commitment to real economic reform. The U.S. approach was deliberately cautious to permit us to respond flexibly to the uncertain course of events in the Soviet Union. The Special Association proposal did *not* entail any pre-commitment to IMF membership. (Prior to membership neither the Fund nor the Bank can provide any financial assistance.) Thus far, technical contacts between the Soviets and the IFIs have been limited to the information gathering effort by IFI officials conducting the study.

Recent events in the Baltic and economic policy developments cast serious doubt on the Soviet commitment to liberalization and undermine the basis for building Soviet-IFI relations. Neither technical assistance nor financial assistance will serve much purpose if the Soviets are not willing to take the necessary steps to make the transition to a market economy. Thus, the United States decided in January that it would not move forward with the Special Association proposal at this time, and the G-7 agreed. There can be no progress in Soviet relations with IFIs until the Soviets demonstrate their commitment to real reform.

#### ENVIRONMENTAL STAFFING

*Question:* Administration officials have opposed a top down approach to alternative development in the third world. Rather we are told a variety of solutions based on individual needs of developing nations are most appropriate. This I would agree with. The problem is and continues to be; that Congress has been attempting to get AID and the World Bank to address precisely these issues for the last five years. Specifically, Congress has had to force AID and the World Bank to engage in increased environmental staffing. In addition the Congress has attempted to redirect the World Bank's lending policies to promote environmentally sound development.

What is the Administration prepared to do to force improvements in the Bank's lending policies, and to insure that the GEF does not act as a substitute from real reform?

*Answer.* Treasury and the U.S. Executive Director have worked very closely with the World Bank, other U.S. Government agencies, and various environmental groups and experts over the past year in a broad-based effort to strengthen the Bank's forest policy. Within the Bank, this effort has entailed a seminar in the Bank's Board and the preparation of an approach paper to guide the development of a new policy in this area.

It has involved the calling of a colloquium on the fundamental issue of sustainability in the management of tropical forests which was sponsored by the World Resources Institute. It has also included a sustained effort to bring about a reform and strengthening of the Tropical Forestry Action Plan and the involvement of non-governmental groups, local community organizations and others in a more open and transparent process.

Treasury also pressed for reform of the Energy Sector Management Assistance Program (ESMAP) and creation of an energy unit for bank operation in Eastern Europe. We plan to expand our efforts in energy conservation and efficiency over the coming year. We have made it clear to the Bank and other donors that we see the Global Environment Facility as a means to integrate global environmental considerations into the Bank's regular and on-going lending activities.

#### IBRD ENVIRONMENTAL FUNDING

*Question.* In 1989, out of a total of \$4 billion in energy related World Bank lending, only \$29 million was spent on solar and renewable energy projects. What has Treasury done to change this poor record?

*Answer.* As I have just indicated, we have been instrumental in the reform and strengthening of ESMAP and the establishment of a unit to focus on energy issues in the Bank's operations in Eastern Europe. This year we will concentrate on getting changes in the Bank's overall approach to energy issues, much as we have on forest issues, and work closely with AID, EPA, the Department of Energy, and others to identify specific opportunities to incorporate conservation and efficiency elements into projects already in the Bank's pipeline.

**Question.** What specifically has Treasury done to respond to Congressional directives on establishing intermediary entities to "bundle" smaller projects on renewable energy?

**Answer.** We have certainly been in direct contact with all of the MDBs urging greater use of renewables. In the case of the World Bank and the Asian Development Bank, we have encouraged these two institutions to help sponsor a workshop that is to take place later this year in Malaysia and that is to be aimed at this particular issue. It seeks to build on the work experience of U.S. firms and work through intermediate credit institutions and other organizations in borrowing countries to publicize opportunities for greater use of renewables and establish a framework for lending.

**Question.** Why has the U.S. specifically refused to endorse the proposals by developing countries that the U.S. and other G-7 countries commit to funding for alternative development, given the fact that the U.S. has already specifically endorsed the creation of the Global Environmental Facility and is participating in the Montreal Protocol Facilities Fund?

**Answer.** The United States is making funds available to finance projects under both the Montreal Protocol and the Global Environment Facility. As part of this participation, we are pressing for establishment of appropriate environmental policies in borrowing countries and for preparation of pilot project proposals that provide clear global environmental benefit and that would not normally have been financed as part of regular and on-going lending. We regard the facility as a mechanism through which the Bank can incorporate the global environmental considerations established through the work of the facility into its overall lending programs.

## Questions for the Record From Mr. Gray

### SUBMITTED TO DEPARTMENT OF TREASURY

#### CARICOM EXPORT EARNINGS SUPPORTING DEBT SERVICE

**Question.** On a country by country basis, what percentage of CARICOM nations' export earnings goes toward international debt repayment (commercial and official debt combined)?

**Answer.** The following table indicates the debt service as a percentage of exports of goods and services for 1989.

#### *Debt Service/Exports of Goods and Services (1989)*

	<i>Percent</i>
Antigua & Barbuda .....	<sup>1</sup> 18.0
The Bahamas .....	na
Barbados .....	16.9
Belize .....	5.3
Dominica .....	6.9
Grenada .....	12.1
Guyana .....	11.4
Jamaica .....	80.5
St. Kitts/Nevis .....	<sup>1</sup> 3.0
St. Lucia .....	3.2
St. Vincent .....	<sup>1</sup> 3.3
Trinidad and Tobago .....	23.6

<sup>1</sup> 1988 Data

Sources: IMF, World Bank

#### DEBT PROFILE COMPARISON OF CARICOM MEMBERS, CENTRAL AND SOUTH AMERICAN COUNTRIES

**Question.** How is the debt profile of CARICOM member-states similar to, and different from, that of the nations of Central and South America?

**Answer.** The debt profiles of CARICOM member countries generally involve lower levels of overall debt relative to export earnings than the Central or South American countries. With the exceptions of Jamaica, Trinidad & Tobago, Barbados and Antigua & Barbuda, the ratio of debt service/exports of goods & services is below 15%. For the previously mentioned four exceptions, this ratio ranges from 17% to 30%, with Jamaica recording the highest ratio. Conversely, a number of the Eastern Caribbean countries have ratios of less than 10%.

For most Central and South American countries, the ratio of debt service/exports of goods & services averages more than 30%, and reached 67% and 50% in 1989 for Argentina and Brazil, respectively.

The composition of debt differs markedly between the regions. The debt of the CARICOM countries primarily is official debt from multilateral development banks, with the exception of Trinidad & Tobago, which owes more than half of its debt to private creditors. Although Jamaica and Guyana have substantial levels of official bilateral debt to the United States, the levels of U.S. bilateral debt are insignificant for the majority of CARICOM countries.

The Southern Cone countries (Brazil, Uruguay, Argentina) owe the majority of their debt to private creditors, as do Colombia and Venezuela. The Central American countries tend to have high levels of official bilateral debt to the United States and relatively high debt levels to multilateral institutions.

To summarize, CARICOM countries, with a few key exceptions, generally spend a lower level of export earnings to service their debt than the South and Central American countries. This is due to overall lower levels of debt carried by CARICOM countries relative to their capacity to earn foreign exchange. The composition of debt indicates that the main source of debt for most CARICOM countries are official multilateral loans. The private commercial banks were the primary source of debt for the larger South American countries while the United States Government is the largest single creditor for the majority of Central American countries.

#### EXPORT EARNING CAPACITY COMPARISON

*Question.* How does the export earning capacity of CARICOM member-states compare with that of the countries of Central and South America?

*Answer.* The following table lists the export totals and exports as a percentage of GDP for the respective countries to provide a comparison of export earning capacity.

(Dollars in millions—(1989))

	Total exports	Exports/ GDP—Percent
Antigua and Barbuda.....	\$22	6.8
The Bahamas.....	2,567	66.7
Bardados.....	186	10.8
Belize.....	177	56.5
Dominica.....	45	29.0
Grenada.....	28	15.1
Guyana.....	225	78.4
Jamaica.....	970	28.0
St. Kitts/Nevis.....	30	25.4
St. Lucia.....	112	41.9
St. Vincent.....	65	45.8
Trinidad and Tobago.....	1,532	37.8
Argentina.....	9,573	14.5
Chile.....	9,478	37.5
Colombia.....	6,030	15.3
El Salvador.....	497	7.7
Guatemala.....	1,500	18.4
Nicaragua.....	290	18.2
Uruguay.....	1,599	21.7
Venezuela.....	12,992	28.9

Sources: IMF, World Bank

#### PL-480 DEBT OF CARICOM COUNTRIES

*Question.* On a country-by-country basis, what is the current level of CARICOM member-states PL-480 debt?

*Answer.* As of September 30, 1990, only two countries in CARICOM had PL-480 debt. Jamaica had \$295.7 million in debt outstanding and \$3.7 million in arrears. Guyana had \$31.7 million in outstanding PL-480 debt.

## ELIGIBILITY CRITERIA FOR EAI DEBT RELIEF

*Question.* Which Central/South American and CARICOM countries currently meet the eligibility criteria for debt relief, as outlined by the EAI?

*Answer.* We have identified Chile, Jamaica and Bolivia as countries that are well-positioned to meet eligibility criteria. We believe these countries could qualify in the next few months. Other countries could also move to qualify for PL-480 debt reduction in the near future.

## FLEXIBILITY OF THE ELIGIBILITY CRITERIA

*Question.* How flexible are the eligibility criteria?

*Answer.* We will look at each country on a case-by-case basis to determine whether the criteria for debt reduction have been met. The eligibility criteria as laid out in the 1990 farm bill are the following:

The countries must have in effect or have received approval for, or, as appropriate in exceptional circumstances, be making significant progress toward the establishment of:

An IMF reform program and, as appropriate, a World Bank adjustment loan;

As appropriate, the countries must have reached agreement with commercial banks on a debt/debt service reduction program; and

The countries must be instituting investment reforms in conjunction with the IDB investment sector lending program or otherwise be making significant progress toward an open investment regime.

Since a number of countries in CARICOM are *not* members of the IDB, we are looking for ways to adapt the existing relationship between the IDB and the Caribbean Development Bank (CDB) to permit lending in support of investment policy reforms.

[STAFF NOTE.—Due to unforeseen circumstances, the Committee had to cancel its panel of outside experts on international debt and environmental issues. Testimony prepared for that hearing and directly related to issues addressed with the Secretary of the Treasury has been submitted for the record and is published as follows:]

International Debt Issues: Richard Feinberg, Executive Vice President, Overseas Development Council. Peter Hakim, Staff Director, Inter-American Dialogue.

Environmental Issues: John Sawhill, President and CEO The Nature Conservancy.

PREPARED STATEMENT OF RICHARD E. FEINBERG  
Executive Vice President and Director of Studies  
The Overseas Development Council<sup>1</sup>

before the

Subcommittee on Operations, Export Financing and Related Programs

Committee on Appropriations  
U.S. House of Representatives

Washington, D.C.

Hearing on Third World Debt: The Brady and Bush Initiatives

March 5, 1991

<sup>1</sup> The views expressed herein are those of the author, and should not be attributed to the staff, Board, or Council of the Overseas Development Council.

Mr. Chairman, thank you for inviting me to testify on the current status of Third World debt, with an emphasis on Latin American countries. While events in the Persian Gulf and Eastern Europe have pushed Latin America's economic problems off the front pages of our newspapers, our neighbors' financial woes continue to profoundly affect U.S. interests in our hemisphere -- and of course, remain of great concern to the 400 million Latin Americans.

Allow me to summarize the current situation as follows:

-- Latin America's debt problems no longer threaten the essential stability of the international financial system. The official debt strategy followed during the 1980s gave the banks time to either build up their reserves or sell off their loans. At the same time, the major Latin American debtors have discarded the option of unified, unilateral default, electing instead to legally renegotiate their contractual obligations.

-- The Brady debt reduction plan, although laboriously slow and incomplete in its implementation, has further defused the "debt time bomb" by regularizing payments from two major debtors -- Mexico and Venezuela -- while holding out promise of eventual debt relief for other countries

-- Key indicators of the debt burden have begun to show some improvement, although they remain intolerably high. For example,

according to the International Monetary Fund, the ratio of external debt stock to the export of goods and services for Latin America fell from 293 percent in 1985 to an estimated 255 percent in 1990. Actual interest payments as a percentage of exports also declined, from 29 percent to 24 percent.<sup>1</sup>

-- Notwithstanding this progress, Latin America will continue to transfer financial capital to international lenders on a net basis throughout this decade. There is no escape on the horizon from this perverse negative transfer.

-- The severity of this persistent debt overhang will depend in large measure on the rate of growth in exports. Therefore the prospect of freer hemispheric trade, as sketched out in the President's Enterprise for the Americas Initiative, could be a key component in the eventual lifting of the debt burden.

#### The Brady Plan

The Brady debt reduction plan recognized that the negative financial transfer (the excess of interest and amortization payments over new lending) -- which drained Latin America of \$28 billion in 1988 alone -- was depleting investment and contributing to the prolonged depression gripping the region. Since the

<sup>1</sup>. IMF, World Economic Outlook. Washington, D.C.: IMF, October, 1990, tables A48, A49.

commercial banks had clearly decided against increasing new lending, the only way to reduce the negative transfer was to cut repayments. Debt reduction was the correct--indeed the only--realistic response to this negative transfer problem.

To date, in Latin America, Brady-style debt reduction agreements have been reached with Mexico, Venezuela, Costa Rica, and Uruguay. Only the Costa Rican deal has cut deeply into the size of the debt stock, disappointing those who felt that a strong, positive shock was needed to "jump start" the Latin American economies. However, the other deals allow for service of the remaining debt without further, large-scale increases in the debt stock. They have also normalized the countries' external accounts. The Mexico deal has also had a favorable impact on business confidence, and it is to be hoped that the more recent Venezuelan and Uruguayan deals will have similarly positive effects.<sup>2</sup>

Two of the four big debtors -- Argentina and Brazil -- remain mired in large and growing arrears. Despite strenuous efforts, neither of these beleaguered countries has been able to gain control over fiscal and exchange-rate policies, and fighting domestic inflation has taken priority over external debt. Since neither country has been able to maintain an IMF-certified stabilization program, neither is eligible for a Brady-style debt reduction program.

<sup>2</sup>. Detailed analyses of the country deals can be found in World Bank, World Debt Tables 1990-91. Washington, D.C.: The World Bank, 1990, appendix 3.

Nevertheless, progress in debt reduction is coming in the Southern Cone through privatization and associated debt-equity swaps. Chile pioneered this strategy during the 1980s, and now Argentina has recently cancelled about \$7 billion in external debt and plans to continue privatization until its debt has been whittled down to about half of its original size. At that point, a formal, Brady deal would be more feasible. Similarly, Brazil has announced plans for major privatizations. In both countries, it seems probable that debt reduction agreements will eventually follow on the heels of more lasting stabilization programs and massive debt reduction through debt-equity swaps.

In sum, the Brady plan is making progress, and has demonstrated flexibility in crafting deals that differentiate among country circumstances. But progress has been painfully slow, and the staying power of some of the deals is open to question. Experience suggests that the Brady plan could be amended in the following ways:

-- A central forum should be designated to provide more concerted leadership. The IMF and World Bank should be given more authority to force the pace of negotiations, and to debate and amend the debt strategy. In particular, many of the lesser debtors in the Caribbean Basin and Sub-Saharan Africa would benefit from a normalization of their external finances, but the commercial banks need to be pushed to negotiate seriously.

-- Debt negotiations should focus more on future capacity to pay. Currently, the outcomes of debt negotiations reflect a variety of factors, only some of which address the consistency of the terms with the ability of the debtor to resume growth. The IMF and World Bank should have the clear strategic objective of making each country's debt service conform to a payment stream consistent with sustainable growth.

-- The IMF should increase its own lending to reform-minded debtors, and net disbursements should become significantly positive.<sup>3</sup> Such a return to positive net flows is assumed in the IMF's own projections of demand for IMF credit, which are central to the case for a quota increase. In fact, outstanding IMF credit to developing countries has been contracting steadily, falling from SDR 37.1 billion in 1985 to SDR 22.4 billion in November, 1990.<sup>4</sup>

-- The IMF and World Bank should continue to seek to limit the damage of adjustment on the poor and on the natural environment. Both institutions now accept that concern for the equitable distribution of the burden of adjustment falls within their mandates -- both as among countries and types of creditors,

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<sup>3</sup> For a fuller treatment, see Catherine Gwin and Richard Feinberg, Pulling Together: The International Monetary Fund in a Multipolar World. Washington, D.C.: the Overseas Development Council and Transaction Books, 1989.

<sup>4</sup> IMF, International Financial Statistics. Washington, D.C.: IMF, January, 1991, p.32.

as well as within the debtor nations. Furthermore, both institutions now accept that stabilization and adjustment measures can affect the ecological balance. They must now amend their policies in order to pursue economic efficiency simultaneously with ecological sustainability, and to minimize trade-offs where they exist.

-- Contingency clauses should be built into debt agreements to offset external shocks beyond the control of the debtor governments. The Brady plan is creating new debt instruments which will make renegotiation much more difficult. To compensate for these rigidities, the agreements should allow for temporary reduction in payments in the face of adverse external shocks, or for new lending to compensate for foreign exchange shortfalls. Enhanced payments would be expected when external conditions improved.

As the commercial banks pull back from Latin America, a sharply rising percentage of the debt stock is being held by official lenders, particularly by the multilaterals. The International Monetary Fund, World Bank, and Inter-American Development Bank have assiduously avoided debt reschedulings, in order to maintain their prime credit ratings on international bond markets. But if in the future countries run into debt servicing problems and are unable to restructure their commercial debts, they will be tempted to reduce payments to the multilaterals. As funders of the

multilaterals, it is in the interest of the U.S. government for measures to be taken to minimize this threat.

### The Enterprise for the Americas Initiative

The Brady plan legitimized debt reduction on commercial debt. But as the commercial banks were quick to point out, official debt is also a burden on developing economies. At the 1988 Toronto economic summit, the industrial nations had already agreed to forgive bilateral debts owed by low-income nations. The Enterprise for the Americas Initiative (EAI) is a logical extension of the concept of debt reduction to the debts owed by primarily middle-income countries to bilateral creditors.

The President's Initiative is timely and realistic, in that it would make de jure what has become de facto -- the non-payment of official debts. According to the U.S. Treasury, some 80 developing nations are in arrears on debts to U.S. government agencies. In many cases, actual cash flow may not be materially altered by formal debt restructurings. Similarly, the impact on actual U.S. government revenues may be small. But it is much better for both creditors and debtors when the books are cleansed and financial transactions are regularized.

Latin America owes U.S. government agencies about \$12 billion overall. Almost 80 percent of this total is owed to the U.S.

Agency for International Development and the U.S. Eximbank, with the remainder being divided between Food for Peace and the Commodity Credit Corporation (see Table 1). Under current terms the required debt service on these claims would equal about \$4 billion in 1991-94, or \$1.2 billion a year.

In line with administration statements regarding possible discount levels, I have estimated the potential debt service reduction under the following assumptions: that debts owed by AID and under P.L. 480 are reduced by two-thirds, and that debts owed to the Eximbank and CCC are reduced by 15 percent. Under such assumptions, it follows that Latin America would save about \$1.6 billion in 1991-94, or \$400 million annually (see Table 2). Ten countries would save over \$50 million during this four-year period: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Costa Rica, the Dominican Republic, El Salvador, and Jamaica.

To be sure, these are calculations of future debt service on restructured debt in comparison to currently contracted or scheduled debt service. The difference between future debt service and currently expected debt service (which assumes some arrears) would be less. A calculation of the latter difference is embodied in the administration's request for budget authority of \$310 million in FY1992. Under the new credit reform principles, this "subsidy" estimate is the difference between the present discounted value of the currently expected versus the new, projected stream

of rescheduled payments, and embodies unstated assumptions regarding both payment streams.

#### Participation of Other Donors

Detailed information on Latin American debts to bilateral donors other than the U.S. is not available. Yet my estimates indicate that extending the Initiative to other bilateral donors would yield a total annual debt-service savings of between \$1.6 and \$2.3 billion -- four times the savings on U.S. debts alone (see appendix).

Customarily, bilateral debts are renegotiated under the aegis of the Paris Club, the donors' cartel for the renegotiation of government-to-government loans. This arrangement assures equal treatment of all bilateral donors; otherwise, concessions granted by one creditor would make it easier for a debtor to service the claims of competing creditors. It would be an unfortunate break with tradition if the U.S. were to forgive bilateral debts without other donor countries doing so as well.

The debt-reducing impact of the Bush proposals would be greatest if they assumed a multilateral form within the Paris Club framework. Requiring such equivalent treatment could delay implementation and disappoint Latin America. But if caught in a diplomatic scissors between the U.S. and Latin American

petitioners, European and Japanese donors might feel compelled to match our generosity.

Even if multilateralized, the Bush debt Initiative cannot "solve" Latin America's debt problem. According to World Bank sources, bilateral debt accounts for only 14 percent of the region's total debt stock of \$429 billion, and the service on that bilateral debt is only 10 percent of the \$35 billion annual stream of interest and principal repayments. But the Initiative should not be disparaged for that reason. The normalization of Latin America's external financing can only result from the net effect of many measures which attack the various components of the problem; commercial debts, direct investment, capital flight, domestic policies, etc. The sharp reduction of official debts is not a substitute for actions in those areas, but it is one relevant piece of the puzzle.

#### Trade and Debt

The centerpiece of the EAI -- the promise of hemisphere-wide freer trade -- should be understood as a key component of the debt workout strategy. Indeed, perhaps the best measure of the debt service burden for Latin American countries is the ratio of net financial transfer to the export of goods and services. The ratio underscores the importance of export growth in restoring the financial health of the Latin American economies.

To illustrate the importance of export growth rates, I have

calculated two illustrative scenarios. The "pessimistic" scenario projects a repetition of the dismal trade performance of the 1980s, with a nominal growth of exports of only 1.5 percent. The modestly "optimistic" scenario allows for nominal export growth of 7 percent. Both scenarios use the same model to estimate net transfer levels.

Under both scenarios, the net transfer/export ratios fall, since the numerator (the net transfer) declines albeit slowly while the denominator (export growth) expands. Under the more pessimistic scenario, the ratio falls from 24 percent in 1990 to 17 percent by 1998, while under the more optimistic scenario, the net transfer consumes only 10 percent of export earnings by 1998. If Latin America is able to attain this 10 percent ratio target by the end of the decade, we could truly say that the debt crisis would be definitively behind us.

We should therefore continue to work to improve the Brady and Bush debt reduction programs, while increasingly turning our attention to the trade component of the Enterprise for the Americas Initiative. In this way, we can begin to actually talk about freeing the hemisphere from Latin America's debilitating debt burden.

Thank you very much.

Table 1  
TOTAL DEBT OUTSTANDING FROM LATIN AMERICA TO THE U.S. GOVERNMENT  
(in US\$ millions)

Entity	Outstanding Debt (end 1987)					Total	Arrears 9/30/89	
	AID	PL480	CCC	DOC	Principal		Interest	
<b>LATIN AMERICA</b>								
Argentina	405	0	54	0	0	459	141.12	90.18
Bolivia	27	304	137	0	6	474	0.00	0.44
Brazil	1,153	1,024	51	248	0	2,476	672.41	203.26
Chile	16	352	56	98	0	524	0.00	0.29
Colombia	577	573	8	0	16	1,174	13.38	4.39
Costa Rica	33	123	21	0	30	207	8.52	4.74
Cuba	2	61	14	0	0	77	12.50	13.73
Mexico	1,478	29	0	372	0	1,879	28.34	15.22
Paraguay	0	38	2	0	1	41	1.81	0.46
Peru	57	343	190	95	29	714	332.77	87.13
Puerto Rico	14	44	5	0	0	63	0.00	0.00
Venezuela	83	6	0	0	0	89	0.72	0.19
<b>BLETDIA</b>	<b>3,845</b>	<b>2,897</b>	<b>540</b>	<b>463</b>	<b>62</b>	<b>8,217</b>	<b>1,208.63</b>	<b>419.55</b>
<b>CENTRAL AMERICA AND CARIBBEAN</b>								
Antigua & Barbuda	1	0	0	0	0	1	0.00	0.00
Bahamas	4	1	0	0	0	5	0.00	0.00
Barbados	0	7	0	0	0	7	0.00	0.00
Belize	0	24	0	0	0	24	0.00	0.00
Cayman Islands	1	0	0	0	0	1	0.00	0.00
Costa Rica	19	333	114	0	0	466	1.36	0.76
Dominican Rep.	107	333	202	126	15	783	142.22	80.82
El Salvador	0	300	240	0	100	640	13.92	11.90
Grenada	0	1	0	0	0	1	0.00	0.00
Guatemala	2	180	60	0	2	244	2.33	2.13
Haiti	10	21	121	0	1	153	4.06	6.70
Honduras	3	295	67	0	34	399	12.07	8.15
Jamaica	46	401	205	0	3	655	0.46	3.94
Nicaragua	18	223	17	0	0	258	50.96	39.19
Panama	7	192	0	2	7	208	30.06	1.05
St. Vincent	0	5	0	0	0	5	0.00	0.00
Trinidad & Tobago	106	0	0	0	0	106	0.00	0.71
<b>BLETDIA</b>	<b>324</b>	<b>2,326</b>	<b>1,046</b>	<b>128</b>	<b>162</b>	<b>3,966</b>	<b>240.25</b>	<b>176.91</b>
<b>TOTAL</b>	<b>4,169</b>	<b>5,223</b>	<b>1,586</b>	<b>591</b>	<b>244</b>	<b>12,203</b>	<b>1,468.88</b>	<b>596.46</b>

Source: "International Finance" The National Advisory Council on International Monetary and Financial Policies, ANNUAL REPORT to the President and to the Congress for Fiscal Year 1988

"Report on Estimated Debt and Debt Service Due to the U.S. Government by Foreign Borrowers", Dept. of the Treasury and DPE, June 1990

Table 2  
BEST SERVICE REDUCTION FOR LATIN AMERICA AND THE CARIBBEAN  
TO THE U.S. GOVERNMENT IN FY 1991-1994 UNDER THE BUSH INITIATIVE  
(in US\$ millions; guarantees excluded)

	Exls	AID	PL480	CCC	Total
<b>SOUTH AMERICA</b>					
Argentina	51.37	14.00	0.00	0.00	65.37
Bolivia	3.32	45.89	0.00	0.00	49.20
Brazil	77.37	168.55	0.05	15.67	261.63
Chile	2.42	84.86	26.01	11.47	124.77
Colombia	68.67	97.93	1.94	0.00	168.53
Ecuador	2.32	18.15	5.07	0.00	25.53
Guayana	0.00	9.61	2.45	0.00	12.07
Mexico	123.72	6.89	0.00	54.06	184.67
Paraguay	0.00	7.06	0.55	0.00	7.60
Peru	1.84	46.59	43.16	2.30	93.89
Uruguay	1.01	6.52	1.97	0.00	9.50
Venezuela	2.92	0.00	0.00	0.00	2.92
<b>SUBTOTAL</b>	<b>334.95</b>	<b>506.05</b>	<b>89.19</b>	<b>83.49</b>	<b>1,013.68</b>
<b>CENTRAL AMERICA AND THE CARIBBEAN</b>					
Antigua & Barbuda	0.00	0.36	0.00	0.00	0.36
Barbados	0.00	0.00	0.00	0.00	0.00
Barbados	0.00	2.40	0.00	0.00	2.40
Belize	0.00	1.66	0.00	0.00	1.66
Cayman Islands	0.00	0.00	0.00	0.00	0.00
Costa Rica	1.42	45.65	25.73	0.00	72.80
Dominican Rep.	5.31	46.85	48.56	8.67	109.39
El Salvador	0.00	35.24	25.54	0.22	60.99
Grenada	0.00	0.00	6.00	0.00	6.00
Guatemala	0.00	25.61	13.13	0.00	38.74
Haiti	0.45	2.04	11.52	0.00	14.01
Honduras	0.00	36.07	7.07	0.00	43.14
Jamaica	4.50	72.61	51.00	6.56	134.67
Nicaragua	0.00	25.86	3.35	0.00	32.21
Panama	0.41	35.61	0.00	0.23	36.25
St. Vincent	0.00	0.11	0.00	0.00	0.11
Trinidad & Tobago	12.71	0.00	0.00	0.00	12.71
<b>SUBTOTAL</b>	<b>25.29</b>	<b>333.06</b>	<b>196.71</b>	<b>15.69</b>	<b>560.75</b>
<b>TOTAL</b>	<b>360.24</b>	<b>841.11</b>	<b>279.90</b>	<b>99.16</b>	<b>1,580.41</b>

Assumed 20% debt reduction of 67% under AID and PL480, and 15% under Exls and CCC.

Based on U.S. Government statistics

Dept. of the Treasury, and IMF, June 1990

**THE POTENTIAL IMPACT OF THE BUSH INITIATIVE  
ON LATIN AMERICAN DEBT SERVICE**

In his speech of June 27, President Bush announced a plan to reduce Latin American debt outstanding to the U.S. government by a significant amount. Assuming a 67% reduction of concessional, and a 15% reduction of nonconcessional debt<sup>1</sup>, it can be calculated that the Latin American countries will save approximately US\$ 1.6 billion in debt service during 1991 to 1994, or US\$ 400 million annually. Should this initiative be accepted by all the other governments with bilateral loans outstanding in Latin America, the question is, in how much debt reduction this would eventually translate. Three different estimation procedures were applied, resulting in a total annual debt service relief of US\$ 1.6 - US\$ 2.2 billion, as shown in the table below.

THE IMPACT OF A GLOBAL BUSH INITIATIVE per year for 1991-1994 (in US\$ millions)			
	Method I	Method II	Method III
concessional	1,121.0	646.0	1,023.0
nonconcessional	459.4	705.6	1,197.0
Total debt service reduction	1,580.4	1,351.6	2,220.0

**METHOD I**

The first rough estimate in calculating the effect of a general reduction of bilateral debt in line with the Bush Initiative is the following:

Given that the U.S. Government holds around 1/4 of all bilateral debt outstanding in the region, the total reduction should simply be four times the reduction resulting from the Bush Initiative. Hence total reduction in debt service per year should amount to around US\$ 1.6 billion.

**METHOD II**

The main problem in using Method I is the fact that it does not take into account the different split of bilateral debt into concessional and nonconcessional. However, while 57% of total bilateral debt outstanding to the U.S. is concessional, for the remaining public lenders only 23% turn out to be concessional.

<sup>1</sup> These shares are based on statements by U.S. Government officials.

Therefore a different estimation procedure is applied: Using the initial assumptions regarding the extent of debt reduction under the Bush Initiative, the reduction of debt service on concessional debt would amount to 16.5% of total concessional debt outstanding to the U.S. government, and a debt service reduction on nonconcessional debt of 8.9% of total nonconcessional debt outstanding. Applying these ratios to the remaining lenders would lead to an additional reduction in debt service of U.S.\$ 1.463 billion in concessional and US\$ 2.362.8 billion in nonconcessional debt. This would result in an annual debt service reduction of US\$ 956.5 million. Hence, including the U.S. share, the total reduction in debt service would amount to around US\$ 1.35 billion. As expected this estimate turns out lower compared to Method I due to the fact that the concessional share of bilateral lending which carries the major share of the reduction is far lower for other public lenders.

#### METHOD III

A further estimation procedure was applied based on the World Debt Tables, in particular making use of the "Debt Service Projections on Existing Pipeline". Unfortunately, the World Bank does not provide a breakdown of debt service payments to Official Creditors into bilateral and multilateral, and further into concessional and nonconcessional. In order to obtain such a breakdown, time trends from 1982-1989 for principal as well as interest payments were used to calculate the average shares.

The following results were applied in the estimation:

- "Bilateral" as percentage share of "Official" is 45% of principal and 35% of interest payments;

- "Concessional" as percentage share of "Bilateral" is 12% in principal and 85% in interest payments;<sup>3</sup>

Based on these percentage shares, Latin America will have to pay US\$ 19,263.6 millions in principal and US\$ 8,087.8 millions in interest on its bilateral debt between 1991 and 1994. Applying a reduction of concessional debt by 67% and of nonconcessional debt by 15%, principal payments will amount to US\$ 15,171 million, and interest payments to US\$ 3,299.8 million between 1991 and 1994. This translates into an average debt service reduction of US\$ 2.2 billion per annum.

Richard Feinberg, Executive Vice President  
Frank Sader, Research Assistant

OVERSEAS DEVELOPMENT COUNCIL

October 25, 1990

<sup>2</sup> World Debt Tables 1989-90 edition, Vo. I Analysis and Summary Tables, pp. 94-97

<sup>3</sup> Correspondingly, the shares for "Nonconcessional" are 88% principal and 15% interest.

## External Debt and Free Trade in the Americas

Statement of Peter Hakim  
Staff Director  
Inter-American Dialogue

Prepared for the Subcommittee on Foreign Operations  
Committee on Appropriations  
U.S. House of Representatives  
Washington, D.C.  
March 1991

I want to thank the subcommittee for this opportunity to testify on the two most important U.S. policy initiatives toward Latin America in recent years. The first is the so-called Brady Plan, launched just two months after President Bush took office in 1989 and offering a new strategy for dealing with Latin America's accumulated debt burdens. The second, the Enterprise for the Americas Initiative, was announced by President Bush last June and called for a combination of measures to help strengthen Latin America's economies and foster more productive long-term economic relationships between the United States and the region. The proposed free trade agreement with Mexico is vital to this second initiative.

Let me start by emphasizing several crucial points:

First, Latin America's deep economic and social problems are still a long way from solution. Since 1982, Latin America has been mired in its worst depression ever, one that has affected virtually every county in the region. And the cumulative effects of that depression now pose severe obstacles to economic recovery in all but a very few countries. Some figures will reveal Latin America's economic straits:

- The region's debt burdens are enormous. Its aggregate debt exceeds \$420 billion, \$100 billion greater than in 1982 when the debt crisis first struck. Interest payments on that debt, amounting to some \$35 billion a year, deprive the region of the resources it needs for investment and crucial imports; they also keep budget deficits high, fuel inflation, and sap private investor confidence.
- Latin America is plagued by record levels of inflation. Average inflation for the region as a whole last year was 1500 percent, ten times what it was in 1980.
- Eight years of low investment have left most Latin American nations with deteriorated physical plants, outdated technologies, and a lagging ability to compete internationally.
- More people than ever are trapped in poverty. Unemployment stands at historic highs in many countries; wages have deteriorated badly.

more in some places; and the quality of housing, health care, and education has steadily worsened.

Second, Latin America's economic hardships present a grave danger to the region's still fragile democratic institutions. Latin America has made impressive strides toward democratic rule in recent years. Every country in the region, except Fidel Castro's Cuba, is now governed by elected civilian leadership. Yet the practice of democracy remains very uneven throughout the region -- and, in fact, is floundering in a many countries. No easy relationship can be drawn between economics and politics in the region, but economic distress has consistently undermined the credibility of democratic leaders and is frustrating the development of vibrant democracies. In some places, persistent economic crisis may yet lead to a return to authoritarian rule.

Third, I believe that Latin America, with its population of 400 million people, is important to the economic well-being of the United States. Even in the midst of depression, Latin America is a \$50 billion a year market for U.S. exporters -- larger, for example, than the Japanese market. An economically healthy and growing Latin America could absorb some \$20 to \$30 billion more in U.S. exports each year, an amount equivalent to what we now export to Germany. Of every dollar Latin America spends on imports, 50 cents comes to the United States. There is nowhere else in the world where we enjoy that kind of advantage.

Fourth, although each Latin American country must take responsibility for its own economic reconstruction, U.S. policy toward Latin America does make a difference. Trade policy matters because Latin America sends one half of its exports to the United States; even more striking, increased sales to U.S. buyers represented more than 75 percent of Latin America's export growth in the 1980s. Debt policy matters, not only because U.S. government agencies and U.S. banks hold some 30 percent of Latin American debt, but also because the international debt strategy followed by all of Latin America's creditors is largely shaped in Washington. And the U.S. government retains predominant influence in the formulation of the lending policies of the major international financial institutions that serve Latin America.

The two pillars of U.S. economic policy toward Latin America are now the Brady Plan and the Enterprise for the Americas Initiative. The first of these essentially looks backwards; it was designed to help resolve a devastating problem -- Latin America's debt crisis -- that had been festering for many years. The second, the Enterprise Initiative, in contrast, looks forward to the future; it offers a vision -- still vague but nonetheless exciting -- of a new economic (and perhaps political) relationship between the United States and Latin America.

In the remainder of my testimony, I will try to answer three central questions about each of these initiatives: What have they accomplished so far? What do they

currently promise? And what can be done to make them more effective in achieving their aims?

### The Brady Plan

The Brady Plan offered a crucial innovation in U.S. debt strategy (and hence in the strategy pursued by Latin America's European and Japanese creditors as well). It reversed long-standing U.S. policy calling for Latin American countries fully to repay their loans. The Brady Plan acknowledged that Latin America's debts could not, in fact, be paid in full and called upon the commercial banks to reduce their Latin American debt claims (which accounted for some two-thirds of all outstanding obligations). In exchange, the banks were to be offered some guarantees that their remaining claims would be paid. Backing up those guarantees were public resources made available largely through the IMF and World Bank.

Overall, the amount of debt reduction to date has been small. Indeed, in the two years since the Brady Plan was announced Latin America's aggregate debt has actually increased, not declined. Out of 20 heavily-indebted Latin American countries, four -- Mexico, Venezuela, Costa Rica, and Uruguay -- have negotiated reductions with their creditor banks. And three others -- Chile, Colombia, and Bolivia -- each for different reasons, are not currently in need of debt relief.

Two main problems have emerged in the implementation of the Brady Plan. First, the amount of debt reduction being offered to qualifying countries may not be sufficient to allow the countries both to resume growth and make good on their remaining obligations. This means that new relief packages may have to be negotiated at some point in the future -- or that public resources will have to be used to cover the guarantees. Second, the Brady strategy is not helping those countries in greatest economic difficulty and most in need of debt relief.

Costa Rica has so far obtained the most generous debt reduction arrangement, reducing its commercial debt by 60 percent, but its overall debt declined by only 25 percent. Mexico's debt payments have been reduced by only about 12 percent. The fact is that a rise of one or two percentage points in international interest rates could wipe out the entire value of the debt reduction provided so far.

There are also, however, indirect benefits from debt relief. Debt reduction agreements -- coupled with economic policy reforms -- can help to restore business confidence and thereby may help to mobilize other sources of capital. Mexico seems to have benefitted in this way, although it is too soon to determine whether the benefits will endure over time.

The countries that have had their debts reduced are among the strongest economic performers in Latin America. The dozen or so Latin American countries in greatest economic distress now appear unlikely to qualify for relief under the Brady Plan, at least not any time soon. Most of them are already deeply in arrears to

their commercial creditors – and very few have managed to make much headway in reforming their economies. The problem in many cases can be traced to the weakness of political authority – which, in a vicious cycle, is often a consequence of economic failure. But whatever the cause of their distress, the Brady Plan offers these countries no relief.

Three specific steps are now needed to make the Brady Plan work more effectively:

First, the amount of debt reduction should no longer be left entirely to negotiations between the countries and the banks. Either the World Bank or International Monetary Fund should be charged with establishing a debt-reduction target for each country seeking a Brady Plan agreement, and perhaps be called on to serve as a mediator in the actual negotiations. The objective would be to assure that adequate relief is provided to eligible countries -- and that debt repayment guarantees do not exceed the amount that each country can, in fact, pay back and thereby, put public resources at risk.

Second, the initiation of debt-reduction negotiations should not be delayed until a country has satisfied all the requirements for reaching an agreement. Several major countries, most prominently Brazil and Argentina, do not yet qualify for debt relief. They are in arrears on their commercial debt and their economies are being battered by hyperinflation and large budget deficits. Currently, negotiations for Brady Plan relief can only begin when these problems are brought under control. Yet massive debts and mounting arrears compound the problems, because they are a source of uncertainty that frightens investors and contributes to capital flight and financial speculation. This is the "Catch 22": the countries' efforts to put their economies in order are frustrated by their debt burdens; but they can expect no relief from the burdens until they manage to reorder their economies.

This cycle could be broken if the commercial banks and debtor countries like Brazil and Argentina undertook -- perhaps with World Bank and IMF mediating help -- to establish the basic framework and objectives of a debt-reduction agreement that would be refined and implemented when the countries fulfilled the appropriate conditions for doing so. By reducing future uncertainties, such a framework agreement could serve as a crucial incentive for the countries to persist in their reform efforts and would reassure investors that debt would not be an insurmountable obstacle to continued recovery and growth.

Third, the Brady Plan must be made relevant to the large group of countries that need massive and immediate relief but cannot hope to meet the conditions for such relief in the foreseeable future because of the sad state of their economies. These countries -- including Peru, the Dominican Republic, Honduras, and Nicaragua, among others -- have not been paying interest for some time, and probably will never be able to meet more than a very small fraction of their debt obligations. If these countries are ever to get back on their feet, most, if not all, of their debt will

have to be forgiven. Together, they account for only a small portion of outstanding debt, so the cost of relief should not be burdensome to creditors. Such relief should clearly be restricted to those countries that are pursuing economic reform programs under the aegis of the World Bank or the IMF.

### The Enterprise for the Americas Initiative

The Enterprise for the Americas Initiative proposes to reduce the official bilateral debts Latin American countries owe to the United States. As such, it complements the Brady Plan's provision for commercial debt relief. Although the amount of U.S. official debt is limited -- totalling only about \$12 billion, or less than three percent of the region's overall debt -- some smaller countries of the Central America and the Caribbean do stand to obtain meaningful benefits. And the benefits could be considerably greater if the United States is able to convince Japan and Europe to join in official debt reduction efforts in Latin America. Moreover, the funds that would be made available for environmental programs could be of major significance in a region suffering severe ecological problems.

The second leg of the Enterprise Initiative -- calling for the establishment of a special investment promotion fund -- will also be of only modest value to most Latin American countries. The proposed \$100 million in U.S. support a year will just not go very far, even if Europe and Japan each agree -- as they have been asked to do -- to contribute similar amounts.

The Enterprise Initiative's enthusiastic welcome in Latin America is mostly explained by its trade provision -- specifically its proposal for the eventual establishment of a free trade zone throughout the Americas. Access to the U.S. market -- which now absorbs some \$60 billion in Latin American exports each year -- is what is crucial to the region's prospects for recovery and growth. Expanded trade with the United States can help Latin America build a dynamic export sector and attract a steady flow of foreign investment.

The timing of the Enterprise Initiative -- as well as President Bush's subsequent visit to Latin America last December -- was propitious. Latin Americans have been concerned that their region would be ignored in a post-cold war world, as U.S. attention turned to Eastern Europe, to the economically dynamic countries of Asia, and to the Middle East. That concern has been compounded by the uncertainties surrounding the Uruguay Round of GATT negotiations and the apparent trend toward the creation of regional trading blocs from which Latin America might be excluded. Both the Enterprise Initiative and the President's visit signalled that, despite the dramatic global changes taking place, Latin America was still considered a significant area for U.S. attention.

Just as important, the Initiative focused exclusively on economic policy issues -- which Latin Americans have long felt should be at the center of their relationship with the United States. Washington finally seemed ready to place commercial and

financial ties, not security and drugs, at the core of its relations with Latin America. Finally, Latin Americans appreciated the Initiative's emphasis on multilateralism, a welcome change from the unilateral and bilateral approaches that have long dominated U.S. policy in the region.

All told, the Enterprise Initiative has created the potential for constructively recasting U.S.-Latin American relations. The new relationship would be based on the mutual interests and longer-term priorities of both sides; it would no longer be defined mainly by the concerns of Washington or respond only to situations of crisis in the region.

The challenge for the United States and the countries of Latin America is how to give substance and definition to the Initiative, particularly to its proposal for free hemispheric trade -- and thereby sustain what momentum has been generated and avoid dashing the expectations that have been created.

Latin American countries do not expect to achieve special trade arrangements with the United States overnight. They recognize that Washington's first priorities are the successful completion of the Uruguay Round and the establishment of a free trade agreement with Mexico, far and away the major U.S. trading partner in the region. But as the United States proceeds on these fronts, Latin Americans want clear signals that Washington will subsequently move forcefully toward hemisphere-wide free trade negotiations.

The United States has already taken a first step by signing bilateral "framework agreements" with a number of Latin American countries. By specifying the key issues and problems for trade negotiations and creating bilateral mechanisms for discussing them, these agreements are a helpful, albeit modest, starting point. Four other steps should now be taken:

First, the United States should move quickly to implement the non-trade provisions of the Enterprise Initiative. Although the likely benefits from these provisions -- i.e. the bilateral debt reduction and the creation of an investment promotion fund -- are small, so is their cost to the United States. Yet action on them would provide reassurances of Washington's commitment to the Initiative overall, as would concerted U.S. efforts to secure the participation of Japan and Europe.

Second, the United States should continue to encourage Latin American countries to reach their own sub-regional trade arrangements. Such arrangements are crucial in building toward a genuine hemispheric free trade area that would get beyond bilateral trade deals between the United States and individual Latin American countries.

Third, the United States should promote the establishment of a new regional organization -- along the lines of the Americas Commission proposed by Richard Feinberg -- that would help to structure and facilitate trade negotiations in the

hemisphere. Such an institution, if properly staffed and organized, would serve all countries as a crucial forum for trade discussions, a source for continuing analysis and information on trade matters, and eventually as a mechanism for dispute resolution.

Fourth and finally, Washington -- as discussed in detail -- should seek to accelerate debt relief in Latin America, primarily by making the Brady Plan work for all countries in the region ready to pursue needed economic reforms. Maintaining the fiction that unpayable debt will somehow and at some time be paid does no one any good -- not the commercial banks, the Latin American countries, or the U.S. taxpayers. Latin American countries are already major trading partners with the United States. They will become far more important and stronger partners once they regain their economic health, and debt relief is a crucial element in their recovery.

No one expects the United States to resolve Latin America's economic problems. That is mainly up to the Latin American countries themselves. What they want and need from us is not aid -- but expanded opportunities to compete for sales and investment capital in U.S. markets. In exchange, they have made clear that they are willing to open up their markets to U.S. exporters and investors. This is precisely the kind of mutually beneficial relationship we should be seeking to establish with the region.



1815 North Lynn Street  
Arlington, Virginia 22209  
(703) 841-5300  
Telex: 510600 2960  
Fax: (703) 841-1283

Office of the President

**STATEMENT OF JOHN C. SAWHILL  
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE NATURE CONSERVANCY  
BEFORE THE HOUSE SUBCOMMITTEE ON FOREIGN OPERATIONS**

March 4, 1991

Mr. Chairman, members of the Committee, I thank you for this opportunity to discuss third world debt and the environment. My name is John Sawhill, and I am President and Chief Executive Officer of The Nature Conservancy. We are an international non-profit conservation organization dedicated to the protection of biological diversity through the protection of threatened species and ecosystems.

I appear before you today as both an economist and a conservationist. I feel fortunate to have this opportunity because the issue of debt and non-sustainable resource exploitation are indeed closely linked. The committee has shown great wisdom in discussing these issues together.

My major points today are:

- There is an inextricable link between debt and the environment.

- Continuity of funding is essential to sustainable natural resource management and can be achieved using debt swaps to capitalize independent, national level Conservation Trust Funds in each indebted country.

- The scale of debt-for-nature swaps to date is inadequate to address either the debt burden or environmental needs.

I will discuss in greater detail our recommendations, but for the sake of time and clarity I will summarize our thoughts on how to increase the amounts of debt available for debt-for-nature swaps.

Summary recommendations

1. Congress should authorize the inclusion of all types of non-military bilateral debt to be eligible under the Enterprise for the Americas initiative.
2. Congress should encourage increased U.S. AID grant assistance for commercial debt purchases, and use its influence to encourage the World Bank and other development

banks to make grants and loans to countries and NGOs for the purpose of converting commercial debt into Conservation Trust Funds.

3. Congress should explore mechanisms for bringing debt-for-nature swaps to the table during Brady Plan negotiations, including enhancing the role of MDB's in debt reduction buy-backs for conservation, and examining tax and accounting regulations for commercial debt donations.

#### Linkage Between Debt and Environment

It is an unhappy reality that those nations experiencing the greatest environmental degradation lie in the tropical or subtropical regions of the world, where habitat for more than two-thirds of the planet's species is located. It is not simply an unfortunate coincidence, however, that those nations facing the gravest environmental challenges are also those most burdened by foreign debt. It has become increasingly clear to environmentalists and policy makers that a nation's debt profile and environmental profile are linked, and that a solution to one crisis must involve a solution to the other.

Most of the countries comprising the earth's tropical forest belt are characterized by poverty, rapid population growth, and economic underdevelopment. Yet, the tremendous foreign debt burden on many of these countries has served to aggravate each of these critical social problems. Since the early 1980s, when debt servicing and foreign aid are balanced out, there is a net outflow of capital from the developing world to the industrialized north. The causes of this new south-to-north transfer of wealth go back to the 1970s--a decade of cheap money and lax lending policies. Excessive borrowing and lending occurred throughout the decade, causing a debt overload in many developing countries.

As a consequence of the pressure to repay debts, and at the same time address critical social problems with a shrinking revenue base, public funds to protect and manage wildlife habitats have evaporated. In those countries where such public funds may be available, they are usually inadequate. More importantly, the looming foreign debt forces many countries into rapid, short-term, and unsustainable exploitation of their natural resources and exacerbates social pressures on the environment.

To date, debt-for-nature swaps have attempted to take advantage of the debt/environment nexus to generate needed funds for unprotected ecosystems and sustainable development by

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converting unpaid commercial loans of indebted countries into funds for conservation activities in those countries. Debt-for-nature swaps are a creative financial mechanism that have generated much needed financial resources for the environment.

As a dramatic example of this, in Ecuador The Nature Conservancy and World Wildlife Fund jointly purchased \$10 million of Ecuadorian debt from New York banks at twelve cents on the dollar. We donated this debt to the Ecuadorian Nature Foundation. The Ecuadorian Nature Foundation then swapped the debt at their Central Bank for \$10 million of local currency bonds maturing over seven years. Each dollar invested resulted in over eight dollars of new conservation capital which in turn generated interest and principal payments for the life of the new debt instrument.

#### Continuity of Funding/Conservation Trust Funds

The most important result of any of these swaps has been the creation of a predictable, stable income stream for natural resource management. Continuity of funding is the key here. By using debt swap proceeds to create independent, country-level Conservation Trust Funds it has been possible to begin to plan for sustainable resource management over the long term.

To date almost a dozen countries are putting in place national level Conservation Trust Funds involving a new mix of players: key representatives of government, the private sector and often the international donor community. Countries moving formally or informally in this direction include Costa Rica, the Dominican Republic, Bolivia, Ecuador, Jamaica, Panama, Paraguay, Argentina, El Salvador, Madagascar and Bhutan.

These Conservation Trust Funds act as intermediaries, channelling funds to qualified private and public agencies involved in natural resource management and protection. They are in the best position to determine their nation's environmental priorities using their evolving national conservation strategies as guidelines. They are also the best judges of the needs, abilities, and capacity of the organizations involved in carrying out the projects. Accordingly, they can contract with fiduciary agents to professionally manage the trust's principal in order to maintain its value and provide income as required and at the same time play a crucial role in project assessment, resource allocation and oversight.

These new Conservation Trust Funds are unique in other ways. Although many have or intend to use debt swaps as a major source

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of funding, most are being structured to insure that they can accept funds from a variety of sources including grants from international and domestic, private and public organizations. National conservation trusts are in an ideal position to manage a variety of smaller projects which larger donor organizations are mostly unable to do. They may also provide the supervision, evaluation, and accountability not always feasible on a small scale.

A prime example of this new vehicle is the recently created National Environmental Fund in Bolivia. The Fund (FONAMA) is structured to act as an umbrella trust with sub-accounts responsive to specific programs or donors such as the Enterprise for the Americas. In addition to various government representatives, three NGOs serve on the administering board of the Fund, including the Bolivian Indigenous Peoples Federation.

The Bolivian model is exceptional. It is designed to coordinate an overall country plan for conservation and sustainable development while allowing maximum flexibility to each donor or sub-account. It is being advanced by the second poorest country of this hemisphere and implicitly recognizes that sustainable resource management must be integrated into any sustainable economic system. NGOs and indigenous peoples participation has been actively solicited by the Bolivian government.

These intermediary-type trusts realize that protection alone is insufficient as a means of conserving natural resources. Environmental education, training, scientific research, and compatible economic development activities are all required to insure that protected areas and the people that live in and around them find a mutually beneficial balance.

#### Scale of Debt-for-Nature Swaps Inadequate

Although impressive in appearance, and representing a great deal of effort on the part of the international conservation community, debt swaps have redirected what amounts to only a jingling of change in the pockets of the world's creditors.

To date approximately \$100 million of debt-for-nature swaps have been realized in Latin America out of a total indebtedness of over \$400 billion.

Debt buy-backs, which allow countries to receive loans and grants from lenders like the World Bank and Japan to purchase portions of their own commercial debt as part of debt restructuring

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agreements, show promise, but thus far are being made with no environmental conditions. Debt renegotiations should not ignore this extraordinary opportunity for environmental and developmental funding available through debt-for-nature swaps.

Finally, a large source of debt--that held by the U.S. and other creditor governments and development banks--remains virtually untapped. Clearly, the debt-for-nature model has not been used anywhere close to its full potential.

We recommend that the following steps be taken to expand the debt-for-nature model:

Recommendation 1.

Congress should now authorize the inclusion of all types of non-military bilateral debt to be eligible under the Enterprise for the Americas initiative.

On June 27, 1990, President Bush, as part of his Enterprise for the Americas Initiative, announced his intention to seek legislation that would allow part of the \$12 billion owed to the U.S. government by Latin American countries to be swapped for local currency investments in conservation. The President's announcement and similar legislative initiatives introduced by Representative Dante Fascell (D-FL), Peter Kostmayer (D-PA), and others represent the first substantial moves by the U.S. government to pursue debt-for-nature.

As you know, the 101st Congress passed legislation (S.2830) authorizing the President to renegotiate P.L.480 loans and allow interest on the restructured loans to be paid in local currency into environmental trust funds. Legislation authorizing AID loans to be similarly treated (H.R. 5855) passed the House but was never acted on in the Senate.

The Enterprise for the Americas Initiative links for the first time bilateral debt restructuring and funding for environmental programs. We supported the Farm Bill's provision authorizing P.L.480 debt reduction with local currency interest payments to conservation trust funds. In particular, we supported provisions providing for participation by local nongovernmental conservation organizations in the program development and management of these funds. This provision empowers local groups and creates institutions -- the Conservation Trust Funds I have discussed earlier -- which can attract other pools of debt as well as private and public donations. We hope Congress will approve the inclusion

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of AID, EXIM and CCC debt in the near future under the same provisions. Bilateral debt owed by Latin America to all donor countries totals over \$50 billion of the region's \$400 billion debt burden; the U.S.'s share of that \$50 billion is \$12 billion. While writing down the U.S. government portion of this debt alone will not solve the overall debt problem, it does significantly relieve the debt burden of a number of small Caribbean and Central American countries who have a proportionately large percentage of their debt in U.S. bilateral obligations.

Our major concern with EAI to date is that an excessively strict adherence to the economic eligibility criteria could keep a majority of countries from participating in the foreseeable future. Time is of the essence. Therefore, maximum flexibility on the "flaming hoops" of eligibility should be encouraged if countries are making good faith efforts towards reasonable economic goals. Only Bolivia, Chile, Jamaica, and Costa Rica are thought likely to be eligible in the near future.

In addition to including foreign assistance debt as eligible for forgiveness and debt-for-nature swaps, Congress and the Executive Branch should strongly encourage other bilateral donors to do the same.

Recommendation 2.

Congress and the Administration should use its influence to encourage the World Bank and other development banks to make grants and loans to countries and NGOs for the purpose of converting commercial debt into Conservation Trust Funds.

Such official assistance has been provided by the U.S., Swedish and Dutch governments to developing countries for the purpose of purchasing their debt from commercial banks. Last year, a USAID-funded debt swap in Madagascar generated \$2 million for conservation. This year, AID plans to fund a much larger debt buy-back in Panama, as approved by this Committee last year. The World Bank is presently establishing their Global Environmental Facility, which, if properly designed, should be in a good position to assist in financing suitable commercial debt conversions as well.

Recommendation 3.

Debt-for-nature must become a part of commercial debt negotiations, with the purpose of creating national Conservation Trust Funds in every indebted developing country.

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The most intriguing and so far unattainable idea for making commercial debt work for the environment is to "get a seat at the table" during Brady Plan negotiations for commercial debt reductions. These negotiations take place on a country-by-country basis and include all major actors: the central bank; representatives of all the bank creditors; the U.S. Treasury; the World Bank; IMF; and other important bilateral donors. For example, the World Bank has approved a \$200 million loan to the Philippines for the repurchase of \$400 million of debt with no environmental conditions. If this "debt buy back" earmarked just ten percent of that loan for conservation, the \$40 million it would have generated could have dramatically increased the size of the Philippines' national park system, funded a national environmental education program, and supported the development of a sustainable forestry industry in the country.

Debt negotiations and readjustments have become a permanent feature of the United States' relationship with the developing world, especially Latin America. Brady Plan debt restructuring agreements inevitably involve concessions by both debtors and creditors and, therefore, offer extraordinary opportunities to make available even a small fraction of negotiated debt for swapping. Funds generated by such swaps would capitalize the national Conservation Trust Funds in each indebted country, thereby providing a sustainable source of public funding for conservation, environmental protection, and environmentally friendly development.

This process could be accelerated by the U.S. and other governments more vigorously exploring regulatory and tax changes to facilitate commercial debt donations. Minor modifications of tax and accounting regulations could create a significant incentive for commercial banks to donate part of their debt portfolio for debt-for-nature swaps. Although this is outside the purview of this Committee it is important to mention.

#### Summary

The involvement of First World governments and multilateral development agencies could expand the scope of today's debt-for-nature swaps by several orders of magnitude. Congress' action authorizing the swapping of PL 480 Latin American debt sets us on a hopeful path in these directions. Debt swaps on a much larger scale are not just gleams in the eyes of conservationists, but necessary imperatives if meaningful progress is to be made in protecting global natural resources, providing for sustainable development, and reducing developing country debt.

THURSDAY, MARCH 7, 1991.

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

WITNESS

RONALD W. ROSKENS, ADMINISTRATOR

**CHAIRMAN'S OPENING REMARKS**

Mr. OBEY. We may have a very short hearing this morning. Mr. Darman is playing one of his usual sneaky games with budget accounting with respect to the Israeli aid request.

Mr. ROSKENS. I am glad you are not feeling badly about me at the moment.

Mr. OBEY. You may have a very short hearing this morning. You will get off easy.

Dr. Roskens, excuse me for starting this meeting this late. We have another ego battle going on between the Office of Management and Budget and the State Department. I hope the Administration can submerge its ego long enough to get their act together with respect to the Supplemental which they have asked the Congress to pass today.

I will suspend any opening remarks I have in the interest of time. We are going to try to get you out of here by 11:30 so that we can try to follow whatever directions the Administration manages to send on this issue.

I would simply ask you to summarize your statement briefly so we can get right to questions.

**MR. ROSKENS' OPENING STATEMENT**

Mr. ROSKENS. Thank you very much, Mr. Chairman.

I have submitted a written statement, which I would ask to be accepted for the record. I would like to make just a few comments. In view of time limitations, I will be quite brief.

I want to thank you for this opportunity to present our 1992 foreign assistance request. I want to discuss how we can work together to respond to the momentous changes we have seen over the past 24 months, and what kind of resources are going to be necessary to carry us forward.

It is obvious that not very many of us could have predicted what a propitious point in time March 1991 would be for the executive and legislative branches to be discussing the direction of America's role in the developing world.

But here we are. A.I.D. remains very much focused on its traditional humanitarian mission, but the limitations on our resources require us to manage those resources in a manner that has a maximum effect on development.

Clearly, recent changes in the world have had an impact on our mission and our mandate. So to be effective in this rapidly changing world, I think we are going to have to move to stress the idea of international partnerships.

What I am suggesting is that in the future, we won't be working so much with, so to speak, recipient countries, but with partner countries. We won't be using various private sector entities as agents, but rather will enroll the energies of private sector volunteer agencies, universities, and profit-making enterprises and so on.

We will not be asking state and federal and local agencies to bend their activities to accommodate A.I.D., but when their strengths are needed, we will support them in doing what they do best.

If we build and strengthen the partnerships that we have with the Congress, we will be doing our best, an objective to which I am personally committed.

I have other things I could say about the Development Fund for Africa, my trip to Africa, et cetera, but perhaps in view of the time limitations, we ought to dispense with that and go to what you would rather do in terms of questions.

[The information follows:]

STATEMENT OF THE HONORABLE RONALD W. ROSKENSADMINISTRATORAGENCY FOR INTERNATIONAL DEVELOPMENTBEFORE THEHOUSE APPROPRIATIONS COMMITTEESUBCOMMITTEE ON FOREIGN OPERATIONSMARCH 7, 1991I. INTRODUCTION

Mr. Chairman and distinguished members of the Committee, thank you for this opportunity to present the Administration's FY 1992 Foreign Assistance request.

The focus of my testimony is on what A.I.D. has been doing to respond to the momentous changes that we have seen over the past two years and the kinds of resources required to carry us forward to the future. I will review our new A.I.D. mission statement and our initiatives on the environment, democracy, business and

development partnership, and the family. While our basic objectives of relieving suffering and reducing poverty remain the same as they have always been, we need to adjust to changing circumstances and look for new ways to make our assistance more efficient and effective. I will also underscore the ways in which our management initiative seeks to strengthen the accountability of the Agency and to improve the standards of our stewardship of public funds.

My testimony will highlight the degree to which our work is becoming a cluster of partnerships with recipient countries, with other donors, with many U.S. federal and state agencies and with the American private sector. I particularly want to emphasize my commitment to a partnership with the Congress. I cannot promise that we will always agree, but I can promise that we will always pursue meaningful consultations with the Congress on the overall direction and strategies of our foreign assistance program.

To undertake these activities, the Administration is requesting FY 1992 bilateral aid programs to be managed by A.I.D. totalling \$6.6 billion in new appropriations, excluding P.L. 480 food assistance programs which are being requested by the Department of Agriculture. In a time of severe budget austerities, this is a prudent request, with only a very modest increase over the levels of FY 1991. In order to provide the flexibility required to respond to rapidly changing conditions in every part of

the world, the Administration is requesting that development assistance funds be appropriated in a single account.

## II. ESTABLISHING NEW INTERNATIONAL PARTNERSHIPS

Over the past two years we have witnessed the collapse of repressive governments in country after country in Central and Eastern Europe, a rising movement toward political liberalization and economic reform in Africa, and renewed affirmation of the democratic process in Latin America and in Asia.

There are some important things that have not changed, however. Americans remain committed to the same basic values which have guided our foreign policy and foreign assistance program from the beginning. For over fifty years, since Franklin D. Roosevelt, American foreign policy and economic assistance have been guided by a vision of a world founded upon four essential human freedoms:

- o Freedom of speech and expression;
- o Freedom of every person to worship in his or her own way;
- o Freedom from want, to be realized from the dynamism of free enterprise and international economic cooperation throughout the world; and
- o Freedom from fear -- a world in which no nation will be permitted to commit an act of physical aggression against any neighbor.

Recently in the Persian Gulf, American men and women continued to uphold a long American tradition of sacrifice to secure a stable world order free from aggression, not just for Americans but for all the world's citizens. Their commitment, along with the commitment of our partners in the allied coalition, shows the relevance of this enduring vision to the demands of the future.

We cannot be complacent. We need to reassess our thinking about development and the ways in which we approach our traditional objectives if we are to be effective in carrying out our mission. We particularly have an opportunity to establish new international partnerships for development. In the future we will not be working with recipient countries but with partner countries. We will not use various private sector entities as agents, but enroll the energies of private voluntary agencies, universities and profit-making enterprises in the development challenge. We will not ask other federal, state and local agencies to bend their activities to A.I.D. purposes, but when their strengths are needed we will support their doing what they do best.

As we build and strengthen these partnerships, the Congress must also be a participant in this process. I firmly believe that a serious dialogue with the Congress, and careful consideration of the expression of congressional views and priorities, will improve our program over the long run; and it is essential for securing the bipartisan support which is necessary for its continuing success.

These new partnerships are necessary to sustain the changes we would like to see firmly cemented. They are essential to creating the democratic base that gives people a stake in their political future; to protecting the environment against destruction and neglect; to giving all people, especially the poor, women and children, the opportunity for full participation in economic development.

### III. THE DEVELOPMENT FUND FOR AFRICA

1990 was the third year of A.I.D.'s implementation of the Development Fund for Africa (DFA), an example of the kind of innovative program which is possible when there is a genuine partnership between the executive branch and the Congress. Working toward the objectives specified in the DFA Action Plan, A.I.D. has made significant changes in the way it operates in this region. These have laid the foundation for a program for the next decade which can have a positive impact on the lives of the average African citizen in the approximately twenty countries in which we are concentrating DFA assistance.

A.I.D. is looking to its field mission staff to design the assistance strategy best suited to each country's development needs. The flexibility of the DFA allows Missions to focus on achieving results, not just meeting functional account requirements

or fulfilling earmarks. The structure of the DFA has enabled us to put resources where they are most needed, and the evidence indicates that this has significantly enhanced the effectiveness of our development programs. The importance of this way of managing our programs has important implications for our worldwide program, and its potential cannot be overemphasized.

We recognize the magnitude of the goals we have set for ourselves under the DFA. Looking at the statistics which are most readily available, it is easy to be pessimistic about the long-term prospects for Africa. However, the analyses and evaluations we have conducted are providing the first new encouraging evidence that an economic turnaround may be in the offing for many countries in Africa. As noted earlier, the data indicate that the economic reforms initiated by several countries in the early 1980s have helped trim public sector deficits, spur non-traditional exports and raise personal incomes. In twenty-two out of twenty-three DFA countries, a reversal in declining income trends is now evident and may be paralleled by a rise in agricultural output.

These economies are still fragile, however, and are subject to sudden reversals. One only has to look at the famine emergency food requests in Sudan, Ethiopia, Angola, Mozambique and Liberia to understand the food insecurity which so many African countries continue to face. The rapidly growing population places enormous demands on these economies, and when needs are not met, can

generate social and political unrest.

Nonetheless, we believe that there is now a basis for some optimism. The increasing participation of the private sector in many economies has demonstrated unequivocally that markets work, and that better access to goods and services and (to some extent) jobs can result. For example, evidence from The Gambia and Mali suggests that deregulation of grain markets has probably increased the food security of many of the residents of those countries.

Environmental awareness is also growing. Several countries (for example, Niger, Zimbabwe, Rwanda, Madagascar, Uganda, Kenya and Tanzania) are beginning to find that when the interests of citizens are engaged, environmental conservation and economic growth are not incompatible. More examples of encouraging trends can also be cited: in population planning, in famine emergency preparedness, in handling of the new issue of AIDS, and in getting agriculture moving.

Recently I visited six countries in Africa with Secretary of Health and Human Services, Louis Sullivan, and was able personally to confirm this picture of major problems mixed with real elements of hope. In Malawi, for example, we were stunned with the news of increases in the deaths of children associated with rising rates of HIV/AIDS and of malaria resistant to the current standard treatment with chloroquine. After years of improvements in child survival,

this reversal in past trends is highly discouraging. But the apparently open recognition of HIV/AIDS at all levels of the health care system and among government leaders we talked to, and the positive approach to HIV/AIDS education we saw was very encouraging.

In Nigeria we were struck with the link between political liberalization and a growing commitment to extending primary health care programs to rural areas. The Nigerian Minister of Health noted the progress being made in the "democratization" of the health care system. Decentralization of the Ministry of Health, supported by A.I.D., is a leading wedge in the broader political process to encourage increased local responsibility.

In Uganda, we visited a grandmother who had lost five sons and three daughters-in-law to AIDS. With her two remaining children, she was parenting twenty grandchildren. We heard from one private voluntary organization working with orphans that fully ten percent of the population of one district was orphaned, most through the death of one or both parents through AIDS. The government's family care approach to this problem is clearly cost-effective and preferred by people in the area. Of the \$5.0 million that A.I.D. plans to obligate in FY 1991 to assist displaced and orphaned children, \$3.5 million of that will be programmed for activities in Africa and will permit us to provide some direct assistance to programs such as these. However, continued strong political

leadership is vital for HIV control and for managing the tragic levels of adult and child mortality expected over the next decade.

In the coming years, the challenge for A.I.D. is to reinforce the positive trends we are now beginning to see, and to help ensure that they add up to a better life for the next generation of Africans. We are programming the FY 1991 increase in the DFA to accomplish these objectives.

A.I.D. is strengthening the capacity of those countries which are committed to reform to meet key objectives in the development of social services and natural resources. About two-thirds of these funds will be used to support population, child survival, education and AIDS prevention efforts. We are also supporting emerging democratic trends in countries such as Namibia, South Africa and Benin.

A.I.D. alone cannot meet the magnitude and diversity of Africa's needs. We have already increased our efforts to work more closely with other donor organizations. Many of our missions in Africa now regularly encourage and sponsor partnerships between local non-governmental organizations and U.S. private voluntary organizations. In joint efforts with the World Bank, A.I.D. has become more involved in such areas as food security and agricultural research in Africa.

#### IV. THE FY 1992 BUDGET REQUEST

For its FY 1992 bilateral foreign economic assistance programs, A.I.D. requests \$6,556,257,000 in new appropriations, which includes \$41,351,000 for the already authorized annual payment to the Foreign Service Retirement and Disability Fund (FSRDF), and \$48,000,000 in reappropriations under deobligation-reobligation authority. This does not include uses of permanent appropriations authorities to pay an estimated \$31,460,000 for prior-year Housing Guaranty costs.

This request is compared to the FY 1991 appropriation of \$6,412,162,000 (prior to the 1.9% sequester). This FY 1991 amount includes \$40,341,000 appropriated for the retirement fund and a total of \$74,000,000 appropriated for the deobligation-reobligation authority.

The requested appropriation level includes funding for Development Assistance (DA), the Economic Support Fund (ESF), and the Special Assistance Initiatives (SAI) program. It excludes food assistance under Titles II and III of P.L. 480, which will be requested by the U.S. Department of Agriculture but administered by A.I.D.

These funds will be used to support a wide variety of economic assistance activities throughout the world. For example, we

propose funding child survival activities with at least \$188 million of Development Program funds and \$12 million of ESF. A.I.D. re-emphasized its commitment to child survival activities at the recent World Summit for Children when we launched two new programs. The first commits A.I.D. to provide \$50 million over the next five years to combat measles among children in developing countries. The second is a study of the barrier to improving vaccines for children.

We propose funding AIDS activities at a level of \$55 million. Since 1986, A.I.D. has worked to support new partnerships among multilateral, bilateral, public and private agencies in an effort to halt the spread of AIDS. We will continue to expand these critical efforts in FY 1992.

In FY 1992, A.I.D. plans to provide at least \$210 million in Development Program funds for environmental activities and programs. In addition, we expect to fund activities under the DFA, ESF and SAI which will substantially increase this level.

We intend to allocate more than \$70 million in Development Program funds for basic education. A.I.D. will continue to help countries to design and implement comprehensive education sector reforms. Increasing the number and proportion of children who successfully complete primary and secondary school, as well as raising the level of adult literacy, are essential for the

emergence of increasingly sophisticated economies and the full participation of citizens in the democratic process.

### Development Assistance

For Development Assistance, the FY 1992 appropriation request is \$2,756,257,000, a very modest increase over \$2,737,687,000 in FY 1991. This request includes Development Programs, the Development Fund for Africa (DFA), the American Schools and Hospitals Abroad (ASHA) program, International Disaster Assistance, the Housing Guaranty program, the Private Sector Investment program, and Operating Expenses for A.I.D. and the A.I.D. Inspector General.

1. Development Programs. The Agency's FY 1992 appropriation request for Development Programs totals \$1,277,000,000 (excluding \$36,000,000 in reappropriations for deobligation/reobligation activities). This compares with the FY 1991 appropriation of \$1,259,083,000 (after transfers) for the Functional Development Assistance Program, in addition to reappropriations for deobligation-reobligation activities of \$60,000,000.

A major innovation in the Administration's FY 1992 appropriation request is that the eight functional accounts be replaced by a single non-functional Development Programs account. We feel strongly that this is essential if we are to remain relevant and effective in the fast-changing world we now face. The

Secretary of State and I are fully aware of the concerns expressed by members of this and other committees that eliminating the current functional accounts may result in a diminution of attention to certain areas of high concern to Congress.

We have already met with committee staff to share with them our analysis of what the budget would be like were it to be submitted according to the traditional functional accounts. These consultations have helped, I hope, to show that with ongoing congressional consultations, we can reach agreement on allocations which respect our mutual priorities, while giving the program the benefits of additional operating flexibility.

In response to concerns raised by this and other committees in Congress, and because we think assistance for AIDS, basic education, child survival, the environment, and family planning are of unusual importance, we will ensure that these areas continue to receive funding under this new single account at levels consistent with current-year allocations.

If circumstances make it necessary to redirect resources away from these areas, we will not do so without conferring with you and other congressional committees. I know this commitment can be kept because it has been kept under the Development Fund for Africa, where Congress has encouraged and supported flexibility and the Administration has successfully met your targets for specific

assistance uses.

We are under tight budgetary constraints and must meet many challenges. This prevents us from increasing every program, but we do want to maintain our strengths wherever possible. For example, we remain fully committed to family planning and in addition to funds in the Development Programs account, we also will be funding a significant level of population activities under the ESF and DFA programs. A.I.D. is the pre-eminent donor in the field of population. Because of its technical and programmatic innovations, strong field presence, sustained commitment and wide range of specialized technical assistance, A.I.D. remains the world leader in population and family planning programs, and I intend to keep it that way.

2. Development Fund for Africa. In an earlier section of this testimony, I reviewed in some detail our past experience with the DFA and our plans for the future. The FY 1992 request includes \$800,000,000 for the DFA, the same amount enacted in FY 1991, including \$50,000,000 to support the activities of the Southern Africa Development Coordination Conference (SADCC).

In the current fiscal year, \$12,000,000 of DFA funds are being used for Operating Expenses purposes, considerably less than the ceiling of 5% (or \$40,000,000) authorized under the appropriations act for FY 1991.

3. Other Development Assistance Programs. Private Sector Investment Guaranties promote market-oriented approaches to development by supporting key private sector activities through loan guaranties at commercial market rates of interest, especially for small and medium enterprises. The program leverages our scarce foreign assistance resources by attracting private capital on a three- or four-to-one basis. A.I.D. requests a loan guaranty limitation of \$114,000,000, the same level provided for FY 1991, and \$1,367,000 for administrative costs now required to be budgeted separately under the new credit reform legislation.

American Schools and Hospitals Abroad (ASHA) assists private, non-profit American-sponsored schools and hospitals overseas which demonstrate American ideas and practices in education and medicine while serving the citizens of the countries in which they are located. For FY 1992, we are requesting \$30,000,000 for the ASHA program, a slight increase over the amount appropriated in FY 1991.

International Disaster Assistance is provided through A.I.D.'s Office of U.S. Foreign Disaster Assistance (OFDA), which coordinates U.S. private and public emergency relief work overseas to alleviate the effects of natural and man-made disasters threatening human life. A.I.D. is requesting \$40,000,000 for the disaster relief component of this program. OFDA also helps foreign countries better prepare for emergency relief efforts by taking precautionary mitigating steps, preparing disaster response

capabilities, and establishing early warning systems. In FY 1992, A.I.D. plans to allocate \$5,500,000 under the Development Programs account for this component of the program. For FY 1991, the disaster assistance appropriation was \$40,000,000 for both portions of the OFDA program.

The Housing Guaranty program is used to guarantee housing and infrastructure loans from American financial institutions to developing countries at various income levels to provide affordable shelter and related facilities. Resources also are made available for technical assistance, institutional development and training to encourage private sector solutions to these problems. At this time, A.I.D. is requesting \$100,000,000 in FY 1992 guaranty authority (versus \$150,000,000 in FY 1991) and \$9,500,000 in program funds for administrative and loan subsidy costs, as newly required by credit reform.

Operating Expenses (OE) cover salaries and other support costs of A.I.D. operations in Washington and at overseas locations, except for the Office of the Inspector General and the costs of administering the Agency's credit programs. The OE request for FY 1992 is \$483,300,000. This request compares with a total FY 1991 level of \$466,280,000, consisting of a new OE appropriation of \$435,000,000 plus \$31,280,000 in other funds which Congress authorized this year for OE purposes. It will permit A.I.D. to maintain essentially the same level of operations. However, it is

important to note that this modest increase will absorb the full costs of managing A.I.D. and begin to reduce the Agency's dependence on local currency trust funds, which has grown substantially over the last decade.

Inspector General (IG) Operating Expenses are appropriated separately and cover the cost of domestic and overseas operations of A.I.D.'s Inspector General. A.I.D. is requesting \$37,739,000 for FY 1992, compared with \$33,884,000 appropriated for FY 1991.

#### Economic Support Fund

Economic Support Fund (ESF) resources address economic and political foreign policy interests of the United States, frequently in conjunction with military base or access rights agreements. While ESF is generally provided to countries facing threats to their economic or political stability, to the extent feasible, it is programmed and used to address key development problems. Because it is a flexible tool, ESF can finance balance of payments and economic stabilization programs, frequently in a multi-donor context. It can support policy reforms at the macroeconomic or sectoral level, and it can finance development projects. It is a vital part of both our effort to enhance the long-term security of the United States and our program to advance development.

The FY 1992 request is \$3,228,000,000 (excluding

deobligation-reobligation operations estimated to be \$12,000,000). This compares with the FY 1991 appropriated ESF level of \$3,130,800,000 (excluding deobligation-reobligation activities amounting to \$14,000,000 and including transfers).

Major ESF programs are in Israel, Egypt, the Philippines and Central American countries. ESF also funds a key part of our Andean Narcotics initiative. Of this total, \$250,000,000 is the increment for the Andean Narcotics Initiative, a significant increase over \$175,000,000 appropriated as the increment for this activity in FY 1991.

We do appreciate the efforts that you and the Committee have made which resulted in lower total ESF earmarks in FY 1991. This was very positive, and we want to continue to work closely with you on this in the future.

#### Special Assistance Initiatives (SAI)

The SAI program, begun in FY 1990, provides funding for extraordinary economic assistance in developing countries. Thus far, it has been used to finance the U.S. contribution to the Philippines Multilateral Assistance Initiative (MAI) and to support the democratic evolution in Eastern Europe. In FY 1991, the amounts provided (after transfers) were \$160,000,000 and \$369,675,000, respectively. For FY 1992, A.I.D. is requesting a

total of \$560,000,000, of which \$160,000,000 is being requested for the MAI and \$400,000,000 for Eastern Europe to continue activities started in FY 1990 and FY 1991.

The Multilateral Assistance Initiative (MAI) has been the subject of a Consultative Group meeting which just concluded in Hong Kong. The results of that meeting are still being reviewed. We and other donors emphasized the need for continued progress by the Government of the Philippines in implementing its economic reform program and improving its efficiency in using donor assistance and reducing the pipeline. For FY 1992, we are planning an additional major allocation of funds for environmental activities, the single largest program the U.S. is supporting under the MAI.

As in 1991, our program in Eastern Europe will continue to promote the development of democratic institutions, the transformation of centrally planned economies to market-oriented economies led by the private sector, and improvement in the basic quality of life while this region undergoes the difficult and disruptive process of economic restructuring and political reform. Assistance to reduce industrial pollution and improve the environment will be the principle vehicle for improving the quality of life, but we will also support humanitarian activities and improvements in the standard of health care.

For example, while in Poland I was able to visit a rural water supply project operated by a private voluntary organization using P.L. 480 local currency proceeds. This project, and others like it in Poland, are bringing clear benefits to long neglected rural areas. Visiting this project strengthened my conviction that our humanitarian activities must continue alongside our support for the right economic policies. Within only a few months of congressional action earmarking \$4 million in FY 1990 supplemental funds to help address the appalling conditions of children in Romanian institutions, A.I.D. executed grant agreements with U.S. private voluntary organizations and those programs are now being implemented. During November and December 1990, A.I.D. provided influenza inoculations for 165,000 children and older people in Eastern Europe, and we are now beginning to deliver \$10 million of emergency medical supplies.

From my own trip to Eastern Europe, I fully recognize that our bilateral assistance can only be part of the solution to the problems of Eastern Europe. An appropriate resolution of debt issues, for example, can be more significant over the long term. Nonetheless, even after little more than a year, there is evidence that we are having a positive impact and making a difference. For example, with A.I.D. funding, the International Executive Service Corps (IESC) volunteers needed only a few short weeks to provide critical technical advice that enabled the Government of Poland to identify promising firms for privatization and to outline the

assistance they would need to be restructured and make a successful transition to the new economic order. We have assisted the Volunteers in Overseas Cooperative Assistance (VOCA) in providing expertise to help privatize agricultural companies which would otherwise have gone bankrupt, and to develop agri-business joint ventures.

A.I.D. has funded a long-term advisor to the Government of Hungary who has helped organize the State Property Agency (SPA) which is charged with implementing the government's privatization program. This advisor has assisted in formulating the list of priorities for privatization, as well as the criteria for assessing privatization proposals. The program is now moving faster than originally anticipated, and the SPA has been praised for establishing a process which is fair, transparent and efficient. In Hungary we have also provided assistance to the new parliament to help them develop procedures and systems that support the fundamental principle of sharing information and knowledge with all legislators so that laws can be based on informed and thoughtful debate.

To carry out this program, we are increasing our field presence in Eastern Europe, with a planned total of eight new U.S. direct hire staff (four for Poland and one each for Hungary, Czechoslovakia, Bulgaria and Romania) and fourteen new Foreign Service Nationals. We will review this staffing level regularly to

ensure that it is adequate to the task.

#### Enterprise for the Americas

The Administration is requesting a total of \$309,681,000 for the Enterprise for the Americas Initiative. These funds will be used to help reduce the debt burdens of selected Latin American countries.

#### P.L. 480 and Other Food Programs

Funds for the P.L. 480 programs are requested by the U.S. Department of Agriculture and are not the responsibility of this Subcommittee. However, because A.I.D. implements many of these country programs, I would like to summarize for you the proposed level of P.L. 480 activities.

The new farm bill passed by Congress last year reorganized the management of international food assistance. The Department of Agriculture is responsible for Title I loan programs and A.I.D. is responsible for Title II programs (grant-funded private and voluntary organization, World Food Program and emergency operations) and Title III activities (grant-funded government-to-government development programs). A.I.D. also is charged with implementing farmer-to-farmer programs and dollar grants to private voluntary organizations to support their food distribution operations, both financed by P.L. 480. As before, P.L. 480 commodities can be monetized and the proceeds used for

specific development purposes.

The Title II request for FY 1992 will permit a program level of \$627,000,000, compared with \$713,000,000 (after a \$17,000,000 transfer from Title I to Title II) in comparable grants in FY 1991.

The Title III request for FY 1992 will provide a program level of \$309,200,000, compared with an FY 1991 level of \$368,500,000.

#### V. RESPONDING TO THE FUTURE

Mr. Chairman, my purpose today is to address specifically how A.I.D. is responding to these new international challenges, and the resources that will be required to do this.

A. New A.I.D. Approaches. We are now making, and will continue to make, important changes both in our programs and in our way of implementing them. Our own experience with development over the past several decades, and that of other donors, strongly suggests that our ongoing traditional goals -- improving the quality of human life, expanding individual opportunity, reducing poverty, ignorance and malnutrition, improving agricultural productivity -- cannot be attacked effectively by relying solely on traditional approaches.

First, we will place even greater emphasis on sound economic policies and improved governance in developing countries because this is a critical basis for sustained, broad based growth. We now

have some years of experience working on issues of economic policy reform, and I would like to take a moment to share with the Committee some of what we have learned thus far. We have been especially concerned that economic policy reforms not come at the expense of the most vulnerable members of society -- the poor, women, children and disadvantaged minorities.

We recently completed a study on the results and impact of our efforts to support structural adjustment programs in Africa, and the results are significant. The evidence clearly demonstrates that these programs are effective. During the period 1980-87, countries in Africa with reform programs consistently outpaced those that did not pursue reforms. They experienced higher rates of growth of output (2.9 percent compared to 1.0 percent); of agriculture (4.1 percent compared to 1.4 percent); of exports (4.1 percent compared to negative 1.1 percent); and of imports (2.39 percent compared to negative 5.4 percent). The clear and unmistakable conclusion is that adjustment programs do work and that they lead to substantial increases in overall growth, even when external economic events have negative impacts.

Even more important, the available evidence shows that these gains do not come at the expense of the poor. To the contrary, in most cases, food prices (a major expenditure for poor families) have fallen during periods of adjustment. In addition, structural changes have opened the economy, creating new opportunities for

microenterprises and small businesses. Finally, these programs are as likely to be accompanied by increasing public expenditures on health and education as by declining levels.

Second, we are strengthening our efforts to establish a partnership with the U.S. and developing country private sector in advancing investment and economic growth objectives in developing countries. Third, we are giving greater attention to establishing developmentally sound mutually beneficial trade linkages between the U.S. and developing countries in an increasingly integrated world economy. A developing country can reduce poverty and improve the lives of its citizens not only through humanitarian assistance programs, but also through an expanding economy bolstered by growing international trade and investment. Beyond that, as it grows and develops, a developing country can also become an increasingly active market for U.S. goods and services.

As an example, in Africa, working jointly with private firms, A.I.D. has facilitated the finalization of some \$200 million in joint venture projects, with another \$280 million under advanced discussion. In Swaziland, Theragen Pharmaceuticals is now in partnership with a local firm to produce medicines to meet local and regional demands for primary health care. Host country nationals now have medicine at affordable prices, jobs have been produced, foreign exchange is being generated, while at the same time A.I.D. is helping to address one of the most pressing needs of

Africa -- child survival. This joint venture will contribute to sustainable economic growth, trade, and overall improvement in the health sector.

Fourth, we are moving toward increasingly close collaboration and coordination with other donors and multilateral financial institutions. A key element of our new international partnership will be joining with them in shaping basic policies guiding our common efforts, as well as sharing some of the costs involved. Our recent experience suggests that increased bilateral cooperation can be especially productive. For example, we have worked closely with other bilateral donors to address problems of debt arrearages in Guyana and Zambia, thereby clearing the way for international financial institutions which would otherwise not be able to operate there.

Fifth, our economic assistance program must be prepared to deal effectively with new demands for flexibility to respond to rapidly changing circumstances and new, unanticipated needs. As I noted in my earlier remarks about the Development Fund for Africa, the flexibility we enjoy in that program enables us to respond directly and with increasing effectiveness to the needs of the poor. This is why we hope this approach can serve as an example for the way in which funds are authorized and appropriated for the rest of the Agency's activities.

Finally, we are giving increased emphasis to managing for results. With scarce budget resources and growing domestic requirements, we cannot accept an economic assistance program which is unable to demonstrate clear results.

B. Reshaping A.I.D. Programs. A.I.D. has already started to reshape its program to respond to the demands of this new era and to lay the foundations of the new partnership for development. When I became Administrator, it soon became clear that we needed to restate A.I.D.'s basic mission, making it clear that our economic assistance programs are based on America's tradition of international humanitarian concern and generosity combined with an active promotion of our national interests. As we considered how we could reformulate A.I.D.'s continuing commitment to alleviating poverty and supporting development in a changing world, we had the benefit of consultations with the Congress, including this Committee. The result was a new mission statement which says that our program will be guided by six principles:

- o Concern for individuals and the development of their economic and social well-being;
- o Support for free markets and broad-based economic growth;
- o Support for democracy;
- o Encouragement of responsible environmental policies and prudent management of natural resources;
- o Support for lasting solutions to transnational problems;

and,

- o Provision of humanitarian assistance to those who suffer from natural or man-made disasters.

Program management is a closely related issue. Over the last thirty years, A.I.D. has built a record of accomplishment, made possible by the innovative management structure that other bilateral development agencies are now emulating. However, I don't believe that A.I.D. is properly structured to carry out this new mission. That is why we willingly agreed with the Congress last year to have recommendations from a special private sector "Commission on Management of the Agency for International Development."

In addition, over the past several months we have pulled together a number of management studies and instituted a review of our current management structure. Some changes have already been initiated. For example, as a part of our commitment to improved accountability for the use of funds appropriated to A.I.D., we have developed a significantly expanded evaluation capacity and have targeted a number of specific areas (such as microenterprise development) for more intensive data collection and improved examination. Other organizational and management changes are still being considered. However, I want to make clear that we are in the early stages of this review and no final decisions have yet been made.

Our starting point is this: whatever we do, we want to do it well. Once an acceptable management structure is drafted (and we will consult fully and openly with the Congress as we go through this process), we intend to move quickly to implement it.

#### VI. NEW A.I.D. INITIATIVES

As we framed our new initiatives, we had detailed and intensive consultations with private and voluntary organizations over a broad range of activities (such as the environment, microenterprise development, food aid, our programs in Africa, women in development, and poverty indicators). We devoted two days to intensive consultations with a broad spectrum of congressional staff members, and made changes to reflect congressional concerns and suggestions.

We also have been in close contact with other federal agencies and departments, including, among others, the Departments of State, Health and Human Services, Commerce, Treasury, Labor, Defense and Agriculture, the Export-Import Bank, the U.S. Information Agency, the Peace Corps, the Environmental Protection Agency, and the Overseas Private Investment Corporation. In addition, we have had many meetings with international development institutions and other bilateral donors. The experience to date has convinced me that A.I.D. can fulfill its mandate to lead the way on international development, yet be an effective partner with all who will join us.

The prudent and responsible management of natural resources and reduction of environmental pollution will continue to be a major development challenge throughout the world. In May 1990, A.I.D. announced an Environmental Initiative which includes not only funding of specific development programs, but also a commitment to strengthening internal staff resources. A.I.D. is planning three major areas of intervention in this sector. First, we will devote staff and resources to the design and implementation of improved economic and environmental policies. Second, A.I.D. will help build an indigenous public and private sector capacity to promote environmentally sound programs and policies. Finally, we will continue efforts to address priority problem areas in each geographic region (e.g., management of tropical forests and rangelands in Africa; energy efficiency in Asia; urban and industrial pollution in Eastern Europe; coastal zone and watershed management in Latin America).

In addition, in December 1990, A.I.D. launched four other initiatives to refocus and redefine our program for the future. These do not replace our continuing interest in attacking poverty through ongoing programs such as increasing agricultural productivity, providing voluntary family planning, improving health services, addressing specific threats to the health and welfare of children, and strengthening education systems. We also will continue to give a high priority to economic reforms and the emergence of market-oriented economies. However, these initiatives

are designed to address new and critical issues of the 1990s which cut across the development spectrum and which should be reflected in all of our programs and activities.

The purpose of the Family and Development Initiative is to use the family, a sometimes forgotten unit, as a starting point for analysis of what people need, how they use the resources they have, and as an organizing principle for mobilizing the energy of people to create progress. The family plays a principal role in shaping the abilities and desires of individuals to participate in and take advantage of opportunities in society. The objectives of this initiative are to:

1. Strengthen and increase the participation of families in the development process;
2. Identify innovative ways to increase the mobilization of family resources to stimulate growth and social development;
3. Build on successful programs that have focused on the family as the key to the achievement of development objectives;
4. Expand the use of the family as a critical unit of analysis in understanding people's needs, aspirations and patterns of resource use; and,

5. Use the family concept and analytical framework to improve and enrich the results of monitoring, research and evaluation of development impacts.

The Democracy Initiative will support and strengthen local institutions in their efforts to develop democratic systems. Specifically, we will focus A.I.D. experience, skills and resources to:

1. Strengthen democratic institutions, such as effective electoral bodies, informed legislatures and independent judiciaries;
2. Establish the promotion of democracy as a strategic goal over the broad range of A.I.D. programs;
3. Include progress in establishing democracy as a factor in determining allocations of A.I.D. funds; and,
4. Seek legislative authorities to respond quickly to democratic breakthroughs, and create new programming mechanisms to meet unanticipated needs.

Implementing this initiative will be a major challenge, and we intend to work closely with other organizations in tackling this complex problem. There is an enormous opportunity to make

significant contributions to strengthening democratic institutions and promoting democratic practices in the developing world. We recognize that it is incumbent upon us to strengthen A.I.D.'s relationship with other U.S. Government agencies, such as USIA, in order to build on the skills and experience of each agency and to complement each other's strengths. In the same spirit, we will also continue to collaborate with various nongovernmental organizations such as the American Bar Association, the Asia Foundation, the Center for Democracy, the State University of New York at Albany, and the National Endowment for Democracy.

While describing what this initiative will do, it also is important to emphasize what it is not intended to do. A.I.D. is not attempting to export American institutions and impose them on developing countries. It would be unacceptable and ultimately self-defeating to try to recreate exact copies of American institutions, support specific parties or candidates, or manipulate the political process to achieve specific results. Respect for national sovereignty and self-determination is fundamental to the way democracies conduct their foreign affairs and is a cornerstone of U.S. foreign policy.

The objective of the Business and Development Partnership is to engage the American private sector in efforts to develop and sustain free-market principles and broad-based economic growth. A.I.D. believes the U.S. private sector can be an effective vehicle

to reduce poverty and help emerging countries achieve their development objectives. We envision using our economic assistance program for the mutual benefit of both developing countries and the U.S. economy.

The goal of our Strategic Management Initiative is to do fewer things, and to do them very well. We want to achieve a high-quality program and to demonstrate excellence in the stewardship of resources. The near-term objectives are to undertake major evaluations of current programs; tighten financial controls and accounting systems; develop human resources within A.I.D. and improve incentives for excellent performance; and streamline administrative procedures and upgrade information technologies.

Over the long term we intend to focus country program strategies further, asking our field missions to concentrate their energies and limited resources in a fewer number of areas. As an agency A.I.D. will not be cutting any one sector from its portfolio of activities, but we need greater focus at the country level if we are to be effective. The alternative is to dissipate our resources across a broad range of sectors and make little or no difference in any one of them. Finally, we intend to develop a management system emphasizing quality, results-oriented programs and services.

## VII. A NEW FOREIGN ASSISTANCE ACT

It is hard to escape the conclusion that the present Foreign Assistance Act (FAA) no longer serves the best interests of the United States. Conceived in the middle of the Cold War thirty years ago, the current FAA is caught in an old framework which is rapidly becoming less relevant to the future. It has been amended to such an extent that it is now almost five times as long as the original law.

The result is that the current Foreign Assistance Act has too many distinct, and often incompatible objectives -- approximately thirty of them. Even though the A.I.D. program today is quite different from that of the early 1960s, many of the tools we now have are almost that old. Most need sharpening and some need to be redesigned. We now are struggling with a cumbersome economic assistance system which is not well equipped to deal with the international challenges of the 1990s and which no longer binds together the strong domestic constituency required to sustain a strong, active and effective foreign assistance program.

Resolving this problem requires a partnership between the Congress and the Administration and agreement on priority objectives for foreign assistance. The time is right for a restatement of the basic legislative framework for our foreign assistance program. The Administration has been invited by the Chairman of the House Foreign Affairs Committee to work with his

committee on this task and we expect to transmit draft legislation to them once Administration deliberations are completed.

Mr. Chairman and members of the Committee, thank you for this opportunity to present the Administration's FY 1992 budget request for A.I.D. I will be happy to respond to your questions.

Mr. OBEY. Thank you.

Mr. McHugh.

Mr. McHUGH. Thank you very much, Mr. Chairman.

Thank you, Administrator, for being with us. I have a number of questions, some of which I think we will have to submit for the record in terms of time.

But let me ask you a number of things which we have an interest in. One of the areas we have increased our commitment in the past, in fiscal 1991 notably, is the area of development aid for Africa.

#### AID FOR AFRICA

You have recently been to Africa, and you were kind enough to call on my office to report on some of your impressions there. There are a number of things in your testimony which raise questions in my mind. For example, you make reference to structural adjustment loans in the Development Fund for Africa account.

I wonder if you could touch on that briefly. I am concerned because my recollection is that we, in establishing that Fund, did not anticipate, and indeed the report language expressly said that the funds should not be used for structural adjustment loans, perhaps for sectoral loans, but not for the broad structural adjustment loans that traditionally have been provided at times in other programs.

Can you clarify for me why we using funds from the Development Fund for Africa for structural adjustment loans; and if so, to what extent, and is that consistent with what we had originally provided for?

Mr. ROSKENS. Mr. McHugh, I think what we are doing in terms of our utilization of the funds that have been provided to the DFA is totally consistent with what has been legislated.

I do not recall at the moment mentioning use of funds for structural loan purposes, except to say that when we talk about structural adjustment per se, sectorial loans would be part and parcel of that. There maybe a language problem here that is causing this communication difficulty.

Mr. McHUGH. Well, the sectorial loans would be in my mind somewhat more targeted to a particular sector like agriculture, let's say, whereas structural adjustment loans would be loans for the general macro-economic purpose of a particular country. So they have a broader purpose, perhaps more flexible use of funds.

And I think there is a distinction there, and perhaps for the record, we can have that clarified for me, because I do think it was the intent of Congress that this particular Fund, at least, not be used for the macro-economic purpose that the structural adjustment loan would be normally used for.

Mr. ROSKENS. Let me try to make it clearer. All of our programs are sectorial in Africa. We do not use the DFA for macroeconomic, structural adjustment purposes.

Mr. McHUGH. On page 24 of your testimony, you make reference to the success of structural adjustment programs in Africa. You may be referring there to sectorial programs.

Mr. ROSKENS. That is true. In some instances A.I.D.'s sectoral programs are done in conjunction with IMF or World Bank structural adjustment programs.

[The information follows:]

#### STRUCTURAL ADJUSTMENT AND SECTORAL REFORMS

The problem here is a semantic one. The World Bank and the academic community use the term "structural adjustment" as a generic term, referring to all economic policy reform activities, both macroeconomic and sectoral. It was in this sense that I referred to our policy reform programs in the Development Fund for Africa (DFA). These programs are, as is clearly spelled out in the legislation, limited to sectoral level reform programs, programs intended to improve performance in the agricultural or educational or transport sectors, for example. While our sectoral reform programs under the DFA are always consistent with macroeconomic objectives and may have macroeconomic impacts, the reform programs themselves address the problem of improving allocative efficiency at the sectoral level.

Mr. McHUGH. That may explain it; because my staff pointed out to me that there was an article recently written by the chief economist in your Africa Bureau, which among other things raises some cautionary notes about judging the economic success in Africa. I will quote you a paragraph from his article:

Understanding the reality and complexity of African economies requires two things. First, one must regard official statistics about almost all aspects of the economy—GDP, exports, agricultural production, infant mortality rates—cautiously, since they cannot be trusted to be even sketchily accurate.

Second, one must think of African economies as having two separate, but interrelated parts, a formal, official economy and an informal, unofficial, hidden, sometimes illegal, and largely unmeasured economy.

On the face of it, we are trying to assess what is really happening in Africa, as you are, having visited there recently and I am sure within your agency, generally trying to make some reasonable assessment.

Your testimony suggests, I think, on page 24, that there really is some progress, and that is encouraging, and yet we read this article, and it suggests that these statistics, which you refer to or at least you do relate some statistics, should be taken with a grain of salt.

I wonder if, based on your recent trip as well as what you have learned since you have been Administrator, how you reconcile these two things. What is really happening in Africa? We have appropriated significantly larger amounts for this region because of the desperate conditions there, and we have some responsibility on the committee to determine where we are making progress.

But, frankly, when you look at these statistics and then the article which says, don't pay much attention to statistics, it is very hard for us to make a judgment.

Mr. ROSKENS. Mr. McHugh, I could not agree more with you about the ability of various people to make informed judgments about Africa.

One of the problems, I think, is that there is a tendency on the part of many to regard Africa as a nation as opposed to a number of nations. What is the last count? I think 45, something like that. And that creates some difficulty, because we are inclined to generalize. I do the same and I confess that.

But to come more to your point, I think, with respect to our visit to Africa, we noted some improvements. And I think I can say saw very distinct, improvements, which I will cite quickly. We observed various instances of improvements throughout seven countries—I am inclined to say eight, but we were only in the one for two hours.

For example, there are the child survival developments that have occurred through U.S. assistance particularly as it relates to reduction in measles and diarrhea-related deaths. These are very visible improvements that we have helped to achieve.

Again, I can't say that for the whole of Africa. I am talking in terms of some of the countries we have visited.

At the same time, we observed, as you have read and as you know, that although AIDS and the related HIV problems have been dealt with much more sensibly and much more forthrightly now by many people than was the case before, nevertheless, this is an intensifying problem.

I also found a problem that I was not as familiar with and that is that chloroquine resistant malaria is an increasingly urgent problem.

Also, there is continued need in some countries for much more emphasis in family planning. Still, we saw evidence of reduction in population growth in a few countries. I don't want to go on and on belaboring this but there are differences in view points, in part, because people look at one piece as opposed to several pieces of a puzzle.

#### ASSESSING AFRICAN ECONOMIES

Mr. McHUGH. Well, how do we assess these economies in Africa? What kind of standards can we use? You mentioned the success of the child survival fund program in at least some of the countries and that is good; that is a targeted program.

But the larger question in these countries, and you are right to suggest they should be distinguished because there are differences in these countries, but how do we make a judgment about whether we are making any progress in terms of improving the general economic condition in some of these countries, given what your chief economist in the Africa Bureau suggests about statistics and the usual standard we apply in making these judgments?

Mr. ROSKENS. Well, let me say from my own perspective, I think it is important to be very cautious about utilizing statistics per se, because there is not a reliable data base in many respects with regard to Africa. Indeed, one of the things we note in our report to the President regarding that trip is that we are definitely in need of a more stable and reliable data base, as several African representatives told us.

That is not to say that we can't get some evidence of trends or tendencies or apparent movements in a given direction. It is on those bases that I was responding to your earlier question.

We have to be cautious. And you know many members of Congress as well as who have been to Africa and have seen some of what is happening. Our observation is really one of the best pieces

of evidence that we have, and it is on that basis that I am replying in part to your question.

Mr. McHUGH. I have a series of other questions, Mr. Chairman. Perhaps I can come back to them.

Mr. OBEY. Mr. Lewis.

Mr. LEWIS. I have indicated to John that I am going to defer questions at this point. I do want to, in case we don't get back to it, ask a number of questions for the record regarding the Agency's work with the challenge of AIDS and the impact, not only in Africa, but what we are doing with the impact around the rest of the world.

#### SUSTAINABLE DEVELOPMENT

Mr. PORTER. I want to thank my colleague from California for yielding.

Dr. Roskens, thank you for the fine job you are doing at AID. I want to pick up on a line of questions in a little different way than the gentleman from New York.

In 1800, this planet had about a billion people. By 1930, we had two billion people. Now, we have five billion people. Rapid population growth is a concern from a number of different standpoints, one of which is the environment. Some of the programs at AID are designed to provide immediate help.

Child survival is one of them, but we must look to the future and see if we can't improve the economies of developing countries in ways that work for them.

I wonder if you could tell me what mechanism you have at AID that looks at development from a sustainable standpoint. I think the world has learned over the last couple of decades that development is a good goal, but if it is development that simply destroys the environment for the short-term and plays out very quickly, that is not going to help developing countries. They need a sustainable method of preserving their resources.

Mr. ROSKENS. I would like, first, to thank you for your opening comment. And let me say, I am in total accord with your view about how the relationship between development and population and certainly the whole subject of environment come together.

Many people haven't seen that, I regret to say, and I am not talking about A.I.D., just in general.

Now, with respect to our own operation, to take the matter of environment, we have placed a tremendous emphasis on that subject in recent times. I can't speak with any degree of authority about the past, though I don't want it to sound as though I am suggesting it just started when I came. But you understand how I am trying to get at this.

Mr. PORTER. Yes, sir.

Mr. ROSKENS. We announced an initiative last July, which was the second or third month of my tenure, which was designed to emphasize the overriding importance of the environment in virtually everything that we do. Subsequent to that, we have tried very hard to imbue that point of view throughout the agency.

What means have we used?

Well, we will have rather intensive sessions on the environment. I could go on and on. We have added a considerable number of people, which was in part congressionally, if not mandated, certainly authorized. And I think it is fair to say that we are moving in the right direction with respect to taking the environment into account in any project or program that we are about to initiate.

Mr. PORTER. There really are three things working here, one is economic development, one is population, and the other is sustainability.

Economic development, when you look at lesser developing countries, as I look at it, means micro-enterprise.

How do you get people into a position where they can earn their own way in sustainable development in their own countries, and isn't there also the link that if you involve women in the process—perhaps even target women and empower them—that you are likely in the longrun, to get the population restraint that comes with an improved economy and also with the emancipation of women.

One of the places where they are using sustainable development—and you may be well aware of it—is in Ecuador. The population is collecting an agricultural product called Tagua nut, and they are making these nuts into buttons. Tagua is vegetable ivory which, when it dries out, becomes extremely hard. Two U.S. clothing manufacturers, Smith and Hawkin and Patagonia, now use these buttons which provides a market here in the United States for products from Ecuador that perhaps wouldn't otherwise be marketed.

Is there any link between the kinds of sustainable development you are encouraging with some A.I.D. programs and a market in the United States for sale of those kinds of products in the way that this is an example?

Mr. ROSKENS. We don't have what I would call a data bank that would enable me to respond in the context of having direct links in every instance. But the business and development partnership initiative, which we are initiating does indeed address that point—the involvement, to a greater extent, of the private sector in this country relating to other countries.

Mr. PORTER. I think that an obvious requirement of A.I.D.'s success in encouraging sustainable development is having a market for the products produced. I am not encouraging U.S. manufacturers to do things against their interests. In this case, it makes perfect sense for our country and their country, it provides encouragement for micro-enterprise and, therefore, for free enterprise.

The sustainable development of a country, using products that are grown there without tearing down the rain forests helps, I think, in the long run control population.

Mr. ROSKENS. In a P.S. to what you said, we need to do more publicizing of this kind of activity. That is the sort of thing that helps a great deal in terms of public interest and energy in seeing how we can be helpful in other countries as well as helping ourselves.

Mr. LEWIS. John, if I may, let's assume that A.I.D. people are in the field in Ecuador, and someone may have been exposed to this product. I would hope that there was some mechanism for communication coming the other way where we are the catalyst for simu-

lating this kind of discussion in the community, business community and others.

John is raising a very important point.

Mr. ROSKENS. May I say to you, that is precisely the kind of direction in which I hope we can move. In other words, it is a part of my sense of purpose and direction for this agency that we should have that very kind of information coming from the field so that it can be disseminated to useful places.

Mr. LEWIS. I just wonder—excuse me, I think this is important—sometimes we have in service training and education programs for American entrepreneurs because they tend to have blinders on relative to the marketplace in this country. So we train businessmen as to what markets are about.

I wonder if we shouldn't consider some seminar relative to our entrepreneurs for whom the bulb might not automatically turn on?

Mr. ROSKENS. That is an important point. One of the important factors I have learned in the time I have been associated with this agency is that we must increasingly find ways for two-way communication to occur. We have the technology to do that sort of thing, host-country to this country and vice versa on matters like that, as well as official government-to-government communications.

Mr. LEWIS. Thank you.

Mr. PORTER. Thank you, Jerry.

#### WOMEN IN DEVELOPMENT

To conclude this subject, I think it is also important that we take a close look at the situation of women in looking at our programs for sustainable development and micro-enterprise and hopefully in combining both. But if we can target some of these resources specifically to women, I think we do them a great service and eventually the entire world a great service in emancipating them and giving them some control over their own reproductive lives in the long-term sense.

#### ROMANIA: FAMILY PLANNING/CHILD SURVIVAL

Can I ask about the Romanian family planning and child survival funds we put in last year? We put in a million and a half for family planning services in Romania, another million and a half was for child survival at that time. Our hope was that if we were able to supply birth control devices to Romanian women, they would be able to stop relying on abortion as a means of birth control, which was out of control a year ago.

Can you bring us up to date on both those programs?

Mr. ROSKENS. Let me try to do that.

With respect to the funds for family planning, we have a grant of \$1.5 million to the Center for Development and Population Activities.

And that grant is about ready to be signed this month. It will begin to be implemented just after the congressional notification expires. We expect personnel related to that grant to be in Romania by the first of April. So we are, in fact, right on target with that.

Mr. PORTER. And the child survival?

Mr. ROSKENS. That was primarily to assist with orphans. In September of 1990, a \$2 million grant was made to UNICEF, and we also had a \$2 million cooperative agreement with a consortium of PVOs. So those are underway.

#### DEBT FOR NATURE SWAPS

Mr. PORTER. I have some other questions for the record, but can you bring us up-to-date on debt for nature swaps where we have taken a strong position at AID in support of those types of arrangements?

Mr. ROSKENS. Well, I can say that certainly in general I think a debt for nature swap is a splendid arrangement, both in terms of alleviating the debt of a given country and in enhancing the natural resources base that it has. We plan to continue that sort of thing or advance it, if you will, to the extent possible.

I think most every project of which I have heard has been either wholly implemented or is in process. In other words, as far as I know, there isn't any real objection or uncertainty about using that method.

Mr. PORTER. I would encourage you to do this with participation of the NGOs here in the United States and across the world. You can get an awful lot of benefit and the United States ought to be leading these efforts.

A million dollars here and there can really make a difference.

Mr. ROSKENS. Absolutely.

May I add a P.S. to something? I don't want to be appearing silent on a subject that you addressed very aptly. I would just like to say, I agree on the matter of women and development. It is too easy for people to assume, if I don't say something here, and I say this in the best sense of the word, that I am letting it slide by.

It is a subject like the environment. I don't mean it is comparable, but it is in a way. Namely, we must be very sensitive to the importance of women and there is no need for me to repeat what you said, because you said it very aptly. I just want you to know I am in total accord with that.

Mr. PORTER. Thank you, Mr. Chairman.

Mr. OBEY. Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman.

#### DEMOCRATIC INITIATIVES FUNDS FOR PALESTINE

Welcome, again, to the committee. I am interested, particularly in light of the President's speech on the Middle East last night and especially because this committee at the Senate's instigation last year provided funds. I was looking at the report language which indicated that the committee had received a report from the Agency for International Development detailing \$15 million expended in support of its worldwide democratic initiatives program, and that is where the committee commended AID for that program, and encouraged AID to make available under its program not less than \$350,000 for private citizens involving both Israelis and Palestinians. The goal there is to achieve a mutual understanding between the peoples.

I guess my question is, have we done that? Can you give us an update about what is happening?

Mr. ROSKENS. That is a subject on which I am not fully attuned and I will get back to you on that, if that is all right.

[The information follows:]

#### DEMOCRATIC INITIATIVES

Developing a viable mechanism to encourage Israeli-Palestinian dialogue is clearly part of A.I.D.'s Democracy Initiative. We are consulting with State and field posts in Jerusalem and Tel Aviv seeking their views on how to structure such a program. Regrettably, the delicate security and political environment since the beginning of the Gulf crisis has delayed planning. We assure the Committee that A.I.D. is mindful of the Senate Committee's interest and that our interests are mutual.

Mr. COLEMAN. I ask the question because I think that a lot of us think that peace is going to be the answer to many of the issues confronting us as a Nation now in the Middle East, and I think that the role of AID there could certainly be enhanced or strengthened by even what the President said last night.

It seems to me the ball will really be in your court on this issue to a larger extent, perhaps, than some in your own agency may realize.

Mr. McHUGH. Could you yield on that?

I appreciate your raising the question because I have written the Administrator on this earlier. I think the report language, although it was originated in the Senate, reflects my views as well as yours.

\$350,000, assuming there are effective nongovernment organizations on the ground, which I think there are, who can work effectively on a person to person basis between the Palestinian community and the Israeli community, this is a small amount of money, which could conceivably promote the kind of understanding among people on a personal level that could be very beneficial. So I would hope, Dr. Roskens, that you would take a personal interest in this and follow up on Mr. Coleman's suggestion.

I got a letter back to my letter to you from the Assistant Administrator for Legislative Affairs, which was rather noncommittal, saying, in effect, well, we will take a look at it.

That is fair enough, but we really do want you to look at it. It is \$350,000 out of a \$15 billion account in an area so sensitive and vital to our interest; it seems to me it is a responsible thing to do. So I certainly want to second Mr. Coleman's concern.

Thank you.

Mr. COLEMAN. The reason also, as I understand the mission of AID, there are private sector organizations, Palestinian or Israeli, who may play a role there and do the kinds of things that were suggested by that report of the House and Senate Conference.

Mr. ROSKENS. I do recall there are four or five U.S. PBO groups in that area which we are supporting and there may be three indigenous PBO groups working there.

Mr. COLEMAN. I think there are.

Mr. ROSKENS. There should be more information coming to us in the relatively near future as we get further into the planning phase. That program is not one that we are letting just lie idle.

I quite agree that this was relevant in terms of the President's comments last night.

#### ENVIRONMENTAL STAFFING

Mr. COLEMAN. I also wrote a letter last year to your office and received a very detailed response and I am very pleased with the letter with respect to the global environmental concerns in which your agency has played a role.

One paragraph there said that:

A few AID missions have implemented projects in the past couple years, but these efforts are not yet widespread in part because field staff lack knowledge of the application. As a result of our staffing and operating expense operation, we no longer recruit and hire employees.

Let me ask whether or not you would be able to tell us what your agency would need to have both in funding and personnel for you to have the necessary staff trained so that it is not a wasted effort in any arena, but rather something that is effective wherever we are putting forth our concerns and efforts.

Mr. ROSKENS. Again, let me say, I am in total accord with the point of view that you are expressing; namely, that we need to be involved in this whole question of global environment. It is quite clear to me we are going to need additional expertise, some of it in-house full time, some of it perhaps more on a part-time basis, but we are going to need more of it.

I cannot give you specific numbers, but I will try to respond to that in detail.

[The information follows:]

#### ADDITIONAL PERSONNEL AND TRAINING

A.I.D. plans call for adding approximately twenty energy, environmental and natural resources (ENR) specialists each year from FY 1990 to FY 1992. As of March 1991, thirty positions have been established and sixteen have been filled. More positions will be added as country-level ENR initiatives are developed and approved during the coming years.

The emphasis to date has been on hiring contract staff. Twenty-three of the thirty new ENR positions established so far are contract and seven are direct-hire (DH). Our long range intention is to increase the direct-hire ratio as this initiative gathers momentum. In this regard, the Environmental Working Group has recommended hiring fifteen additional employees in FY 1991 and FY 1992 to manage and direct ENR activities throughout the Agency. That recommendation has been approved, but the positions must be established within the overall direct-hire ceilings set for A.I.D. As part of the current reorganization effort, I have asked the workforce planning group to determine the Agency's workforce skills requirements, including ENR personnel. Thus, increased needs for ENR staff are expected to be offset by reductions elsewhere in the workforce.

With regard to training for direct-hire staff, A.I.D. has a contract with the Institute for International Research to design and implement a five-year ENR training agenda. The program is called A.I.D. Staff Strengthening through Environmental Training (ASSET). Under the program, IIR will offer two to three week courses several times each year on environmental impact assessment, environmentally sound development planning and on the environmental dimensions of economic analysis. In addition, IIR will provide seminars, speakers and modules for other A.I.D. training activities, including those designed for Mission Directors and other senior level staff. Approximately 100 A.I.D. employees will attend the environmental training courses yearly, and another 100 are expected to be reached through seminars and ENR training modules in other training programs.

For FY 1992, we have included in our operating expenses budget request the costs for direct-hire ENR employees and for travel of current DH staff to attend ENR

training. Therefore, in response to your query about what more the Congress can do, we ask that you fully fund our FY 1992 OE budget request.

#### MEXICAN STUDENT SCHOLARSHIPS

Mr. COLEMAN. Finally, I know AID provides scholarship assistance to students from Mexico who come to the United States.

I want to commend that program. Can you give us an update, for the record would be fine, concerning your continued efforts in that regard and what costs there may be associated with that.

I think it is a program that all of us, particularly in light of the changes in the Republic of Mexico over the past several years, can envision a United States education playing a role.

If you look at the Salinas administration and others associated with it, from whence they have received their degrees, I think everyone can understand that it is having a positive effect.

[The information follows:]

#### MEXICO TRAINING PROGRAM

A.I.D.'s Training Program in Mexico has served as a means of developing cooperation between Mexico, the U.S. and other Latin nations. The LAC Training Initiatives (LAC-II) Training Program, ending in March 1991, has trained 1,031 Mexicans in long and short-term programs in agriculture, energy, business, forestry, environment, and fisheries.

The Advanced Developing Country Training Project, which replaces LAC-II, targets 360 mid-career professionals and potential leaders for short-term and 75 leaders for long-term academic training in four priority areas: private enterprise, agriculture, administration of justice, and energy technology.

A.I.D. has been very successful in containing training costs. Through special financial arrangements with the University of Texas at El Paso, and several schools of the University of California system, A.I.D. is able to stretch funds in order to make academic training in the U.S. available to a larger number of Mexicans. A.I.D. also facilitates the training in Mexico of A.I.D.-sponsored participants from other Latin American Countries.

The budget level for FY-1991 training is currently \$230,000.

#### ASSISTANCE FOR MEXICO

Mr. COLEMAN. Just one last question; is AID planning to increase its presence in Mexico or its efforts there, particularly in light of the free trade agreement that is being proposed by the President?

Mr. ROSKENS. I don't think it would be fair to say that we are planning to increase our contribution there. We are involved in several projects or programs there at the moment, not extensively.

It is a modest amount in several sectors.

Mr. COLEMAN. I think what I would really be interested in is whether you could provide this committee or me personally with our strategy, particularly regarding Mexico. As the Mexican Minister of Commerce put it at a meeting here in Washington several weeks ago, whether we have an agreement or not, there is one thing that will not change, and that is that the United States and Mexico will be neighbors.

We understand what that plan is, that is critical, so that all of us dealing with our own constituencies can make our case for AID-funding.

Mr. ROSKENS. I will be glad to do that because there, obviously, are items that need resolution in terms of bilateral, social, and economic concerns relating to the two countries.

[The information follows:]

### MEXICO ASSISTANCE STRATEGY

We are currently reviewing our assistance strategy for Mexico over the next five years. The program has been running at an annual level of some \$45 million, including \$30 million in Section 416 food aid. Program objectives are to: (1) promote commercial, scientific and technological linkages conducive to a more open bilateral trade relationship; and (2) seek socio-economic improvements in selected sectors, including population, health and nutrition, narcotics reduction, and environmental protection.

Looking to the future, we see two priorities, both of which contribute to our U.S. Government strategic objectives of broad-based, sustainable economic growth and healthy, evolving democratic societies. These are:

1. consolidate and build upon our current program to support joint Mexican-US efforts in trade liberalization and support key socio-economic improvements; and
2. support Mexican and regional cooperation to advance the Enterprise for the American Initiative and Global Climate Change Program.

These elements of strategy include encouraging Mexico to expand its multilateral role in the region. In recognition of Mexico's leadership, the A.I.D.-Mexico partnership will:

- (a) enhance the private sector's role in development of the region;
- (b) facilitate commercial, scientific and technical exchange between Latin American countries with Mexican participation and leadership whenever appropriate; and
- (c) strengthen the institutional capabilities of entities working to improve regional cooperation, such as the Mexican Institute for Economic Studies, Monterey Technical Institute, Central American Business School, U.S. Private Voluntary Organizations such as Junior Achievement, Conservation International, The Nature Conservancy, Partners for the Americas, Inter-American Foundation, World Wildlife Fund, among other agencies active in Mexico and the region.

A.I.D.-Mexico program will help strengthen cooperation between Latin American countries and Mexico and increase their capacity for joint action to achieve common objectives in areas such as: (1) mutual reduction of trade barriers, both tariff and non-tariff; (2) simplifying procedures to improve trade and investment climates; (3) environmental protection through such means as debt for nature swaps; and (4) other areas of commercial, scientific and technical exchange.

Mr. COLEMAN. Thank you, Mr. Chairman.

### POPULATION GROWTH IN AFRICA

Mr. OBEY. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

I would like to start by merging two themes that my colleagues have raised. The first, African economic statistics, and, the second, population issues, because I was struck by a statement that my staff found by Barber Conable in the preface to the 1990 World Bank Development Report in which our former colleague says: "In sub-Saharan Africa, the expected growth in gross domestic product of 3.7 percent a year, although significantly higher than in 1980's, will not be sufficient to offset the effects of rapid population growth, and the number of poor will increase.

It seems to me in a nutshell, that assessment really does sum up the fact that if we are not prepared to address the population issues, a lot of the good work you are doing just isn't going fast enough to keep up.

I wonder if you could comment on that?

Mr. ROSKENS. In many ways, you are right. We are not able to keep up.

On the other hand, I would not want to leave this room without giving the impression that population growth alleviation is a very important subject in our total portfolio. For that matter, as we look at some of the statistics, and you remember we were talking earlier about being careful about statistics, in some of the 28 countries

that have received the largest amount of population assistance from A.I.D., the average number of children per family has dropped from 6.1 in the mid-1960s to about 4.5 today. And we have some evidence of fertility rates declining dramatically in countries in almost every region we have programs. So, there are some evidences, I think, of possible success on our part.

But the population problem, is not something that will not go away, and we are very much committed to keeping on that track.

#### POPULATION PROGRAM

Mr. GREEN. Last June, before the House floor debate on the Foreign Operations bills, you wrote me to oppose increases in the population account. Most recently, the fiscal year 1992 Presidential request for population of \$228 million falls short of the fiscal year 1991 appropriation level of \$250 million.

So while I appreciate your words on the population issue, it seems to me that you are sending Congress a rather mixed message when you look at the numbers.

Mr. ROSKENS. As a matter of fact, I think I can explain that. That happens to have resulted from the fact that there were congressional earmarks which required us to reduce all of our accounts for FY 1991.

Every functional account was reduced proportionately. That is why we went down from 250. For FY 1992, we are, as you indicated, requesting 228, but that is only DA money. We are planning at least 65 million from the Africa Fund, which would put us up over 292, so we are not going down.

Mr. GREEN. That gets you back to where you were in 1985?

Mr. ROSKENS. But I am just talking about this two-year period. It is not a lack of commitment. It is a problem of funding earmarks as well as meeting our commitments.

#### GAO REPORT ON POPULATION PROGRAM

Mr. GREEN. I am not sure in the end that there is not a distinction between funds and commitment in this business. There was a GAO report in May of last year critical of A.I.D. management of its bilateral family planning assistance.

Have you taken any steps to address the concerns raised in that GAO report?

Mr. ROSKENS. We have taken some steps. I have forgotten what the specifics of the GAO report were now.

Mr. GREEN. Maybe you could give us a response to that for the record.

Mr. ROSKENS. I would be glad to do that.

[The information follows:]

#### GAO REVIEW OF A.I.D.'s POPULATION PROGRAM

The GAO report raised some concerns about the focus, management, coordination and evaluation of A.I.D.'s population program. A.I.D. has been committed to delivering family planning services since 1965, with a clear and consistent strategy based on the premise that providing family planning services is the most appropriate response to the developing world's population problem. A.I.D. is committed to reducing rates of population growth as a means to achieving the broader objective of better social, economic, environmental, and health conditions in the developing world.

Unfortunately, the GAO report equated decentralization of the population program with management diffusion and lack of coordination. Such an assessment fails to recognize the important features of A.I.D.'s decentralized management structure which emphasizes a strong field orientation and the many formal and informal mechanisms that insure effective coordination. These mechanisms include the Population Sector Council which discusses strategy, budget and programming issues; regular and ad hoc meetings between the Office of Population and technical staff in the regional bureaus and the missions; regular staff rotations between Washington and the field; and the Office of Population's resource allocation plan which identifies the Office's country priorities and budget allocations that complement mission programs.

The GAO identified some areas for improvement which A.I.D. has moved quickly to implement. One of the GAO's recommendations concerned strengthening A.I.D.'s population evaluation program. A new evaluation unit has been established in the Office of Population. This unit has been charged with improving understanding of the impact of population assistance and country programs on fertility and family planning behavior; improving the methodological tools for measuring impact; improving use of existing data for population program evaluation; carrying out field evaluation studies; and assisting missions and host country organizations to establish and institutionalize population evaluation systems. A new project is currently under design to carry out these objectives.

The GAO report also recommended establishing a population management information system. There is already a considerable amount of data on population programs and projects. A.I.D. is developing ways to use these data more effectively. The new evaluation program will more effectively analyze available data. Authority to use FY 1991 program funds for operating expense costs will provide improved automation for the population program staff, permitting staff to access and analyze program and project information that is already being collected.

#### FUNDING UNFPA

**Mr. GREEN.** Could you clarify for the subcommittee the precise conditions under which the A.I.D. would resume the contributions to the UNFPA?

Last year Senator Hatfield and I had a meeting with staff from the White House who are involved in setting policy on UNFPA, and when I asked the White House staff what is it that the UNFPA does in China that is so terrible, I was told they assist the Chinese Government in developing demographic statistics. At that point, we were in the midst of the census and given the problems we were having in our own county, I suggested maybe we ought to hire the UNFPA to help us develop demographic statistics.

But, if that is the problem, what has to be done to overcome that? Because generally the UNFPA is rated as a very good performer.

**Mr. ROSKENS.** We have had \$10 million on hold for the UNFPA. We have not made a decision regarding what to do with that, although I am prepared to do that fairly soon. It probably is going to be disseminated elsewhere, because our staff has evidence that the Chinese are still enforcing compelled abortion. Therefore, we are not able to contribute to that, nor will we.

**Mr. GREEN.** Even if the UNFPA funding has nothing to do with that program?

**Mr. ROSKENS.** I am talking about \$10 million that would go to them for that purpose.

**Mr. GREEN.** I understand that, but my understanding from the White House is that what UNFPA is doing in China is assisting the Chinese Government in developing demographic statistics, for example, telling them the birth rate is higher in Salt Lake City than in New York City. And I really don't see any close relation-

ship there with compelled abortions and I am wondering, what is it that would have to happen on the part of UNFPA so that we would fund them?

Mr. ROSKENS. I think what would be necessary from our perspective is absolute assurance that there is no commingling of funds, if you will.

Mr. GREEN. There has been no evidence that there is commingling of funds, as far as I am aware.

Mr. ROSKENS. Let me say this. You well know that this is a subject of considerable disagreement and it has been, for some time. There has been a considerable amount of study relating to China and the UNFPA. We have taken the position which we have taken on the basis of evidence that we think suggests that the whole matter is not clear with respect to where the funds would go. Consequently, we are holding to that policy.

Mr. GREEN. Could I ask you for the record to spell out in greater detail what you think it is that the UNFPA does that causes you trouble?

Mr. ROSKENS. I will be glad to do that.

[The information follows:]

#### UNFPA ACTIVITIES IN CHINA

I think it is necessary to clarify for the record any misunderstanding about commingling funds that might have developed during my testimony before the Subcommittee. Segregating a United States contribution to UNFPA from funds it uses in China is not acceptable. The United States would still be associated with a program of coercive abortion because funds are fungible, and in addition, a segregated account would not be lawful under the Kemp-Kasten amendment.

The United Nations Population Fund (UNFPA) is not eligible for funding for A.I.D. because the Kemp-Kasten amendment prohibits United States assistance to an organization that supports or participates in the management of a program of coercive abortion or involuntary sterilization. Although UNFPA does not directly finance abortion or coercion, this restriction applies to UNFPA because of the management assistance, including training, it provides to China.

In order to explain why the United States is troubled by the support UNFPA provides to China, it is necessary first to understand the China program. The fundamental problems in China are its one-child policy and the manner in which it is implemented. The Government sets targets for authorized births that are apportioned down to the local level and, ultimately, to each work unit. These targets often are treated as quotas by family planning workers and other officials whose performance is reinforced by a system of rewards for success and punishment for failure. Special benefits are provided to couples who comply with policy, and economic and other penalties are imposed on those who do not. This system has set in place a program for population control that has resulted in a wide variety of abuses, including coerced abortion and involuntary sterilization.

To set these targets, monitor compliance with them, and enforce the one-child policy, China needs to obtain and analyze demographic information effectively. The quality and amount of management and training assistance UNFPA has provided to China has had a significant impact on China's ability to obtain and analyze the information China needs for these purposes. While China has been implementing this coercive program, UNFPA helped China develop the modern capability to establish and monitor compliance with authorized birth targets, including assistance and support for computer hardware, management information systems, the State Family Planning Commission and other governmental agencies responsible for policy development and implementation of China's population program, institutions to make China self-sufficient in training of demographers, basic and clinical research (such as studies of reproductive epidemiology and social, behavioral and psycho-social aspects of contraceptive use), and training for family planning workers who implement China's abusive program which results in coerced abortion and involuntary sterilization.

In 1985, the A.I.D. Administrator concluded on behalf of the President that the Kemp-Kasten amendment applies to UNFPA because of the management assistance it provides to China, and this determination was sustained in the federal courts. Since then, there has not been significant change either in the China program or in UNFPA's support for it that would justify A.I.D.'s making a contribution to UNFPA. In fact, the President vetoed the 1990 foreign assistance appropriations bill shortly after UNFPA earmarked for UNFPA and its new program is not significantly different from the previous two. The bill would have required UNFPA to place A.I.D. funds in a segregated account which could not be used for China, but funds are fungible and the President believed this would not be an effective way to express United States concern about coercion in China.

I certainly agree with the President's decision.

#### IMPLEMENTATION OF MEXICO CITY POLICY

Mr. GREEN. In the same general area, you had a study on the Mexico City policy implementation within your agency. It was Occasional Paper, Number 5, published November 21, 1991, population technical assistance project, and the paper basically found that the only problem you were having implementing the policy was over cautiousness on the part of AID staff in the field. As a result of this, things that are not banned by the Mexico City policy are nonetheless not being done because of excessive concern and fear about the Mexico City policy. There is a four-point recommendation to AID as to how to deal with that problem outlined in the report.

The first one of those recommendations was that the standard clause could be revised to clarify what is permitted in important areas such as research in the treatment of septic abortion cases.

Have you done anything to implement those recommendations?

Mr. ROSKENS. I am not familiar with the report that you are quoting. When I say "familiar," I don't remember it at the moment.

Mr. GREEN. If you could, for the record—

Mr. ROSKENS. I would be very glad to do that. This is a subject on which we should be very clear.

[The information follows:]

#### MEXICO CITY POLICY IMPLEMENTATION STUDY

The "Mexico City Policy Implementation Study" (John Blane, Matthew Friedman, POPTECH Occasional Paper No. 5, November 1990) found that Cooperating Agencies implementing the policy guidelines are taking reasonable steps to verify that their subgrantees are in compliance with the policy. All of the subprojects reviewed—49 subprojects in 6 countries—were found to be in compliance with the standard clauses implementing the policy. The team also found that most of the subprojects visited have not been significantly affected by the policy.

However, the team reported anecdotal evidence that several project managers in foreign countries have reacted to the requirements in an over-cautious way by applying restrictions to activities permitted under the policy. Based on this anecdotal evidence, the team observed that imperfect understanding of the policy at local levels and excessive caution in complying with the policy's restrictions could hamper people's ability to obtain family planning and health services. This led the team to suggest that A.I.D. revise the standard clauses implementing the Mexico City Policy to clarify what is permitted under the policy; state that if a violation occurred, subgrantees would be given an opportunity to correct the problem before the agreement would be terminated.

In addition, the team suggested that cooperating agencies provide more help to subgrantees to understand the requirements of their subagreements, and that a short publication providing examples of what is and is not permitted under the standard clause be prepared.

A.I.D. is taking steps to implement these suggested changes. I have asked the General Counsel to start the process by developing amendments to the standard

clauses clarifying their meaning. After this is done, A.I.D. will instruct cooperating agencies to work more closely with their foreign subgrantees to ensure that they fully understand A.I.D.'s procedures for implementing the Mexico City Policy.

Mr. GREEN. I have some questions on energy I would like to submit for the record out of deference to Mr. Gray.

Mr. GRAY. It is quite all right.

Mr. OBEY. Mr. Gray.

Mr. GRAY. Thank you, Mr. Chairman.

It is good to see you again. I have about four concerns.

#### NATIONAL ENDOWMENT FOR DEMOCRACY AND SOUTH AFRICA

The first one is that in the submittal for fiscal year 1990, this committee appropriated \$10 million to assist the victims toward a nonracial democracy. The language specifically said that the money should be sent through the National Endowment for Democracy the South African Council of Churches and other organizations. That was a bipartisan recommendation made by myself and Mr. Gallo, after we had returned from an extensive trip to South Africa to meet with Mandela and President de Klerk following the release of Nelson Mandela.

Could you brief us on the status of that \$10 million?

Mr. ROSKENS. The staff had begun discussions regarding how to implement that fund. We were moving in directions that we discovered were not going to be satisfactory to many of you. So we pulled back. We are taking a second look at how those funds might best be used more in accord with what you are committing on.

Mr. GRAY. So, as of this date, Dr. Roskens, we have not allocated those funds to any of the antiapartheid groups in South Africa to help facilitate moving them to the negotiating table?

Mr. ROSKENS. At this point we have not allocated any, that is correct.

Mr. GRAY. I was very concerned and disturbed to learn that the National Endowment for Democracy has been operating under the assumption that this \$10 million was to go to them as a grant, ensuring them to then subcontract based on their own judgment.

I must say that that was never the intent. That \$10 million was to provide assistance to antiapartheid groups in South Africa to prepare them for negotiations. That \$10 million was supposed to provide computers, typewriters, et cetera—the kind of equipment that could be useful.

I am disturbed, therefore Dr. Roskens, by reports that NED has been assuming this \$10 million was for programs, to be determined by them. Also, in your notification, the South African Council of Churches has been totally excluded, despite the fact that the language of the legislation clearly says both NED and SECC are to disburse the funds in question.

What is even more disturbing was the fact that the National Endowment for Democracy, I am told, let it be known that they were prepared to use the \$10 million for such "wonderful" items as American-organized on "democracy" and "pluralism" conferences.

I want to say very clearly that that was not the legislative intent of this measure. I don't think the South Africans, either the Majority or the Minority, white or black, needs Carnegie Endowment for

International Peace or any other U.S. organization sending over some experts to tell them how to establish a democracy.

What that money was intended for was to provide groups like Mr. LEWIS. I am not sure about the blacks, but I can talk about the whites, if you like.

Mr. GRAY. Well, that money was intended to provide computer and other equipment to assist anti-apartheid groups in the attempts to remotely approach equal footing in their dealings with the government.

I have U.S.-based organizations come to my office to ask for my support for their plans to go to South Africa to conduct symposiums on freedom and democracy. I have had to make it clear that my support could not be counted on.

Mr. OBEY. If the gentleman would yield, I would simply like to back up what Mr. Gray is saying.

In my judgment, the National Endowment for Democracy is a runaway operation. They are trying to take advantage of the fact that they have an attractive name to build an empire to the exclusion of everything else, including congressional direction.

It seems to me Mr. Gray's words ought to be heeded, because if they are not, they will have a considerably smaller budget to deal with next year than this year.

Mr. GRAY. So I would hope you would get on top of this, Dr. Roskens. NED is simply to be a "pass-through, along with SACC. They are to be channels through which these resources flow to those anti-apartheid groups that would eventually be at the table.

The Pan Africanist Congress, the Black Consciousness movement, and others were the intended recipients. This \$10mm is not to be a pot of gold for American policy centers and universities to go over and instruct folk on freedom. I—

But please see if we can get that money out Dr. Roskens. It is now, I guess, almost 12 months since we returned from our trip. This \$10mm represents a *bipartisan* recommendation coming from Dean Gallo, who is no longer on this committee and Jim McCrery on the other side. Yet these monies still have not been disbursed.

The reason I am told—

Mr. LEWIS. I was not on that trip and I understand the thrust of the gentleman's concern, and I agree with that concern. I know that you don't intend that there be no oversight of those monies; as they flow for obviously any group receiving the funds you want some reasonable assurance the funds will be used for our purpose as well.

But having said that, I would hope that when the Congress designates a specific interest, that there would be a response that is efficient and hopefully directed towards the purpose intended.

Mr. GRAY. Well, I am also aware that NED is opposed to being required to enter into any cooperative agreement with State and A.I.D.

I am informed that and advised that their preference is to have a straight grant since under that scenario, there would be no oversight.

I wrote the legislation and the legislative intent was always that oversight be an A.I.D. responsibility.

That money should have been spent by now. It has been almost a year.

And I thank the gentleman for his comments.

Let me—

Mr. ROSKENS. May I just insert a comment quickly, Mr. Gray. I want to express my appreciation to you for clarifying this matter and helping some of us see it a little more clearly. Even in an earlier conversation with you and in part, as a result of that, we are in better shape with respect to responding. I can assure you in the future our intention will be to respond with greater alacrity.

Mr. GRAY. I just want to see the money moved. I want to make it clear that A.I.D. has a responsibility. NED is a pass-through. This is not the program money or grant money for them at all.

Mr. ROSKENS. We understand.

#### ASSISTANCE TO AFRICA

Mr. GRAY. In the fiscal year 1991, U.S. Foreign Assistance to Africa, was increased rather substantially, thanks to the bipartisan work of the committee.

Could you explain to us what the impact of this program has been in A.I.D.'s program activities in subsaharan Africa?

Mr. ROSKENS. It has made a great difference. We have been able to do more than we were able to do before. I think it doesn't have to be said here that Africa is a continent in which there are countries that need considerable amounts of project assistance in the areas of population, child survival, education, AIDS, et cetera, some of which problems I saw on a recent trip. The increase which was provided was appreciated.

Now, it could be asked, are you going to be able to use the \$800 million.

Mr. GRAY. That was the next question.

Mr. ROSKENS. I did anticipate that question.

Mr. GRAY. You are a good anticipator.

Mr. ROSKENS. Let me say quickly that we hope we will be able to do so. But the Persian Gulf problem, which has necessitated bringing some people out from Tanzania, for example, as you well know. There may be somewhat of a short-term problem, but it is not a problem of inability to expend the funds if all conditions were right.

Do you understand what I am saying?

Mr. GRAY. Yes.

Mr. ROSKENS. I don't want to give any impression that we are unappreciative of the funding or unwilling to try to expend it. But there are some problems that intervene.

Mr. GRAY. Is one of those problems the fact that there have been cutbacks in staff in the Africa department?

Mr. ROSKENS. I don't think there have been any cutbacks of any significance. Let me ask to be sure.

Mr. GRAY. It may be helpful in order to improve the distribution of that amount of money, and since it is a rather sizable increase, that the staff is in place to help facilitate the distribution of those resources.

There are those of us who are very concerned that concomitant with a sizeable increase in the foreign assistance budget for Africa there have been significant staff reductions. I am sure you'll agree that this would make it very difficult to effectively allocate these increased funds.

Mr. ROSKENS. I don't think that was the case. I didn't mean to interrupt. I am sorry.

Mr. GRAY. I was saying that staff cutbacks will create a problem if we're trying to implement an expanded Africa program.

Mr. ROSKENS. Let me say that I have absolutely no disagreement whatsoever.

Mr. GRAY. Finally, one last question, and I will submit my other questions for the record.

#### AFRICA BUREAU'S MARKET DEVELOPMENT AND INVESTMENT GROUP

Regarding the Africa Bureau's market development and investment group, could you give the subcommittee any information on the extent to which historically black colleges and universities have been utilized in research and consulting and other capacities in that Bureau's marketing and development investing group?

Mr. ROSKENS. I can't give you a detailed response as to how much historically black institutions may have been involved in that particular project.

I do know we are very conscious of keeping them involved in a number of programs. In fact, we have established floors that will assure their continued role in programs.

But I will be glad to get you the specific information on that.

[The information follows:]

#### MARKET DEVELOPMENT AND INVESTMENT GROUP

The majority of work carried out by the Africa Bureau's Market Development and Investment group is implemented by disadvantaged minority small businesses selected under the Section 8 (a) set aside program. Its core project is being implemented for the most part by Labat-Anderson International, a firm that was eligible under the Section 8 (a) set aside program when it was selected but that has just graduated from the program. There is a program being finalized at this time with Howard University to assist in the development of venture capital in Africa. The Market Development and Investment group's work in this area is carried out by Harvey & Company, a black-owned company selected under the Section 8 (a) set aside program.

Mr. GRAY. Could you get me information on the Bureau's market development and investment group? I know AID has been doing a very good job in most cases in HBCUs, but I am concerned that in this one particular area HBCUs could be better utilized. I would like to see HBCU's be better utilized.

So could you give us some figures?

[The information follows:]

#### MARKET DEVELOPMENT AND INVESTMENT GROUP

The majority of research and consulting work commissioned by the Africa Bureau is undertaken by units other than the Market Development and Investment group. That group works directly with the private sector in Africa and in the United States. The Market Development and Investment group has done very little work to date with any universities. At this time, negotiations are under way to work with Howard University on the promotion of venture capital in Africa.

Mr. OBEY. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

I formally welcome Dr. Roskens.

About the earlier question I was going to submit for the record, I would like to have for our record a rather detailed description, if you would, of A.I.D.'s work with the challenge of the disease AIDS, not just in terms of African countries, but other parts of the world where your work is impacted.

In 1983, I carried a resolution calling for a blue ribbon commission to coordinate domestically information, educational efforts, et cetera, needs regarding this disease.

At a point in time, Democratic and Republican colleagues who I asked to cosponsor that resolution were saying, you want to do what? And since that time we have learned one more time that the world is a shrinking world and challenges like this are not likely set aside for convenient communities or countries.

If you would describe for me at any point some of those efforts and projects that are having success, particularly in Africa, I would appreciate it.

But beyond that, I would like to know if there is a major effort that involves multiagency coordination, an effort to take information as developed, experienced developed in places like Africa, communicating that to the challenges we face here at home and in other parts of the world.

Mr. ROSKENS. Yes, let me respond to the last part first, if I may.

The multiagency aspect would, of course, involve some of the United Nations agencies. There are very direct linkages, for example, with the World Health Organization, with respect to AIDS.

Demography is very important, that is to say, statistical evidence to the best of our ability to generate it, among all the groups involved. There is cooperative motion in that regard.

I rather imagine that it would not be out of order for us—and I am not talking A.I.D. now, I am talking about us as a country or as a government—to press even harder for more participation and coordination with other worldwide agencies, other countries, even other donor countries, in addressing this problem so we are not moving in a number of directions and sometimes overriding each other.

Now, what was the first part of your question?

Mr. LEWIS. I specifically wanted to know what kinds of success you are having in your experiences in African countries.

Mr. ROSKENS. I was very impressed to discover unique kinds of communication or educational techniques that are being employed in Africa. We did not necessarily teach them this.

I am just saying our resources enabled them to do some of those things. For example, as you well know, in some parts of Africa there is a high rate of illiteracy. To communicate through the written word is not possible. Of course, they don't have television, so that is not very useful.

What we saw, for example, were some dramatic performances, literal drama, families instructed through a dramatic play. We saw that type of demonstration two or three times. Performers go out

into the villages with a play which is very explicit and leaves nothing to the imagination. They are communicating to people the tremendous problems and difficulties with AIDS that exist and, more importantly, ways to prevent its further advancement—how to use condoms, et cetera.

All of this is explicitly done through drama. I think it is something that we haven't thought of in this country, so far as I know, and I give them great credit for moving in that direction.

Mr. LEWIS. One of my concerns is that this challenge is a very real worldwide challenge and it is going to explode in our own country in a way that a lot of people, I believe, are not ready for, and there is a tendency under those circumstances for the public to react in fear and public policy that is developed is not necessarily the best policy.

Experiences in other countries where they have really faced the devastating impact of this disease would be helpful to us if we understand the value of sharing information and insist upon mechanisms for communicating it.

For example, there is broad discussion currently regarding what I consider to be pretty strong policy change or suggestion for change regarding Immigration services as it relates to this issue.

Are people concerned about almost knee-jerk reaction to this shrinking world? I would hope that A.I.D. would force itself to become a catalyst for this kind of sharing and communication, et cetera, I mean, to the highest levels of our own government.

One other question, Mr. Chairman, if I may, and if you supplement that for the record—

Mr. ROSKENS. I would be glad to. I think that is a very important topic.

[The information follows:]

#### A.I.D. AND INTERNATIONAL AIDS EFFORTS

A.I.D.'s involvement in international efforts to prevent and control AIDS began in 1985. Although AIDS and HIV infection are found in all regions, Africa continues to be the continent most affected. As of mid-1990, a very conservative estimate of total HIV infections in Africa was over 5 million as reported by the World Health Organization's Global Programme on AIDS (WHO/GPA). In the absence of a vaccine against the virus, programs that promote behavioral change are the best tools available to prevent the spread of HIV infection. The goal of AIDS education programs is to help people translate information about AIDS into the adoption of the safest protective behavior possible.

Because of its extensive, successful experience with information, education, communications and social marketing in health, nutrition and population programs, A.I.D. has given these activities prominence in its bilateral AIDS prevention and control strategy. Examples of programs currently underway in African countries are:

In less than 13 months, an A.I.D. pilot social marketing project has succeeded in selling more condoms than had been distributed in the history of contraceptive service delivery in Zaire. Population Services International, a U.S.-based private voluntary organization, is creating a social marketing structure to sell condoms donated by A.I.D. at a subsidized price through existing commercial outlets. Nation-wide, 80 percent of about 5,000 targeted commercial outlets participate in the project. In metropolitan Kinshasa, 90 percent of the pharmacies are part of this project. Total sales have increased steadily from 1 million in 1988 to 8 million sold in 1990. For 1991, sales of 15 million condoms are projected.

An educational play written and performed by health care personnel appeared on national television and has been performed in over 50 locations throughout Zambia. It is part of an AIDS control program in Zambia aimed at reducing the incidence of

sexually transmitted diseases (STDs) and HIV by sponsoring sex education activities in high schools and 45 STD clinics located throughout the country.

To develop appropriate materials for educating Mali students in different age groups about HIV prevention, focus group sessions were held with adolescents to learn about their differing levels of sexual awareness, AIDS awareness and their responses to different types of educational materials.

Next, a two-week conference was convened with educators, religious leaders, artists, writers and students to get their input to the design of materials. A teachers' guide has been drafted and work has begun on a student handbook.

A.I.D. is able to capitalize on its own experience and that of our cooperating agencies in carrying out IEC and social marketing programs for AIDS prevention. While successful experience in promoting nutrition, oral rehydration, immunizations, and family planning are not directly applicable to AIDS prevention and control, the underlying principles and basic approaches we have applied are relevant. The Agency's prominence in the field internationally was recognized early by WHO/GPA in requesting the detail of A.I.D.'s direct-hire expert in communications for a two year period. Since returning to A.I.D., he has been devoting considerable time and effort to AIDS communication activities. A.I.D. does not have all the answers in promoting changes in the behaviors that spread HIV; but if successful experience in related areas is an indicator of potential success, then there is hope that A.I.D. will begin to see the results of our IEC efforts in this difficult area also.

If and when we do, the Agency is in a position to share lessons learned with international and domestic agencies involved in AIDS prevention and control. A.I.D. is involved in coordination efforts on both the international and domestic levels. A.I.D. played a catalytic role in establishing the World Health Organization's Global Programme on AIDS (WHO/GPA) in 1988 and continues to work closely with them. WHO/GPA provides global leadership and coordination in the development of policies, strategies, and guidelines for international and national AIDS prevention and control programs.

Domestically, A.I.D. participates in two key U.S. Government bodies concerned with AIDS prevention and control: the Federal Coordinating Committee on the HIV Epidemic, which was convened by the U.S. Public Health Service, and the Inter-agency Working Group (IWG) on International Aspects of AIDS, convened by the Department of State. A.I.D. coordinates the international activities of U.S. government agencies in HIV-related prevention and control by chairing the International Subcommittee of the Federal Coordinating Committee on the HIV Epidemic. The subcommittee meets regularly to review the international AIDS activities and related research of all agencies, including the Departments of Defense, Health and Human Services, and State. A.I.D. is also a member of the IWG subcommittee on AIDS Models and Methods, which coordinates the efforts of U.S. Government agencies to monitor the spread of HIV infection, assesses its impact on development, and coordinates the AIDS modeling efforts of U.S. Government agencies. Recently, a U.S. Government AIDS coordinator has been designated in each country abroad.

These mechanisms have fostered information sharing and a high level of inter-agency cooperation and collaboration.

#### ELIMINATING FUNCTIONAL ACCOUNTS

**Mr. LEWIS.** The President's speech mentioned a foreign policy free of micro-management. I understand you have a promise to proposal designed to move development assistance in that direction by eliminating the functional accounts. For example, money flows essentially to African countries, but I am concerned about developing countries and flexibility in programs in places like Latin America.

**Mr. ROSKENS.** A proposal is underway for submission to the Congress which would revise the Foreign Assistance Act. One of its major themes is the elimination of functional accounts, so that we would have greater flexibility to respond in a more timely fashion in instances where such responses would be in order.

These are the general themes that permeate the Administration's rewrite, and I hope that this will be available to send up within a very few days.

Mr. LEWIS. We would be very much interested in those proposals. I feel there is a great need, especially in Latin countries, for a good deal more flexibility so that people working in the field in small countries can respond in efficient and effective fashion. So if you would help personalize that, I would appreciate it.

Mr. ROSKENS. We are very much in tune with your point of view.

#### CHARLES DARWIN CENTER

Mr. LEWIS. Tagging on to Bill Gray's discussion last year in conference, we did earmark some funds, a small amount of funds for Charles Darwin's center in the Galapagos. I don't expect you to have details regarding that, but if you could personalize it, I would like to know what A.I.D. needs for the people there, so that we can maybe even use the telephone, since the mails are so slow these days, to follow Mr. Gray's suggestion and expedite the process.

Mr. ROSKENS. Let me tell you just two or three things about it.

Number one, we are in total agreement with the program that you are addressing. Second, we have discussed the program with the institute in question just within the last month and a half. A proposal is being designed for this—for the mission in Ecuador to implement. Furthermore, money has been transferred for this. So it is a project that is moving.

But we can give you great detail than I am able to give you today.

[The information follows:]

#### CHARLES DARWIN STATION IN THE GALAPAGOS

A.I.D. is very supportive of the Charles Darwin Research Station. This center was established in 1961, and has encouraged world-class scientists to do research there, while making use of their expertise to develop wise management programs to preserve and protect these unique islands. In 1986 A.I.D. provided \$150,000 to the Station in support of its efforts in the Galapagos.

The A.I.D. Mission in Ecuador has begun discussions with the Charles Darwin Foundation for a \$100,000 grant to the Station this year that will be matched by the Foundation. The Foundation will submit the proposal following their annual meeting in mid-April. The proposal will include a strong element of community participation and education, a focus that A.I.D. feels is essential for any successful environmental progress. As soon as this proposal is received and reviewed, the Mission will proceed with the arrangements to support the Station's important work.

#### MEXICO

Mr. LEWIS. If you would follow through on another subject area that would be a tag to Mr. Coleman's discussion, I too am very much concerned about Mexico and Latin America, the bilateral problem with Mexico is obvious, but if you could have your people add for the record what kinds of program design we have for Latin America in the next five year planning period, what is working, what is not working, if indeed they could accept a number of those programs, I would appreciate it very much.

Mr. ROSKENS. We would be delighted to do that.

[The information follows:]

#### MEXICO ASSISTANCE STRATEGY

We are currently reviewing our assistance strategy for Mexico over the next five years. The program has been running at an annual level of some \$45 million, in-

cluding \$30 million in Section 416 food aid. Program objectives are to: 1) promote commercial, scientific and technological linkages conducive to a more open bilateral trade relationship; and 2) seek socio-economic improvements in selected sectors, including population, health and nutrition, narcotics reduction, and environmental protection.

Looking to the future, we see two priorities, both of which contribute to our U.S. Government strategic objectives of broad-based, sustainable economic growth and healthy, evolving democratic societies. These are:

1. consolidate and build upon our current program to support joint Mexican-US efforts in trade liberalization and support key socio-economic improvements; and
2. support Mexican and regional cooperation to advance the Enterprise for the Americas Initiative and Global Climate Change Program.

These elements of strategy include encouraging Mexico to expand its multilateral role in the region. In recognition of Mexico's leadership, the A.I.D.-Mexico partnership will:

- (a) enhance the private sector's role in development of the region;
- (b) facilitate commercial, scientific and technical exchange between Latin American countries with Mexican participation and leadership whenever appropriate; and
- (c) strengthen the institutional capabilities of entities working to improve regional cooperation, such as the Mexican Institute for Economic Studies, Mcnterey Technical Institute, Central American Business School, U.S. Private Voluntary Organizations such as Junior Achievement, Conservation International, The Nature Conservancy, Partners for the Americas, Inter-American Foundation, World Wildlife Fund, among other agencies active in Mexico and the region.

A.I.D.-Mexico program will help strengthen cooperation between Latin American countries and Mexico and increase their capacity for joint action to achieve common objectives in areas such as: 1. mutual reduction of trade barriers, both tariff and non-tariff; 2. simplifying procedures to improve trade and investment climates; 3. environmental protection through such means as debt for nature swaps; and 4. other areas of commercial, scientific and technical exchange.

#### MICRO-MANAGEMENT

Mr. OBEY. Before yielding to Mr. Smith, I should simply point out in light of the President's comments on micro-management, that if this committee followed normal procedure, the President would have no flexibility, because under normal procedure, the President sends up a request to expend money in a certain way and if we approve it, it can be expended that way and only that way.

He has flexibility only because this committee has through the years given him the courtesy of being able to move money around so long as he does so on a consolidated basis.

So if the President really wants us to quit micro-managing, we can do that. What that means is that he will be bound to expend money exactly the way he tells Congress he is going to expend it.

Wouldn't that be terrible. The Committee staff has pointed out the Administration made several hundred requests last year for changes in the way they wanted to allocate money. So I would suggest that if the President really wants us to get out of micro-managing, he ought to get into the business of sending down a budget that he really means in the first place.

Mr. ROSKENS. Could I make—

Mr. OBEY. Which we have not yet received.

The Administration and the President start from a fundamental misstatement or misunderstanding of the problem, because the Constitution says that money is supposed to be spent in accordance with the appropriation dictated by the Congress. It doesn't say Congress is supposed to give a blank check to the President. And so the arrangement—

Mr. LEWIS. There is a big gap between that and micro-managing.

Mr. OBEY. We will be happy to end our micro-management if the President is willing to stick with the budget he sends up here in the first place, which would eliminate some 700 changes which he has requested.

Mr. ROSKENS. On second hand, I would like it placed in the record that I complimented you.

#### NARCOTICS PROGRAMS IN SOUTH AMERICA

Mr. SMITH of Florida. Mr. Roskens, up until this year, I was on the other side of authorizations with AID. I dealt with AID in a slightly different fashion.

I know that AID has been involved with some somewhat new programs. First of all, I would like your overall assessment, if you can, on the efficacy of some of the drug programs that are in foreign countries, especially in the South American and Andean area. I would like to know, for instance, if any dollars you have drawn out of the Andean initiative have been put into use in Bolivia or Colombia, and I would also like to talk about the things you have instituted in Laos.

Mr. ROSKENS. We would like to use funds to strengthen the legitimate economies of the Andean nations to enable them to overcome the destabilizing effects of eliminating drug as a major income earner, which obviously has been part of the problem. We have been and will be distributing some funds for those purposes in the very near future. We are looking at all the investment possibilities for cocoa-growing areas. We have encountered problems in a number of countries. We are trying to find something that is sustainable and that will, in fact, be not only a solution to the problem that we are talking about here, but a solution for the procurers.

In fiscal year 1991, we are going to provide almost \$5 million for the Andean countries for mobilizing public opinion and political will to try to get people to see the wisdom of avoiding cocaine production and trafficking.

#### NARCOTICS PROGRAMS AND USIA

Mr. SMITH of Florida. Let me stop you there.

First of all, with reference to what you just said, USIA had a program for a number of years we have been funding which already does that. They have been using drug education programs at the local level to prevent people from using drugs or getting in the business of growing or trafficking drugs.

Why does AID want to get into the program that USIA has already been in for a number of years?

Mr. ROSKENS. I do not know, but I would be glad to check that out for you.

[The information follows:]

#### A.I.D.'s NARCOTICS AWARENESS PROGRAMS AND USIA PROGRAMS

A.I.D. and USIA both have drug awareness programs in developing countries which are both significantly different and complementary. USIA supports the USG drug control strategy through providing information to local media outlets and working with journalists and other media contacts who are influential. Also, USIA works with A.I.D.-assisted local institutions on the dissemination of anti-drug infor-

mation, often supplying them with U.S. pamphlets, videos, and speakers. This is more of a public diplomacy effort than a development effort.

Since 1985, with the encouragement of the U.S. Congress, A.I.D. has supported local institutions in developing drug education programs. These can include school and workplace based programs as well as programs using mass media. Drug use, production and trafficking is a development problem for some countries. By working with and assisting in the establishment of local institutions, A.I.D. provides long-term support for the USG drug control strategy. In Washington, A.I.D. and USIA work closely together and share the objective of creating indigenous will to combat drug use and production.

Under the direction of the Ambassador at each U.S. mission overseas, USIA and A.I.D. work closely with others in the country team to ensure that U.S. objectives are met. The country team also coordinates mission activities to avoid duplication of effort.

The following are among the types of A.I.D. program activities undertaken in support of narcotics education and awareness:

1. Support epidemiological surveys.
2. Support U.S. dialogue on narcotics.
3. Design public & private programs.
4. Train private sector leaders.
5. Train local counterparts to institutionalize expertise.

#### ANDEAN COUNTER DRUG INITIATIVE

Mr. SMITH of Florida. In the near future you are going to be releasing money. We authorized that money last year on the assumption that the Administration, when they requested an Andean initiative appropriation, had something in mind for it. And I am curious what you have in mind.

When are you going to release the money and why hasn't it been released already?

We know what we need in those countries. The President wanted an Andean initiative. We gave him well over \$100 million.

The second draw is coming this year for requests. Why are we taking so long now to go from the appropriations directly into the street value of these dollars, when that program should have been ongoing, really, from day one?

Mr. ROSKENS. I have not been here long enough to know about the ongoing programs, but with respect to 1991, we have, in the case of Colombia, for example, a total ESF designation of \$50 million, \$41 million for balance of payments, \$9 million for counter-drug problems. That's just Colombia.

For Bolivia—

Mr. SMITH of Florida. What are the \$9 billion worth in projects? That's your allocation on paper. What is that going into, what kind of drug programs?

Mr. ROSKENS. Let me, if you don't mind, get back to you on that.

Mr. SMITH of Florida. And I would like the same for Bolivia and Peru, because that is what the initiative was supposed to fund.

[The information follows:]

#### ANDEAN COUNTERDRUG INITIATIVE

A.I.D. began to orient its country programs in Bolivia, Colombia and Peru toward the Counternarcotics Initiative in FY 1990, although FY-1991 is the first year of appropriated funding for the Initiative. Two principal programmatic conditions are associated with the Counternarcotics funding: sound economic policies and adequate anti-drug performance, e.g. in law enforcement. We seek to assure that these conditions are satisfied before the obligation of economic assistance.

In Colombia, A.I.D. is planning to use \$50 million in FY 1991 ESF to support the following projects:

**Economic Cooperation Cash Transfer (\$41.0 million).** Balance of payments assistance to finance debt service on official U.S. Government and multilateral debt (\$20 million already obligated).

**Judicial Administration Improvement and Judicial Security (\$6.5 million),** support of GOC efforts to restructure the justice sector, to improve efficiency and enhance capability to prosecute and sentence narco-traffickers.

**External Training and Technical Consultancies (\$1.25 million)** for training in the U.S. and in-country with emphasis on subjects which contribute broadly to Colombia's counterdrug efforts, e.g. trade and investment promotion, microenterprise and small business development, alternative crops, etc.

**Drug Awareness and Prevention (\$1.0 million)** to continue programs stressing the harmful effects of drug trafficking and drug abuse.

**Management Information System (\$.25 million)** to provide timely information on the progress of counterdrug interventions under the Andean Counternarcotics Strategy.

A.I.D.'s proposed counter-drug activities and estimated FY 1991 funding levels (\$84.60 million, principally ESF, some Development Assistance) for Bolivia are:

**Economic Recovery (\$66.0 million ESF).** Balance of payments assistance to help finance productive imports and service eligible U.S.G. and multilateral debt and, as appropriate, the buyback of commercial bank debt in cooperation with the World Bank and other donors.

**Justice Sector (\$0.5 million ESF)** support for administration of justice.

**Drug Awareness (\$2.5 million ESF)** to continue educational efforts on the personal effects of drug abuse and the impact of drug trafficking on Bolivian society.

**Export and Investment Promotion (\$2.0 million ESF, \$2.8 million DA),** an amended and expanded project to develop non-traditional exports and stimulate investment in Bolivia.

**Cochabamba Regional Development (\$2.75 million ESF, \$4.8 million DA),** a follow-on to the Chapare project with support for alternative development efforts in Chapare and associated High Valleys.

**Rural Electrification for Alternative Development (\$1.0 million ESF)** will fund technical assistance for constructing vital facilities in the Chapare and surrounding High Valleys.

**Democratic Institutions (\$0.5 million ESF)** includes support for electoral reform, the bill-drafting function of Congress, advocacy of democratic principles, etc.

**CLASP II Project (\$1.0 million ESF)** continues Andean Peace Scholarship activity.

**Project Development and Support (\$0.5 million ESF)** for design and evaluation of alternative development efforts.

**Management Information System (\$0.25 million ESF).**

A.I.D.'s proposed counter-drug activities and estimated FY 1991 funding levels (\$60 million ESF) for Peru are:

**Balance of Payments Support (\$50.0 million)** to reinforce economic policy reform and stabilization measures that promote economic expansion and generate jobs, incomes, and foreign exchange.

**Policy Analysis (\$2.2 million)** to provide technical assistance for alternative development planning and for refining the country's economic stabilization and recovery program.

**Drug Awareness and Education (\$0.9 million)** to continue support for the Center for Education and Information on Drug Abuse Prevention (CEDRO) efforts to strengthen public support for drug control.

**National Employment Generation (\$1.0 million)** to provide technical support and training for small and micro-enterprises.

**Investment and Export Promotion (\$3.5 million)** to help generate foreign exchange earnings and employment from non-traditional agricultural and manufactured exports.

**Upper Huallaga Development (\$1.2 million)** to continue support to develop legal alternative income activities in the Upper Huallaga Valley.

**Administration of Justice (\$0.5 million)** to increase the efficiency of the judicial system and improve its capacity to prosecute drug crimes.

**Social Adjustment Program** (financial support through Title II food grants and local currency budget, amount to be determined).

**Project Development and Support (\$0.7 million)** for design and evaluation of alternative development efforts.

**Mr. SMITH of Florida.** I would like the same for Bolivia and Peru, because that is what the initiative was supposed to fund.

## AFGHANISTAN

Now, talk to me a little bit about Afghanistan. Last year while I was the Chairman of International Narcotics Task Force on the Foreign Affairs Committee, you came up with what I considered to be a totally ill-conceived and inappropriate program, which was funded at \$12 million, to maintain a drug program in Afghanistan on control of growth and/or trafficking. We don't have relations with Afghanistan; we can't get into the country. You have no in-country people; neither does anybody else. And you have a drug program.

In what condition is that program now? Is it on hold? We put a hold on it last year. I am curious whether or not that hold has been released, and whether you have put any money into this project

Mr. ROSKENS.

[The information follows:]

## NARCOTICS AWARENESS AND CONTROL PROJECT

A.I.D. initiated the Narcotics Awareness and Control Project (NACP) partly in response to Congressional sentiment that A.I.D. should support anti-narcotics initiatives in Afghanistan. We realized when we designed the program in 1989 that implementing an anti-narcotics program in Afghanistan would be a difficult undertaking. Through the NACP, we believe that we have met this challenge.

The project consists of three components: (1) narcotics awareness (the use of mass media to bring the anti-narcotics message to the Afghan people in Pakistan and inside Afghanistan through radio, print media, and various other techniques); (2) analysis (the collection of social and economic data to better understand the nature of the narcotics problem in Afghanistan and how it can best be addressed), and (3) crop/income substitution (the introduction of alternative income activities in selected pilot areas).

As originally conceived, total authorized life of project funding was for \$12.5 million, for just over 4 years. It was anticipated that 8-12 areas would be selected to undertake pilot income/crop substitution programs. Based on an extensive review of the project's implementation plan, A.I.D. decided to scale back the crop/income substitution component initially to 3-4 pilot areas. This will permit us to learn some valuable lessons before proceeding in other areas. This will also permit a reduction of project costs to the \$8 million range. The first two components, which I understand have not been the subject of Congressional concern, would remain the same.

The extensive review of the implementation plan also produced several changes which we believe address mutual concerns regarding project implementation. In particular, they will enable us to address concerns related to Section 487 of the Foreign Assistance Act, which requires A.I.D. to take steps to ensure that USG assistance does not go to persons accused or suspected of being involved in narcotics trafficking.

We have established a monitoring system which meets Section 487 concerns. An inter-agency narcotics committee in the Embassy in Islamabad will review all assistance requests under the NACP and ensure that assistance does not go to someone ineligible under section 487.

Only when an individual or group passes this test will a Section 487 determination be made. Furthermore, this assessment will be reviewed by a second inter-agency committee in Washington to ensure that all available information is considered before assistance is authorized.

Nonetheless, we recognize that as with other Afghan cross-border program activities, we are not able to maintain the same standards of accountability that A.I.D. normally maintains. As in our other cross-border activities, however, we are taking steps to ensure that our monitoring system is as good as can be under the present circumstances in Afghanistan. Part of that effort is to work more closely with State Department's International Narcotics Matters (INM) staff to ensure good coordination and improve project monitoring. We have, for example, reached preliminary agreement with INM on the responsibilities of both parties under the project, including INM assistance in the training of monitors. We will also be coordinating our

efforts with UNFDAC, as well as private voluntary organizations working in Afghanistan.

The use of a contractor does increase project costs. But this type of effort requires the kind of expertise and administrative resources that the A.I.D. representative office simply does not have. Our contractor will also play an important part in addressing monitoring concerns by hiring appropriate third-country nationals and Afghans who can go inside Afghanistan and monitor all project activities.

We are not counting on the NACP to have an immediate, large-scale impact on reducing overall poppy production in Afghanistan, given the project's limited scope. The project's importance is in giving the U.S. Government, and interested Afghans, a better understanding of what works and what doesn't in combatting narcotics production. It's true that A.I.D. already has considerable experience in anti-narcotics programs worldwide. But conditions in Afghanistan are much different from those that we have encountered elsewhere. Getting a greater appreciation of the nature of the problem, what will work, and what anti-narcotics approaches are most effective is extremely important in a country that is already the world's second largest producer of poppy. Moreover, the destruction of the Afghanistan countryside has created an environment that is even more attractive for increased production in the future.

Based on a letter we sent to you and Congressman Solarz last year, we put crop/income substitution activities on hold, pending the review of the implementation plan aforementioned. No funds have been used for income substitution activities. The \$3 million obligated to date has been used to fund activities under the awareness and data analysis components. Since we now have in place a system which we believe meets our mutual concerns, A.I.D. is submitting a Congressional Notification to Congress to obligate FY 1991 funds.

In sum, given the choice between taking no anti-narcotics program at all in the world's second largest poppy producer or proceeding with the NACP, we believe that the latter approach is preferable.

#### LAOS

**Mr. SMITH of Florida.** What about the Laos program? We funded a program in northern Laos to move a crop substitution program. I think it is a little bit of buy off the land, but mostly crop substitutions, to move people growing drugs off the land.

Do you know anything about that?

**Mr. ROSKENS.** I do not, but I would be happy to see you get that information.

[The information follows:]

#### NARCOTICS PROGRAM IN LAOS

Under the International Narcotics Control chapter of the Foreign Assistance Act, funds have been used by the State Department's Bureau of International Narcotics Matters (INM) for a crop substitution project in Laos. In fiscal years 1989 and 1990, a total of \$775,000 was provided. In fiscal years 1991, \$500,000 was provided. INM is seeking to reprogram an additional \$850,000 from other accounts for this program in fiscal year 1991, but in a bi-partisan letter dated February 12, 1991, the Chairman and ranking minority member of the House Foreign Affairs Committee and the Chairman and Co-Chairman of the Task Force on International Narcotics Control requested that the Administration "not obligate the additional funds . . . until such time as the Lao Government demonstrates its commitment to narcotics control programs in a manner that is mutually agreeable to the Executive Branch and the Congress." The money has not been obligated. INM has requested \$2 million for the Laos program in fiscal year 1992.

The crop control project is located in two districts of Houaphanh Province in northern Laos, a major area of opium production. The project is designed to provide substitute crops and economic alternatives for opium producers, develop infrastructure such as roads and dams to help opium growers switch to alternative crops, and provide drug abuse training and improved health care to reduce demand for opium. The Government of Laos has pledged to stop the growth of opium poppy once alternative crops have been introduced and has agreed to the placement of customs check points on the roads built with U.S. Government funding.

The project is designed to last for six years and the project agreement calls for total funding of \$8.7 million over that period. Progress on the project has gone faster than expected and the Administration wishes to maintain the positive momentum through the re-programming. There was a 27 percent drop in estimated opium production in 1990 compared to the previous year. While Lao Government cooperation with DEA in law enforcement has been unsatisfactory to date, we are hopeful recent moves will lead to broader and more effective efforts in the year ahead.

Mr. SMITH of Florida. Thank you very much.

#### JORDAN PIPELINE

Let's talk about the A.I.D. pipeline to the Middle East, Jordan, Egypt. Can you tell me currently what is in the Jordan pipeline? Any A.I.D. projects at all?

Mr. ROSKENS. Yes, there are. I don't recall the exact amount, but there are some.

Mr. SMITH of Florida. If you would furnish the amount, I would appreciate it, and projects that may be ongoing and any unobligated funds.

Can you tell me at this moment what your intentions are with reference to drawing money for Jordan and whether A.I.D. has been advised by the Administration as to what their intentions are with reference to money for Jordan for fiscal year 1991?

Mr. ROSKENS. That is on hold.

Mr. SMITH of Florida. Your department, as well?

Mr. ROSKENS. That is right.

Mr. SMITH of Florida. Are you on hold with reference to fiscal year 1991 draws, as well?

Mr. ROSKENS. Yes.

[The information follows:]

#### JORDAN PIPELINE AND COMMITMENTS

The Jordan pipeline or undisbursed funds from FY 90 and prior year obligations totaled \$57.8 million as of December 31, 1990. Of this amount, approximately \$30 million represent amounts committed under various contracts, grants, ongoing training and commodities on order in support of some 15 ongoing projects and the Commodity Import Program.

The balance of \$27 million is uncommitted.

#### EGYPT PIPELINE

Mr. SMITH of Florida. What about Egypt?

Mr. ROSKENS. The Agency's total pipeline is in the neighborhood of \$4 billion; the pipeline for Egypt is \$2 billion of that.

Mr. SMITH of Florida. Can you tell me how much of that is obligated and how much isn't?

Mr. ROSKENS. I would be guessing on FY 1991 obligations to date in Egypt, so I don't want to do that. I would rather give it to you in detail.

The total A.I.D. pipeline includes funds obligated but not spent. We don't regard the pipeline amount to be a real problem since nearly 90% of it is for firmly established commitments under project financing plans.

Mr. SMITH of Florida. Do you know how the amount currently in the pipeline compares with how it was about two years ago?

**Mr. ROSKENS.** As a matter of fact, I do not, but I would be glad to respond to that.

[The information follows:]

#### EGYPT'S PIPELINE

At the end of FY 1990 Egypt's pipeline stood at \$2.0 billion. This is down about percent from the \$2.2 billion pipeline recorded at the end of FY 1989, and about 1 percent down from the \$2.3 billion pipeline at the end of FY 1988.

All of the present pipeline is obligated in bilateral agreements with the Government of Egypt. In A.I.D. accounting parlance, "uncommitted" refers to funds which are obligated through such bilateral agreements but have not yet been formally committed in instruments with (mostly American) commercial suppliers of goods and services. With this clarification, about \$1.2 billion of the present \$2.0 billion pipeline is "uncommitted."

Based on average annual expenditures of \$829.4 million for fiscal years 1988, 1989 and 1990, the present pipeline translates into about 2.4 years of annual program funding requirements. A.I.D. financial managers consider reasonable a pipeline of two to three years average annual program funding requirements.

#### AMERICAN SCHOOLS AND HOSPITALS ABROAD PROGRAM

**Mr. SMITH** of Florida. Let me turn to the ASHA program. I see you requested \$30 million this year. Last year I believe it was \$25 or \$38.

**Mr. ROSKENS.** \$23 million was requested for FY 1991; \$29 million was appropriated.

**Mr. SMITH** of Florida. That program is one that there has been some consternation about over politicization. It is a program that I think is valuable, although I share concerns that the program not be made too political.

Is the additional \$2 million you have requested all you thought that was valuable in terms of funding by us, or that is all the need that was out there in addition to what we did last year? How did you come to the decision of \$30 million?

**Mr. ROSKENS.** It is one of [those kind of] balancing propositions in which we try to be realistic as to what we think will be available. Our position has been that we did not anticipate a very significant overall increase in our budget. So the ASHA level is a modest amount.

**Mr. SMITH** of Florida. And one of the reasons why is the budget reality?

**Mr. ROSKENS.** Exactly.

#### DEMOCRACY INITIATIVE

**Mr. SMITH** of Florida. About the democracy initiative—and I will admit I have had calls from people involved in the process over the years of using funds as a donee from the U.S. Government to foster democratic initiatives around the world. We have the National Endowment for Democracy, which received funds and which is an umbrella organization with groups such as the Republic Institute, the Democratic Institute, Chamber of Commerce, the AFL-CIO Democratic Institute, et cetera.

Can you tell me why you think you ought to be getting into this business directly as the U.S. Government, when our policy or at least our approach has been that the U.S. Government should not be directly associated with trying to superimpose democratic ideals? We may lose something as a government? Does not funding

through private organizations ultimately give us the same result. It would be much more well-received and would probably bode more for success than the U.S. Government doing it directly.

And how do you see this not basically competing with and duplicating things that are already in process, like, again, USIA and other things, other agencies of Federal Government and other private organizations?

Mr. ROSKENS. First of all our purpose in emphasizing democracy is because we think that is the method of governance that is the most appropriate for every country in the world. Let me hasten to say, at the same time, we are not proposing that we should go into any country and impose our approach to democracy. It is rather—

Mr. SMITH of Florida. How would you avoid that if the U.S. Government is funding through A.I.D., which is a direct agency of the U.S. Government, and A.I.D. comes in and tries to set up a program for democratization, how do you avoid the perception that this is a superimposed U.S. program plunked right on top of these people?

Mr. ROSKENS. I think our people overseas have skills and capabilities that give them a comparative advantage over other groups that we might enlist, even other donor countries or some of the specific organizations that you mentioned. We have a comparative advantage in that we have experience on the ground, as it were.

Mr. SMITH of Florida. These programs, A.I.D. officers?

Mr. ROSKENS. No. I was saying A.I.D. has people on the ground. I am trying to make the point that we are there, and consistently, not just coming in and going out again over short periods. We are there.

Now, with respect to democracy, we are not at all of the mind that we want in any way to engage in any process that gives the impression or even the inference that somehow we are imposing the U.S. approach to government. Rather, we want to help people through symposia, through discussions, and often through other parties—through PVO groups, as a matter of fact—to see what the values are—not U.S. values. I am talking about the values of people being energized to participate in their government.

Mr. SMITH of Florida. Now, a democratic initiative of this nature necessarily requires countries where, A, we don't think there is any democracy, or B, sufficient democratic political values or institutions, correct? How do you avoid the perception of a large number of people in any country, when the United States comes in and funds directly through a United States agency—how do you avoid the view of these people or perception that the groups which get the money directly from A.I.D., because I am assuming—let's say Nicaragua, for example—you won't give money to Noreiga's people. How do you remove from under the saddle that you are giving money to these groups; therefore, they are under the control of the United States Government, that these groups are sympathetic only with the view of the United States, and the reality is none of the groups would want to come in under your umbrella, because it is the United States coming in and trying to flex its muscle? That is why secondary and third-level groups that we find, we do it with the ASHA Foundation, a lot of other things.

How do you avoid the perception when A.I.D. gets directly into the business? And you have got American officers from the American Embassy basically laying out and working on programs with dissent groups and countries which are directly identified and are providees of the United States.

How do you avoid that money, frankly, being wasted, because it doesn't bring people together at all, because their view of the U.S. is very different from the people that are receiving the money?

Mr. ROSKENS. Our intent really is to encourage pluralism and not to in any way support one party versus another.

I can't remember if you were here when we were talking with Mr. Gray about South Africa, so let me repeat it a little bit, if you don't mind.

Mr. OBEY. Can I ask you to make it short, because we are going to have a vote, and I still have a lot of questions I need to ask you.

Mr. ROSKENS. Well, briefly, we were talking earlier about the matter of democracy in South Africa, and making available funds that will be useful. Congressman Gray pointed out that the intent of the FY 1991 legislation, which appropriated \$10 million for this purpose, was to provide, for example, computers to enable all groups that are interested in developing lists and so on and so forth. That's the kind of thing in which we are interested.

Mr. SMITH of Florida. Does that mean then that you are going to, or have the desire to reduce funding to other groups that you are now currently funding, because you are going to get into a business that you have been funding them to be in, like the National Endowment?

Mr. ROSKENS. No. Let me put it this way.

The democracy initiative, from our perspective, is more a point of view, is more an emphasis, is more a theme that permeates all of what we do, rather than being a specific development proposition.

Mr. SMITH of Florida. Thank you, Mr. Chairman.

Mr. OBEY. Mr. Administrator, I have got a lot of boilerplate questions I need to ask you. I would appreciate it if you could keep your responses as crisp as possible.

#### MIDDLE EAST

What will A.I.D.'s role be in post-war economic investment in the Middle East?

Mr. ROSKENS. At this point, Mr. Chairman, I don't know. We don't know.

Mr. OBEY. The President expressed his commitment not to provide any assistance to Iraq post-war. Does that pledge hold true in terms of providing assistance to, for instance, children who might be infected by disease because of being displaced?

Mr. ROSKENS. I can't respond for the President or others, but in my view, I would hope that it would not exclude the possibility of assisting in matters like that.

Mr. OBEY. A.I.D. employees were pulled out of the Middle East and other countries in the region. When will they be returned?

**Mr. ROSKENS.** We are not sure yet. We haven't gotten any specific instructions on that. Obviously, there are some we need to get back in place as soon as we can.

#### FAMINE IN SUDAN AND ETHIOPIA

**Mr. OBEY.** What about Sudan, Ethiopia, especially with respect to Sudan, when the media attention turns away from this war, there are going to be a hell of a lot of people dying in that part of the world. How many people are we going to see the networks reporting are dying in Sudan, Ethiopia by next June?

**Mr. ROSKENS.** Obviously, I don't know but I share your concern that it is a real problem. We are working very hard with other agencies to find ways to get in there that would be useful; and thus far, we haven't been very successful.

But I understand what you are saying. It is a problem area we have got to attend.

**Mr. OBEY.** I will get back to that in a moment.

#### AID'S NEW INITIATIVES

Let me be very frank. I am extremely concerned about the direction that I think AID is taking. For years we have understood that we are not dealing with white, middle class, Anglo Saxon Protestants in the Third World. We are not dealing with traditional middle-class people, middle-class values, middle-class problems, middle-class resources. Yet, when I see some of the rhetoric and some of the program initiatives that AID is talking about, I seem to get the impression that we are.

You have released new initiatives for family and development, democracy, business and development partnership, and strategy for management. It seems to me at the same time that you are downplaying AID's traditional role in support of basic assistance to very poor families without resources.

Let me be very blunt about it. Under the Carter Administration, we had a fad which was to deal with the poorest of the poor and put all of our attention into that. I raised considerable questions about that, because I thought that we needed a more balanced approach. Now, what I am concerned about is that I see AID developing themes which would be more appropriate, I think, to the Junior Chamber of Commerce than to an agency charged with the responsibility to deal with basic development problems. Why do we see this drift away from what everybody has understood to be A.I.D.'s basic mission for a number of years?

**Mr. ROSKENS.** I would look at it this way. We are not really drifting away. I would hope we are not drifting away from our traditional concerns and our traditional mandate. But because of the nature of the world and the manifold changes that have occurred, I think we see different ways to attack the problems.

For example, if I can just say quickly, we think that economic reform and governance reform go hand in hand with enabling a country to get on its own feet with respect to being able to help itself, in part, with respect to problems of the poor. So it is an intermingling of these objectives, I think, that we are trying to accomplish.

**Mr. OBEY.** Unless the country is politically important, you have to get out from under the efforts to leverage economic reform. That is really the way I see it.

**Mr. ROSKENS.** Our view is, Mr. Chairman, that the more we see of countries in Africa, or for that matter other parts of the world, where there is sincere effort to modify the economic approach and get, for example, the private enterprise moving—small enterprise; not necessarily large enterprise—and get a governance structure that lets people feel that they're empowered, then there is initiative to try to tackle some of these problems of poverty.

**Mr. OBEY.** What I see drifting in here is an ideological approach, rather than an approach focused on investment problems. I see you are drifting away from support for basic agriculture programs, for instance. I see you are drifting away from basic support for programs that some of the colleges have hoped to carry out to supplement A.I.D. with a great deal of skill and with a great deal of focus on long-term problems. And I see, instead, in the context of an overall budget which does not increase, all kinds of these new initiatives and new directions which A.I.D. is suggesting. I frankly think at this point you are an agency without a direction or a mission.

You have got about 15 missions which you appear to be trying to accomplish all at once, and as a result, I think the core job of AID is about to be neglected, and I wish I could hear you say something that would lead me to believe that wasn't true, but so far, I haven't heard that.

I have heard a repetition of the same code words, which leads me to believe that what I am saying is correct.

**Mr. ROSKENS.** Let me try to address at least part of what you are talking about. Let me take, for example, the question of the land grant institutions and agriculture.

There is no intent to reduce in significance the importance of agriculture and assistance to agriculture around the world. With respect to the land grant institutions, we have moved somewhat away from the approach that we were taking earlier and through many years, as a matter of fact—which was to employ only the land grant institutions so far as using college and university talent is concerned.

Now we have created a University Center for Cooperation and Development, which has broadened our outreach and will encourage other institutions, including, two-year institutions, which I think can offer a great deal, if I may say so, in Eastern Europe right now.

That's the kind of thing we are trying to do. I think, given a little time, we can develop a theme that will suggest, I hope, to you, that what we are doing is not just plowing around and trying to come up with another initiative here and there, but trying to integrate it.

**Mr. OBEY.** Here is my problem: You list an environmental initiative. You list a family and development initiative, a business and development partnership, which it appears to me is aimed more at U.S. opportunities, development opportunities.

You list a strategic management initiative, but you haven't included additional funding requests for programs aimed at sustain-

ing children, increasing efforts in AIDs prevention, escalating programs directed to family planning, and in my judgment, if you don't deal with that issue, all of the rest of the money you are spending is being wasted.

And so I see lots of bells and whistles being added at the expense of the core mission.

Mr. McHUGH. I would like to emphasize this, because it seems to me that if you look at the numbers, for example for the core—traditional core mission, agriculture, rural development, nutrition, we are finding a request which is less than this fiscal year—\$481 million this year, \$437 million requested for next year.

Put in political terms, people like Mr. Obey and I have been traditional supporters of foreign assistance with the traditional mission of your agency. The people, generally speaking, that engage in the code words that we are now hearing—I am not talking about you personally, but people in Congress—don't support foreign assistance. They don't vote for it.

To the extent that people like us see the traditional mission eroding, and there is less money for it, less commitment to it, and some of these other initiatives—and we have talked about tied-aid credits, which you know is a whistle and a flag to me, particularly if it is going to ultimately dig into development funds for the traditional mission.

These are things which create real problems for people like us and you are going to find us much more skeptical about this agency and its programs unless we can be reassured along the lines the Chairman is pursuing.

Mr. ROSKENS. We are going to do everything possible to persuade you that there is no diminution in the importance of the objectives to which I know both of you are speaking.

Mr. OBEY. But the numbers belie that statement.

Mr. ROSKENS. I really don't think so. Because we have tried to keep within the frame of reference of a reasonable budget request, anticipating there won't be much additional funding available. And the initiatives that you have listed are not initiatives that require any additional funding, except environment.

Mr. OBEY. Well, we will submit more questions for the record, Mr. Roskens.

#### CONGRESSIONAL PRESENTATION

Mr. OBEY. The President talked about his unhappiness with congressional micro-management last night. We would settle sometimes for a little management on the part of the executive branch, period. Here is what I mean.

You are up here testifying for your budget. We don't have that budget yet; we don't have the justifications yet. We are supposed to mark up a bill. We are supposed to evaluate your budget. We are supposed to have intelligent questions with respect to that budget.

Six weeks after the President has sent up his press release indicating he has got a budget, we still don't know where the hell you are going on any of these individual programs. When are we going to have the justifications so that we know what it is you are really asking for?

Why should we receive your documentation on the budget after this hearing is over?

Mr. ROSKENS. I would say that is a very good question. I think ours is at the printer.

Mr. OBEY. Well, it ought to be here. The printer doesn't write your budget. We do.

Mr. ROSKENS. I know that, but what I am getting at is that there are clearances that haven't been done as they should have.

Mr. OBEY. Then I suggest, when they squawk about micro-management, maybe there is a little need for micro-management, since we are getting so little management from the executive branch on that score.

#### HUMANITARIAN ASSISTANCE TO SUDAN

Would you describe for us what political obstacles between the Governments of Sudan and the United States are preventing the U.S. from carrying out humanitarian relief in Sudan? What impediments is that Government placing in the efforts to save lives?

Mr. ROSKENS. You mean in terms of getting food in there and that sort of thing?

Mr. OBEY. And anything else they need.

Mr. ROSKENS. I am not absolutely sure of the latest information. I hear about that every few days, but I am not absolutely sure what is occurring there today.

But I do know that we have had problems keeping people in there. We have had very little cooperation from the Government of Sudan, and they have shown only very limited willingness to help us. But I can't really detail it in sufficient fashion to be helpful.

Mr. OBEY. I am not talking now in terms of geopolitics, but I am talking just as a human being. I guess I am mystified by a United Nations, by a world geopolitical arrangement under which we are prepared to send troops to free Kuwait, but the world, in contrast, will stand by while a government systematically engages in conduct which will result in the loss of perhaps a million lives in North Africa. I wonder what is wrong with the world when we can steel ourselves to stand by, given the fact that this is allegedly happening internally and therefore, it is beyond our reach, and as a result, a whole lot more people will be snuffed out than would have been snuffed out through 20 years of occupation of Kuwait by Iraq.

I am not suggesting that the former was incorrect. I am suggesting there is something wrong with the double standard that, if a country has got oil, we will respond if something happens to it, but if it simply has dying people, we are going to let them die. It seems to me, if we are going to have a New World Order, we ought to take into account these matters.

Mr. ROSKENS. I think you are right.

#### POPULATION ACCOUNT

Mr. OBEY. I have a number of questions which I will put in the record in terms of functional accounts; also a number of questions with respect to population.

I frankly don't understand, as has been expressed several other times this morning—I don't understand why the Administration is submitting a reduction in those programs.

Mr. ROSKENS. We are not really suggesting a reduction. That had to do with the fact that this fiscal year, because of non-account specific DA earmarks, we had to take funds from all categories of funding, and that reduced, for example, the population account to \$228.

Mr. OBEY. We provided \$250 million. You are requesting \$228 million. Ms. Mole taught me in second grade that that was a reduction.

Mr. ROSKENS. My teacher also taught me that in the fifth grade. But we are also going to fund almost \$65 million from the Development Fund from Africa, for population programs. That will put the total well above \$250. So I think we will be all right in terms of where we were last year and this year.

As I said, we actually had only \$228 million this year because of earmarked requirements that necessitated reducing it.

Mr. OBEY. But that problem hasn't gone away this year.

Mr. ROSKENS. What I am saying is, we have asked for what we had this year and, additionally, put some in from the DFA that will put it up to where it is this year.

Mr. OBEY. We did that last year, didn't we? Won't that \$228 number still have to get reduced?

Mr. ROSKENS. This year? No, I don't think so.

Mr. OBEY. Show me how.

Mr. ROSKENS. I hope not.

#### FISCAL YEAR 1992 AIDS REQUEST

Mr. OBEY. Is it true that in Uganda and similar countries, as many as one-third of the population might be dead by the end of the century because of AIDs?

Mr. ROSKENS. When I was there, I got the impression that that is possible. I don't think we have enough sure data to say that, but it is possible.

Mr. OBEY. And this budget contains how much of an increase for AIDs?

Mr. ROSKENS. For AIDs? Let me get it to you in detail, rather than guessing. I don't remember for sure.

[The information follows:]

#### AIDS PROGRAM LEVELS IN FY 1992 BUDGET REQUEST

A.I.D. has requested \$55 million for AIDS under the proposed Development Programs account in FY 1992. This is a \$3 million increase over the FY 1991 functional account level. However, AIDS programs also are financed with DFA funds. FY 1992 funding for AIDS programs from all accounts should reach \$71 million or more.

Mr. OBEY. \$3 million?

Mr. ROSKENS. I am just not sure.

Mr. OBEY. Do you really think that your request has been sufficient to deal with the size of the task that awaits?

Mr. ROSKENS. No, but again, we are restricted by all of these various demands that we really want to attend to, like population, environment, et cetera, and the unlikelihood of a very significant increase in the overall budget.

Mr. OBEY. I have got some other questions on AIDs I will submit for the record, as well as some questions on children, Rumanian orphans, and AID operating expenses.

#### ASIA BUREAU REORGANIZATION

When I take a look at the division of responsibilities between some of your departments, I see a map that I don't quite recognize. A Systems Administrator for Europe and the Near East has administrative responsibility for the Philippines? Is that correct?

Mr. ROSKENS. Yes, for the time being.

Mr. OBEY. Explain to my grade school geography teacher how the Philippines wind up in that region.

Mr. ROSKENS. May I say, Mr. Chairman, neither your teacher nor you would understand. Based on logic, there is none.

Mr. OBEY. That is right.

Mr. ROSKENS. Let me put it to you this way. Shortly after I arrived, it became quite obvious that we had an extraordinarily heavy load in what was then the Asia and Near East Bureau. Added on, before I arrived, was the responsibility for Eastern Europe—what I think we now would call Eastern and Central Europe. And it was clear to me that that particular bureau was simply overloaded. We could not persist; we couldn't continue that way.

So it happened that we had in place people and capability to move some of that responsibility for Asia into another bureau, at least for the time being. That was last October. We needed to alleviate the load.

There is no doubt—and I say this to you straightforwardly—that makes no sense in terms of external logic. Internally, it made sense, because it would work right then, and it has.

Mr. OBEY. Mr. Roskens, you make a pretty good defense of a bad case.

Mr. ROSKENS. May I say just one further thing?

We are going to make a move there. That's going to be cleared up.

Mr. OBEY. Here is my point: An Administrator for the Near East has responsibility for the Philippines, Cambodia, Afghanistan, and Pakistan, while Asia and Private Enterprise are responsible for Indonesia, Thailand, Bangladesh, Sri Lanka, and Nepal.

One person told me the reason Nepal is still there is because neither the Soviets nor the U.S. has taken an interest in it.

The Administrator for Europe and the Near East has been given the high-profile programs and the other division has been given the low-profile or no-profile programs, and I think that causes a substantive problem, because if there is any place that isn't getting its act together, it is the Eastern Europe operation. It is loaded down with delay.

It was the highest priority in this bill two years ago. It was the second highest priority in this bill last year, after Africa; and nothing has happened to get that program off the ground.

So I would suggest that it is that bureau which is over-burdened and which is over-reaching.

Mr. ROSKENS. That was the one that I began with.

Mr. OBEY. I am suggesting that the Europe and Near East Bureau is over-burdened, and shouldn't have programs like the Philippines that don't have a thing to do with their region, because they are already over-burdened.

Mr. ROSKENS. I left the Philippines and Cambodia in that bureau only because there were people there who were very familiar with some of the sensitive things going on. It was said at that time that that would be temporary.

So I am, in effect, agreeing with you.

Mr. OBEY. When are you going to have that done?

Mr. ROSKENS. The move? We are in the process of doing some re-organizing now, and I would say that the shift will be no later than the first of May.

#### EASTERN EUROPE

Mr. OBEY. Let me say that with respect to Eastern Europe, that the committee has heard from a number of groups who are trying to apply for contracts under the Eastern Europe Assistance Program. They say they get very little information about what is being planned, so that, as a result, they have to respond to every program solicitation that comes out, rather than perhaps waiting until something comes along that they are better equipped to handle. It is hard to know how to play the game if everything is going to be piled into the ninth inning.

We have had others express concerns about the accountability and management of those programs. The States play such a close role that you wind up, I think, having a lot of things fall between the cracks.

How are we going to deal with that problem?

Mr. ROSKENS. The matters of accountability and management are subjects that I feel some considerable responsibility for myself. The process of review and proposals for restructuring are going on now. I hope the result will be an organization that will be more responsive throughout and more attentive to the kinds of things you are talking about.

I am very much attuned to the kinds of things you are saying. I can't offer much comment with respect to how much difficulty there has been for organizations that want to get involved in the RFPs and so forth. I can look into that.

[The information follows:]

#### APPLICATION FOR CONTRACTS

A.I.D. personnel have continued to brief numerous groups and individuals on the nature of the economic assistance program for Eastern Europe, including the three objectives of the program, the thirty-three projects involved, and many other details. Also, there is a press kit with handouts on each project. We have tried to be as open and transparent as humanly possible.

#### EASTERN EUROPE VULNERABILITY STUDY

Mr. OBEY. It is my understanding that A.I.D. is carrying out a vulnerability study.

Mr. ROSKENS. The vulnerability study is basically an audit by our own people. In other words, it is pointing out where there may be problem areas.

Mr. OBEY. Can we get a copy of that by the end of March, so we can review it before we have our hearing?

Mr. ROSKENS. Let me tell you this. I am one who believes in getting information up here as soon as we have it. There is not going to be any hiding.

Mr. OBEY. We need that before our hearing in March.

Mr. ROSKENS. Okay. I am sorry, which hearing?

Mr. OBEY. Eastern Europe.

Mr. ROSKENS. I beg your pardon.

Okay, we will have that then. As long as I am around, we are not going to be playing any games with you, I will tell you that.

#### MANAGEMENT OF EASTERN EUROPE ASSISTANCE PROGRAM

Mr. OBEY. Is it true that A.I.D. and State have agreed on a management approach to handling the Eastern European Assistance Program and that approach is embodied in a memorandum?

Mr. ROSKENS. It is true we have agreed on an approach, but I don't know of any specific memorandum. Deputy Secretary of State Eagleburger's and my letter to you a month or so ago describes what we are planning to do—

Mr. OBEY. Would you send up a copy of that memorandum, so we don't have to use our memorandum?

Mr. ROSKENS. I don't remember any memorandum. I will be glad to look into that.

Mr. OBEY. I have three other questions on that.

I have a problem. I need to get to the floor, so I am going to ask you to respond to the rest of the questions I have for the record.

#### AMERICAN SCHOOLS AND HOSPITALS ABROAD

I know Mr. McHugh has some questions that he would like to ask, so I will ask him to take over.

There is one more I thought I wanted to ask you directly. Let me simply say, with respect to ASHA that Mr. Smith said that he was concerned that the program is too political. That is true, but I have another view, as well, and that view is that, yes, I think the program is too political. I think one of the reasons for that is that the people who administer the program have been—have fallen into the habit of giving preference to old-hand insiders rather than people who may have an important or useful initiative that ought to be useful. And, frankly, a number—on a number of occasions, when we have tried to get from the program administrators their honest evaluations of programs, they have said, well, we don't think they would meet standards, but they have not been frank enough to say why.

I find that extremely troublesome.

Mr. ROSKENS. So do I.

Mr. OBEY. So I would say that I fully agree, the program has been far too political, which is one of the reasons I have tried to hold the numbers down.

But I also think it has been far too ossified with respect to its administration, and I hope that that will change.

Mr. ROSKENS. Thank you very much, Mr. Chairman.

Mr. OBEY. Good luck.

Mr. ROSKENS. We are going to need more than that—your help.

Mr. McHUGH. [presiding]. Dr. Roskens, I won't keep you, because the Chairman said 11:30, and it is now approaching 12:00. Let me follow up quickly with one or two questions, and I will submit the rest for the record.

#### UNFPA

Mr. Green and others have pursued the question of population, and Mr. Green asked you to report to us on what you really find that UNFPA is doing in China. I recall, when this issue first arose, that AID had a report, which we had a copy of, which indicated that UNFPA was not in any way directly involved with objectionable Chinese policy, that is to say, any compulsion on abortions or whatever.

And indeed it was basically working on computer networks which would be demographic in nature, but in understanding that report, the Administration took the position that UNFPA should not be funded. It was involved in some way with objectionable conduct.

I don't expect you to respond to this, but my own impression, frankly, at the time was that it was a political decision. There were groups that can create a great deal of heat within the Republican Party, which ideologically were opposed to the UNFPA, not for reasons which related to what they were doing, but just in general terms.

I happen to agree that money should not be spent on abortion, compelled or otherwise; that's my own personal view and that's been my record here. But UNFPA, based on everything I have seen—and I may be wrong, but based on the evidence that I have seen—has not been involved in compulsion, has not been involved in the kind of objectionable programming that you and I would agree is inappropriate for us to fund.

So I do hope that you will look at this objectively.

Now, my question is, assuming that UNFPA is involved only in providing demographic information and assistance to China, would it be your own view that the United States should provide some funding to the UNFPA, first with respect to China, but then secondly, and perhaps less sensitively, with respect to other program activity in other countries unrelated to China at all, where there hasn't been any question raised about UNFPA's activities?

What is your view on this? If you want to think about it and get back to me, that's fine. It is a sensitive political question within the Administration, and I don't mean to put you in a delicate position, but frankly, this is an important issue to people on both sides who happen to believe that UNFPA has effective population programs unrelated to the kind of objectionable programming that we have tried to prohibit in our funding decisions in the past—abortion, for example.

Mr. ROSKENS. May I say, I fully understand the question that you are asking, and I appreciate the sensitive manner in which you have put it. I think I would prefer to just respond to all of that, in terms of what you have asked and what Mr. Green was asking, in writing; and we will do that.

[The information follows:]

#### FUNDING FOR UNFPA

I do not believe the United States can or should make a contribution to the United Nations Population Fund (UNFPA) even if UNFPA were to agree that no A.I.D. funds would be used in China.

UNFPA is not eligible for funding from A.I.D. because the Kemp-Kasten amendment prohibits assistance to an organization that supports or participates in the management of a program of coercive abortion or involuntary sterilization. Although UNFPA does not directly finance abortion or coercion, this restriction applies to UNFPA because of the management assistance, including training, it provides to China.

In order to explain my position not to provide funding for UNFPA, it is necessary to understand the China program. The fundamental problems in China are its one-child policy and the manner in which it is implemented. The Government sets targets for authorized births that are apportioned down to the local level and, ultimately, to each work unit. These targets often are treated as quotas by family planning workers and other officials whose performance is reinforced by a system of rewards for success and punishment for failure. Special benefits are provided to couples who comply with policy, and economic and other penalties are imposed on those who do not. This system has set in place a program for population control that has resulted in a wide variety of abuses, including coerced abortion and involuntary sterilization.

To set these targets, monitor compliance with them and enforce the one-child policy, China needs to obtain and analyze demographic information effectively. The quality and amount of management and training assistance UNFPA has provided to China has had a significant impact on China's ability to obtain and analyze the information China needs for these purposes. While China has been implementing this coercive program, UNFPA helped China develop the modern capability to establish and monitor compliance with authorized birth targets, including assistance and support for:

- Computer hardware;

- Management information systems;

- The State Family Planning Commission and other governmental agencies responsible for policy development and implementation of China's population program;

- Institutions to make China self-sufficient in training of demographers;

- Basic and clinical research (such as studies on reproductive epidemiology, and social, behavioral and psycho-social aspects of contraceptive use), and

- Training for family planning workers who implement China's abusive program which results in coerced abortion and involuntary sterilization.

In 1985, the A.I.D. Administrator concluded on behalf of the President that the Kemp-Kasten amendment applies to UNFPA because of the management assistance it provides to China, and this determination was sustained in the federal courts. Since then, there has not been significant change either in the China program or in UNFPA's support for it that would justify A.I.D.'s providing assistance to UNFPA. In fact, the President vetoed the 1990 foreign assistance appropriations bill shortly after UNFPA approved its third five-year program in China because funds were earmarked for UNFPA and its new program is not significantly different from the previous two. The bill would have required UNFPA to place A.I.D. funds in a segregated account which could not be used for China, but funds are fungible and the President believed this would not be an effective way to express United States concern about coercion in China.

I certainly agree with the President's decision.

Mr. McHUGH. I appreciate the problem. I just want to reinforce essentially what Mr. Green was saying and hope we can reach a judgment which is objective—as objective as we could be here.

#### REORGANIZATION AND OFFICE OF POPULATION

With respect to population and reorganization of your agency, there have been some reports that, in the context of your reorganization, the Office of Population might be abolished. Can you tell us anything about that?

Mr. ROSKENS. Yes. I can tell you quickly and emphatically that there is absolutely not a shred of truth to that. But I can also tell

you how it happened. I won't take a lot of time. There are a lot of other things that are involved here, but let me just take one little piece so you will understand what I am talking about.

We had a consultant, and that consultant provided us with a proposed outline or table of general organization, if you will, that did not contain all of the boxes that are in existence now. It shouldn't have. A consultant wouldn't provide that detail; that's not their business. Our business is to determine who goes where.

But the point is, where an office wasn't explicitly included, people concluded that they were going to be thrown out of business.

Nothing could be further from the truth. I can assure you there will be a Population Office, if not stronger than the one today.

Mr. McHUGH. I thought it was important to get that on the record.

#### TIED AID

I don't want to belabor this subject this late in the hearing, but let me conclude my direct questions with the tied-aid-credit issue. Last year we included some language in our bill which prohibits using development funds in your agency for tied-aid credits. Is that something which your agency agrees with, or you personally agree with?

Mr. ROSKENS. Yes, we do.

#### MIXED CREDITS

Mr. McHUGH. Could you bring us up to date on the status of the initiative which joins A.I.D. and the Export-Import Bank? How far along is that? What is the status?

Mr. ROSKENS. We have been employing that mechanism in four Asian countries—Indonesia, Pakistan, the Philippines, Thailand—and you know what the mixed credit facility was designed to do. And I think it is fair to say that, thus far, it has been successful.

The first successful project was a mixed credit project in Indonesia that took \$60 million from Ex-Im and leveraged \$300 million as a result. You may recall the case.

Mr. McHUGH. The ATT case?

Mr. ROSKENS. Yes.

Mr. McHUGH. That case did pose problems for me, and I may have reviewed this with you before. But briefly, my concern with the ATT case is that that project did not fit within the priority listing of your agency for Indonesia. I am not suggesting that it wouldn't improve the development generally of Indonesia; certainly that government was going to go ahead in any case. And naturally we would be delighted and pleased if ATT got the contract.

My concern is that AID had a priority list of development concerns which cited where in Indonesia we should be focusing our limited resources. This project did not fit within that priority listing, and yet funds were used for that purpose, which suggests to me that the decision on funding was driven not by what you determine to be the most important development priorities, but rather by the contract.

Now, again, I have no objection, and indeed, I am pleased and hope we get a lot of contracts. But I wonder if that should be the pool which is used to promote contracts. And as you know from your prior discussions, I am more than happy to support the Export-Import Bank war chest to make sure we respond to foreign subsidies when there is a contract competition. I think that we should not be naive and should be armed to deal with that kind of foreign subsidy. But I don't want limited development funds, which should go for the priorities in development, to be the funds that are used to meet the contract competition. I think that we should keep that separate and have another fund which is not a development fund, per se, but which is a fund to combat foreign subsidies, and that's the war chest in the Export-Import Bank.

If we need an additional pot of funds beyond that, I would support it. But my concern, as you probably know, is that, to the extent we start invading the limited funds whose only purpose is to promote the most important development concerns in given countries—to the extent we invade those funds to meet the commercial problem of the contract competition and subsidies by foreign countries of those contracts, we are going to wind up in the end with little or no funds for the primary development purposes that your agency's mission is designed to deal with. And if you don't, nobody else will.

And so it is for that reason I have been concerned about any invasion of your development funds for commercial contract purposes. I hope that your agency is going to be sensitive to this, because I think the people like myself, who have supported your agency and have supported American interest in development abroad will lose enthusiasm to the extent that we see your mission being compromised by another concern which is valid—a valid concern, but one which should not be dealt with with your funds.

And so I would like to emphasize that, and I would like to ask that we be kept abreast on a continuing basis of how your funds in any form are being used in conjunction with the Export-Import Bank for these kinds of projects. And I can tell you, I am going to be looking carefully to try to determine whether or not in these cases your funds in conjunction with the Export-Import Bank are advancing not only American contracts, which I am all for, but are also consistent with the most important development concerns in these countries, which is what your money is supposed to be used for.

Mr. ROSKENS. I assure you, we will keep you informed.

Mr. McHUGH. Thank you very much.

Mr. ROSKENS. Thank you very much.

[Questions and answers for the record follow:]

### Questions for the Record Submitted by Chairman Obey

#### FAMINE IN AFRICA

*Question.* The combination of war and famine in Sudan and Somalia will bring about more deaths than occurred in the Persian Gulf conflict. An estimated 15 million people are threatened by famine this year in the Horn of Africa.

Is the famine situation in the Horn of Africa being given a top priority by the Administration and has A.I.D. resumed operations in Sudan, Somalia and Ethiopia? Are there any political reasons preventing the resumption of humanitarian assistance in the Horn of Africa?

**Answer.** Humanitarian relief efforts in the Horn of Africa are receiving the highest priority in the Administration. A.I.D. is working closely with the U.N. and other donors to overcome the many obstacles slowing relief into the region. In Sudan, for instance, A.I.D. moved to approve and put on the high seas, 100,000 metric tons of P.L. 480 food commodities, despite the fact that agreements were not in place at that time with the Government of Sudan to launch a relief program, and that logistical arrangements were not yet finalized. We still face operational problems that we continue to negotiate with the Government of Sudan, but we are proceeding with the program.

While issues have arisen to slow relief programs, at no time have humanitarian relief efforts been suspended in Ethiopia or Sudan. Only in Somalia did relief efforts completely come to a halt, due to the anarchy which overtook that country. While all expatriate A.I.D. personnel were withdrawn from Sudan due to the Gulf Crisis, this did not prevent relief shipments from going forward or cause operational planning to be halted. The A.I.D. Mission Director to Sudan returned to Khartoum on March 7, 1991.

**Question.** Is there sufficient emergency assistance available to address these needs?

**Answer.** While the demands for relief assistance in the Horn of Africa and elsewhere on the continent have placed a strain on USG resources, we believe there are sufficient resources available to assume an appropriate share of the overall relief burden.

**Question.** There have been reports there has been confusion in the direction and coordination of relief efforts. Is the United States taking the lead in assuring that relief efforts are being effectively carried out?

**Answer.** Relief efforts in Sudan have been hampered for several months by reluctance on the part of Sudanese authorities to acknowledge the scope of the threat facing their country. We believe this earlier position discouraged other donors from making food commitments as quickly as they have in the past. The donor response was also complicated by the evacuation of much of the expatriate community from Sudan just prior to the outbreak of hostilities in the Persian Gulf. Recent commitments by the Government of Sudan to settle several outstanding programmatic issues surrounding the relief effort will help move relief efforts forward. A recent U.S. demarche to the other donors laid out our assessment of the situation and encouraged other governments to help meet the critical needs there. Our message has been very positively received and we expect donors to move to pledge assistance.

**Question.** More than 7 million people are threatened by famine in Sudan. Estimates in the Sudan are that it may already be too late to save as many as a million lives.

Specifically, what will be the A.I.D. program in Sudan? Are there any political obstacles between the Government of Sudan and the United States that will prevent the U.S. from carrying out a humanitarian relief program in Sudan?

**Answer.** We are very concerned that it is too late to prevent a large number of deaths due to hunger and hunger-related diseases this year in Sudan. Much of this is due to the slow response by the Government of Sudan to the clear warnings of large scale crop failures across much of Sudan. In a recent statement issued jointly with the United Nations, however, the Government of Sudan indicated that it was willing to address a number of operational concerns raised by the donors which were hindering large scale relief efforts. We hope this indicates the Government of Sudan is now willing to address this problem as seriously as we believe is warranted.

Despite the Government of Sudan's refusal to acknowledge the size of the disaster facing it, A.I.D. moved to preposition relief food commodities in anticipation that agreements would be in place to allow a relief program to go forward once those commodities arrived in the region. At this time, A.I.D. plans to provide up to 331,000 metric tons of relief food through P.L. 480 and Section 416 authorities. Most of this will be targeted to meet needs in Khartoum and the northern Sudanese province of Kordofan, as well as continuing our relief operations into southern Sudan from Kenya. Relief commodities for northern Sudan will be off-loaded in Port Sudan, where they will be consigned to the World Food Program for onward transport to primary distribution points further inland. Final distribution will be through U.S. private voluntary agencies working with local authorities.

### HUMANITARIAN ASSISTANCE FOR SOMALIA

*Question.* In January, the 21-year old Siad Barre Government in Somalia was ousted. The country faces a grave humanitarian crisis. Is the United States prepared to provide humanitarian assistance for people in Somalia?

*Answer.* The United States is currently providing emergency relief to Somalia through the International Committee of the Red Cross (ICRC). To date, approximately \$2 million of our 1991 contribution to the ICRC for African emergency operations has been spent in Somalia, the largest share of any country.

Until recently, assessment teams were unable to get into either Mogadishu or northern Somalia to determine the extent of food and other humanitarian needs. Upcoming assessment visits, which will include U.S. Government officials, will likely result in requests for further U.S. support.

The United States is involved in a PVO/NGO working group which meets regularly in Nairobi to share information from people who have visited Somalia and to get any anecdotal information that is available. We have encouraged PVOs, such as Medecins Sans Frontieres, to step up their involvement in the relief effort. We are prepared to move quickly to provide food aid and other humanitarian relief through such organizations to address the situation as it is clarified.

### A.I.D. PRESENCE IN SOMALIA

*Question.* When will an A.I.D. presence return to Somalia?

*Answer.* Re-establishing an A.I.D. presence in Somalia in the near future is unlikely. No bilateral development program is currently being contemplated due to the uncertain security and political situations, as well as the fact that Somalia remains under Brooke Amendment sanctions.

The entire U.S. Mission in Somalia, including A.I.D., was evacuated in January 1991 as a result of the civil unrest that overtook the capital. Much of the city's infrastructure, including A.I.D. and Embassy offices, was looted and destroyed during this unrest. The situation there remains unstable, with rival clans still jockeying for political power and periodic outbreaks of armed conflict.

For the near term, A.I.D. is looking at providing support for humanitarian relief activities, in conjunction with other donors to be implemented through the International Red Cross, private voluntary or nongovernmental organizations. A.I.D. intends to provide food aid and other humanitarian relief, once the requisite needs assessments are completed and the modalities of the programs and the distribution mechanisms are arranged.

### FAMINE IN ETHIOPIA

*Question.* There are reports that the famine situation in Ethiopia may be worse than in 1985. What steps has A.I.D. taken this time to be ahead of the problem?

*Answer.* In Ethiopia, relief programs are presently on track, although we are watching closely the effect renewed fighting will have on our efforts. A.I.D. estimates Ethiopia will require 750,000 metric tons of food assistance this year for the provinces of Eritrea, Tigray, Hararghe and Ogaden. A.I.D. plans to meet one third of the need with up to 250,000 metric tons of P.L. 480 food commodities. The Ethiopian relief effort has been greatly aided by the recent reopening of the northern Ethiopian port of Massawa, the primary entry point for northern Ethiopia. This port was closed to relief operations when it was captured by Eritrean rebels in March 1990.

### FUNCTIONAL ACCOUNTS

*Question.* Since 1973 Congress has appropriated development assistance funds through several line items, which we call functional accounts. Three years ago this subcommittee initiated, with specific controls, the Development Fund for Africa, which allowed Africa to receive funding without the restrictions of the functional accounts.

At the time we insisted that the other functional accounts remain in place to assure that priorities in the development program were being addressed.

The Administration this year has again requested that the functional accounts be eliminated.

## FUNCTIONAL ACCOUNT COMPARISONS

Account	Fiscal year—		Percent of change
	1991 appropriated	1992 estimated	
Agriculture .....	481.6	437.3	-44.3 (-9)
Population .....	250.0	228.0	-22.0 (-9)
Health .....	135.0	127.8	-8.0 (-6)
Child survival .....	100.0	108.9	+8.9 (+9)
AIDS .....	52.0	55.0	+3.0 (+6)
Education .....	134.2	146.4	+12.2 (+9)
Private sector/energy and environment .....	152.2	165.2	+13.0 (+9)
Science and Tech .....	8.6	8.6	
Africa .....	800.0	800.0	
Total .....	2,113.6	2,077.0	-36.6 (-2)

If we were to eliminate the functional account process how can we be assured that Congressional priorities are being addressed?

Answer. The approach that A.I.D. and the Congress have used with the Development Fund for Africa (DFA) provides an excellent model for assuring that A.I.D. addresses Congressional priorities. A.I.D. has met the Congressional targets for the DFA and has consulted regularly and closely with the Congress on a wide range of issues. I am personally committed to following a similar strategy vis-a-vis the Congress in an A.I.D. without functional accounts.

Question. When Administrator Alan Woods tried to have the functional accounts removed the best he could tell us was that it was his "expectation" that A.I.D. would fund these programs at traditional levels. What would be your philosophy?

Answer. As I stated previously, I intend to engage in frequent, close consultations with the Congress to insure that Congressional priorities are adequately reflected in the A.I.D. program. I can cite as an example of our willingness to work with the Congress on this the fact that our Congressional Presentation included Agency targets for Environment, Child Survival, AIDS, Basic Education and Population activities. These are obvious areas where A.I.D.'s and the Congress's priorities converge. I believe, that as our experience with the DFA demonstrates, we can arrive at a mutually supported set of Agency emphases without the need for functional accounts.

Question. What would be your position on establishing regional accounts, like the Africa Fund?

Answer. The Congressional Presentation reflects my position on establishing regional accounts. We have requested a Development Programs account along with the DFA. In addition, we soon will forward to the Congress new authorizing legislation with the same account structure.

## PRIORITY OF POPULATION

Question. For Fiscal Year 1991 the Administration requested \$193,191,000 for international family planning programs, and Congress appropriated \$250 million. This amount represents a substantial increase (\$30 million) in the population account. However, the Administration's Fiscal Year 1992 request of \$228 million is a \$22 million or a 10 percent decrease in family planning.

Why isn't family planning a priority for A.I.D.? Why are you decreasing funding?

Answer. A.I.D. considers population to be one of the most important developmental sectors. A.I.D.'s estimated funding for population in FY 1991 is expected to reach over \$350 million—the highest level for population yet. This includes funds from the following: Population Account, the Development Fund for Africa and Economic Support Funds.

A.I.D. is committed to delivering quality family planning services to developing world couples. Since the inception of the population program in 1965, A.I.D. has maintained that delivering these services is the most effective and appropriate response to rapid population growth. We believe that reducing rates of population growth is important as a means to achieving the broader objective of better social, economic, environmental and health conditions in the developing world, rather than as an end in itself.

A.I.D. is aware of the need for increased resources worldwide for population and provides an estimated 46% of the total donor assistance for population. Only one

country (Norway) devotes a higher percentage of its development assistance budget to population.

A.I.D. is working at many levels to increase the total resources supporting family planning programs. A few examples include:

- Stimulating local investments from public and private sector sources;
- Initiating a major new private sector initiative to increase commitments for family planning from the private sector through means such as working with private health insurers and employers to provide family planning services;
- Improving donor coordination to increase other donor commitments, avoid wasteful duplication as well as gaps in programming, and capitalize on each donor's strong points; and
- Improve program efficiency by improving program management and by giving increased emphasis to program sustainability.

#### OPERATING EXPENSES FOR POPULATION

*Question.* Do current operating expenses reflect the increased management burden given expanded activities?

*Answer.* In FY 1991 Congress approved the use of up to 5 percent of population program funds for operating expenses for administration of family planning assistance programs. This will help strengthen the financial and technical oversight of A.I.D.'s population program. Notably, these funds will allow the program to:

Strengthen management information systems (MIS) and automation by improving the existing systems that serve the population program, and installing a computer network for the population program.

Increase monitoring of field programs through increased travel for program design, monitoring and evaluation. This is particularly important as the scarcity of travel funds in recent years has hampered the staff's ability to implement and monitor the program.

Further develop the technical and managerial skills of population program staff through specialized training classes and programs.

#### POPULATION AND AIDS

*Question.* The Committee is concerned about the need to increase resources to fight AIDS. How does the population program complement the AIDS program?

*Answer.* A.I.D.'s population and health staff work together very closely in program and planning implementation including the design of the next generation of AIDS prevention activities. A.I.D.'s family planning programs offer a resource for addressing the sexual transmission of AIDS. Since 1987, the Agency's population program has procured and shipped more than 155 million condoms to AIDS prevention programs worldwide. In addition, some of the 2.5 billion condoms provided to family planning programs during this period helped prevent the further spread of AIDS. The population program has also pioneered condom social marketing programs which offer a cost effective approach to distributing low-cost, high-quality condoms through commercial channels.

The population program offers the best existing AIDS condom distribution program. Its assets include:

- Technical expertise to identify high-risk populations and forecast condom needs;
- Ability to provide high-volume condom procurement and shipment worldwide;
- Use of WHO-consistent condom quality standards which also exceed current U.S. standards;
- Sampling and testing of condom stocks in field programs;
- Logistics management expertise for condom delivery systems;
- Expertise for designing management information systems; and
- Expertise in condom social marketing and community-based distribution of condoms.

Various A.I.D.-supported family planning training and communications projects include counseling on AIDS and sexually transmitted diseases and other prevention messages.

The population program has pioneered the use of the mass media to communicate messages about sexual behavior and practices and to educate target audiences about the correct use of condoms.

## POPULATION

*Question.* The United Nations Population Fund (UNFPA) continues a global leader in international population assistance and up until 1985 the United States was its largest donor.

What is the administration doing to ensure the United States is able to resume its once prominent role in this organization?

Under what condition would you favor resumption of funding for the UNFPA?

*Answer.* A.I.D. may not consider making a contribution to the United Nations Population Fund (UNFPA) until it becomes eligible under the Kemp-Kasten amendment which prohibits assistance to an organization that supports or participates in the management of a program of coercive abortion or involuntary sterilization. This restriction applies to UNFPA because of the management assistance it provides to China.

The problem in China is its one-child policy and how it is implemented. Targets for authorized births are apportioned down to the local level and, ultimately, to each work unit. These targets are treated as quotas by officials whose performance is reinforced by a system of rewards for success and punishment for failure. Special benefits are provided to couples who comply with policy, and economic and other penalties are imposed on those who do not. This system has set in place a program for population control that has resulted in a wide variety of abuses, including coerced abortion and involuntary sterilization. To set these targets, monitor compliance with them, and enforce the one-child policy, China needs to obtain and analyze demographic information effectively.

Although UNFPA does not directly fund abortion or coercion in China, the quality and amount of management assistance UNFPA provides to China has had a significant impact on China's ability to obtain and analyze the information China needs to manage its one-child policy. UNFPA has helped China develop the modern capability to establish and monitor compliance with authorized birth targets, including assistance and support for computer hardware, the State Family Planning Commission and other governmental agencies responsible for policy development and implementation of the China program, institutions to make China self-sufficient in training demographers, basic and clinical research (such as studies of reproductive epidemiology and social, behavioral and psycho-social aspects of contraceptive use), and training for family planning workers who implement China's abusive population program which results in coerced abortion and involuntary sterilization.

In 1985, the A.I.D. Administrator concluded that the Kemp-Kasten amendment applies to UNFPA because of the management assistance it provides to China, and this determination was sustained in the federal courts. Since then, there has not been significant change either in the China program or in UNFPA's support for it that would justify A.I.D.'s making a contribution to UNFPA. In fact, the President vetoed the 1990 foreign assistance appropriations bill shortly after UNFPA started its third five-year program in China because funds were earmarked for UNFPA and its new program is not significantly different from the previous two five-year programs.

It is very difficult to speculate about the kinds of changes UNFPA would have to make for A.I.D. to resume assistance to it. Certainly, placing U.S. funds in a segregated account which cannot be used for China would not satisfy the Kemp-Kasten restriction, and would not be an effective way to express United States concern about coercion in China. Funds are fungible. As long as China continues to have coercive abortion and involuntary sterilization, A.I.D. will not provide support to UNFPA unless it ceases to provide assistance to China, or unless UNFPA provides the kind of assistance which cannot directly or indirectly support coercive abortion and involuntary sterilization in China, as UNFPA currently does with its management and training assistance, perhaps by providing only contraceptive commodities.

## AIDS PREVENTION IN AFRICA AND AROUND THE WORLD

*Question.* The AIDS epidemic in Africa may be the single largest impediment to development. Reports have indicated that in Uganda and other countries as many as one third of the population may be dead by the turn of the century. In Africa alone there may be as many as one million AIDS orphans. How will your \$55 million request for AIDS begin to meet prevention needs in Africa and around the world?

*Answer.* The requested \$55 million represents a modest growth in the Agency's AIDS prevention program and will be supplemented by funds from other A.I.D. accounts such as Health, Population, Economic Support Fund and Development Fund for Africa. Other countries are also contributing to the program. We believe that

the \$55 million request is appropriate and will enable us to increase activities in several countries as well as initiate innovative activities in additional countries.

With regard to Africa specifically, in FY 1991 the Agency plans to obligate over \$30.5 million in Development Fund for Africa resources in addition to an allocation of approximately \$10 million from the AIDS account which will be utilized for prevention activities. A similar amount will be programmed for FY 1992. Additionally a majority of the money A.I.D. gives to WHO/GPA is also spent in sub-Saharan Africa.

#### INVESTMENT IN AIDS PREVENTION FOR DEVELOPMENT

*Question.* For Fiscal Year 1991 this Committee appropriated \$52 million for AIDS and designated that the World Health Organization (WHO) administer half of the funds. Over the past several years, the U.S. contribution to WHO has been as high as 40 percent. However, this year the administration's request of \$25 million would represent only 25 percent of WHO's budget. What effect is AIDS going to have on development efforts? Are we investing enough in AIDS prevention?

*Answer.* AIDS severely threatens economic development in the Third World. The death rate among young adults, the most productive members of society, will double or even quadruple in some cities and certain regions of African countries over the next five years. Projected economic costs include losses in human resources, wages, and production due to premature deaths in the 20-49 age group and the costs of lost business such as tourism in addition to increased health-care costs. Societal costs include decreased rates of child survival and increased numbers of orphaned children.

A.I.D. played an important role in the establishment of the World Health Organization/Global Program on AIDS (WHO/GPA) and continues to be its largest financial supporter. WHO/GPA works with individual host countries to set up national AIDS Committees, develop short-term and medium-term plans, and evaluate the implementation of these plans. A.I.D. and other bilateral donors are financing and implementing these national plans, directly or through cooperating agencies and PVOs.

A.I.D. recognizes that the need for AIDS prevention programs is enormous. In addition to providing U.S. funding, we are encouraging other donors to help build and finance the additional public and private institutional capacity needed to address this global AIDS problem. We believe that the \$55 million request, representing a large contribution to the WHO/GPA budget as well as funds for bilateral assistance programs, is an appropriate amount for the United States to contribute.

#### COLLABORATION WITH WHO/GPA

*Question.* Is A.I.D. collaborating closely with WHO and, if so, where have efforts at collaboration been problematic?

*Answer.* A.I.D. has an excellent working relationship with the leadership and staff of WHO/GPA (World Health Organization/Global Program on AIDS). WHO/GPA has taken a global leadership role in AIDS prevention and control, mobilizing and coordinating the efforts of donors and affected developing countries. WHO/GPA assists individual countries to set up national AIDS committees and plans. However, WHO/GPA does not have the capacity to implement these national AIDS programs and has built its program on the assumption that most of the support for country AIDS programs will come from bilateral sources. A.I.D., along with other bilateral donors and their cooperating agencies, assists developing countries in financing and implementing the national programs. Coordination with WHO/GPA is both formal, through the Management Committee of the GPA, and informal, through periodic meetings between A.I.D. and WHO/GPA officials.

#### WHO vs. A.I.D.: COUNTRIES OF OPERATION

*Question.* Is it true that WHO operates in more countries than A.I.D. and that because of current restrictions, A.I.D. is not able to work in a number of countries, including Angola, Ethiopia, Liberia, Somalia and Sudan to name a few. Does A.I.D. plan to reduce its AIDS assistance to even fewer countries?

*Answer.* WHO, as the major international health organization, operates in more countries than A.I.D., in part because of their broader country mandate. Statutory prohibitions, such as those found in sections 512, 513, 518, and 548 of the Foreign Assistance Act, prevented A.I.D. from operating in the countries you cited, until legislation passed in 1990 specifically exempted certain AIDS programs from most restrictions. Beginning in FY 1991 we are permitted to provide assistance from the AIDS Prevention and Control account in all of the cited countries except Angola.

Because of various policy and operational considerations, however, we do not currently plan to begin AIDS activities in those countries.

A.I.D. currently operates and will continue to operate prevention programs in 47 countries. However, we plan to increasingly focus major support in ten to fifteen countries where we can make the greatest impact on the spread of the disease.

#### A.I.D. REPORT ON DISPLACED CHILDREN

*Question.* Dr. Roskens, I know that you are aware of the Committee's concern over the need to address the needs of children who have been displaced because of war disasters, or simply are part of the million street children around the world. It is encouraging that for the first time A.I.D. has requested \$5 million for this purpose, and I understand that you have established a program director.

However, we still have not received the report and study we requested that A.I.D. do on this issue. In fact the report is one year late from the original deadline and over one month late from the second deadline. Why didn't you submit on February 1st the plan on a program for displaced children as required by the Committee?

*Answer.* A.I.D. was late in forwarding the Action Plan because we needed to clarify several issues. First, we needed to ascertain what types of programs could be supported under the legislation. This was done by reviewing the literature and seeking the views of knowledgeable individuals and groups as to how A.I.D. could effectively help these children. Also, after drafting a plan, the program coordinator spent much of January in Ethiopia, a country that has one of the largest populations of orphaned and displaced children, looking into the potential for further A.I.D. assistance, reviewing existing programs, and checking the recommendations in the draft plan against what was actually needed and being done there. Based on the trip, the coordinator also recommended activities that A.I.D. could support in Ethiopia. A.I.D.'s report to Congress was submitted in early March 1991.

#### PROGRAM TO ADDRESS DISPLACED CHILDREN

*Question.* Why hasn't A.I.D. set up a comprehensive program to address displaced children?

*Answer.* We recognize the tremendous needs of orphaned and displaced children. However, programs to assist orphans and displaced children are a relatively recent departure for A.I.D. They do not fit nearly in A.I.D.'s traditional child survival efforts, which remain a high priority. It will take time to acquire the specialized expertise needed to mount effective programs for children in exceptional circumstances. A.I.D. staff will continue to work towards a program for displaced and orphaned children. Page 9 of the Action Plan contains some of the issues that A.I.D. staff in Washington will investigate over the next year in order to further develop a wider program.

#### AIDS ORPHANS

*Question.* In what way will A.I.D. address the possibility of more than 1 million orphans created by the AIDS epidemic?

*Answer.* Our Mission in Uganda, where the problem is most severe, is in its third year of supporting the placement of AIDS orphans within extended family networks. The \$500,000 that has been set aside in 1991 for Uganda will be used to conduct pilot programs that will help determine which program approaches are the most effective. As the problem grows the ability of the extended family to take on even more children is being stretched to capacity. Establishing group homes, at the community level, with community involvement is the most likely candidate of the pilot effort. This work in Uganda should give us an indication of what programs may be effective in the African context. As was indicated in the Action Plan for Orphans and Displaced Children, submitted to Congress in early March 1991, A.I.D. will be investigating the possibility of addressing some of the problems of AIDS orphans in Africa at a regional level.

#### CONVENTION ON RIGHTS OF THE CHILD

*Question.* Dr. Roskens, in your statement you indicate (p11) that A.I.D. reemphasized its commitment to child survival activities at the recent World Summit for Children" . . . But it's my understanding that the United States along with Iraq, Iran, Libya, Somalia, Ethiopia and South Africa have not signed the Convention on the Rights of the Child. (Which was approved at the World Summit) Why hasn't the United States joined more than 65 countries in signing this Convention? What objections have been raised by the Administration to the Convention? If the Convention

is submitted to the Senate for ratification, how will A.I.D. adjust its programs in order to support the goals of the Convention?

Answer. The Convention, which as a treaty would become the law of the land, is lengthy, complex and raises difficult issues with respect to law and policy. Some provisions deal with matters which in the U.S. are regulated primarily or exclusively by State and local governments. The Administration is studying provisions of the Convention to determine what implementing legislation and what reservations would be required for the U.S. to ratify it without conflicting with State/local prerogatives in our constitutional system.

For ten years the U.S. participated actively in drafting the Convention and is fully in accord with its general goals to protect and promote the human rights of children worldwide. Since the Convention's goals are largely those supported in A.I.D.'s programs, including child survival, ratification would not require major changes in our programs.

#### ROMANIA ORPHANS

*Question.* In the 1990 supplemental enacted May 1990, this Committee appropriated \$4 million for health care assistance for Romanian children, particularly orphans. To the extent possible, these funds were to be used to move children out of institutional care either through family reunification or adoption.

Why has it taken A.I.D. since last April to get this emergency operation running?

Answer. The 1990 Supplemental was enacted in May of 1990. Funds were made available to support the program in September and a grant was awarded to the PACT Consortium and UNICEF on September 30, 1990. The purpose of the Romanian Children's Project is to address immediate needs of the Romanian children through the establishment of systems within the Romanian health services infrastructure which will enable the provision of physical, psychological, and social rehabilitation services to infant, child and adolescent populations determined to be in need; and facilitate adoption of institutionalized children and other feasible alternatives to institutional care. PACT, World Vision Relief and Development (WVRD) and Project Concern International (PCI) have made significant progress. For example:

A dialogue has been established with the various ministries and committees having custody of the children;

Nine orphanage clusters have been identified and additional staff required for the program have been recruited;

Technical assistance is being provided to institutional staff and social workers are being trained to work with 100 selected children to be reunited with their families;

Medical services are being provided to children such as the screening of more than 1000 children for eye problems and the 51 subsequent eye operations to correct strabismus and cataracts;

A volunteer PCI pediatrician is in Romania doing diagnostic work with infant victims of AIDS and WVRD has arranged for two clinicians from Australia to provide services to AIDS children in Constanta and a pediatric nurse to work at the Infectious Disease Hospital; and,

A sub-grant was awarded to HOLT International Children's Services early in February to implement the adoptions related program.

The FY 1991 earmark is included under the PVO Initiatives Grant Program and we anticipate awarding 6 grants (totaling more than \$3 million).

#### A.I.D. OPERATING EXPENSES

*Question.* One of the largest increases in the request for A.I.D. is for A.I.D. Operating Expenses. This account is estimated to increase from \$485 million in fiscal year 1991 to \$483 million in FY 1992 or an 11% increase in funding.

Will this increase in funding be used to provide additional personnel in the field or to fatten up personnel levels in Washington?

Answer. The FY 1992 Operating Expenses request is essentially a straight-line extension of equivalent FY 1991 amounts. The apparent 11 percent increase results from (1) the incorporation of some \$31.3 million of expenses financed in FY 1991 from program accounts into this account in FY 1992 and (2) the need to offset an expected reduction in local currency of \$9.3 million between FY 1991 and FY 1992. On a comparable basis, therefore, the increase is only 1.5 percent, well below anticipated inflation rates.

A.I.D. anticipates a small reduction in U.S. direct-hire staff levels overseas, due mainly to declines in the size of missions affected by the Gulf War and other recent

political events. The small increase planned for Washington will enable the Agency to improve financial management and contracting in support of field operations.

*Question.* There are reports that A.I.D. plans to provide more and more people to review programs in Washington, and fewer people to plan and carry out the programs overseas. Is that correct?

*Answer.* There will be a slight net increase in Washington to provide additional staff in the critical areas of financial management and contracting. However, there are continuing changes and new initiatives facing the Agency, such as Eastern Europe, which require additional staff resources. These resources will be provided through reallocations of current Washington staff to cover the higher priority requirements.

The Agency is currently reviewing its processes in an effort to reduce the time spent in detailed reviews by Washington staff of mission programs and to identify and reduce areas of overlap and duplication. This review may lead to some reductions in overall Washington staffing levels.

*Question.* To what extent are increased operating funds being used to address increased program funding for Africa and Population programs?

*Answer.* In FY 1991 the Agency has applied the authority provided in the FY 1991 Appropriations Act to use \$12 million of DFA for operating expenses for Africa. Much of this funding is required for start-up costs of the new mission in Namibia and to relocate personnel from lower priority and/or non-performing countries to other countries in support of expanded programs. The FY 1991 funding for Africa Operating Expenses will be sufficient to support anticipated staffing levels at the overseas missions. For FY 1992, the overall amount of Operating Expenses requested will require reductions in total overseas U.S. direct-hire staff. Within the reduced total, A.I.D. will increase the number of direct-hire staff assigned to Africa in recognition of increased program requirements. Overseas support costs are being allocated to support the staff levels but will be extremely tight in Africa and elsewhere given the overall budget request level. It is not yet clear what the full implications of operating within these tight constraints will be on programs for FY 1992.

To support increased population funding in FY 1991 the Agency has provided an additional \$1.1 million from program funds for operating costs. These funds will be used for travel for better monitoring of overseas projects, new project development and evaluation. Some portion will also be directed to staff development. As in Africa, a portion of these funds will be for non-recurring costs, such as improved automation for the Office of Population.

#### LOANS FOR THE POOREST ENTREPRENEURS

*Question.* The Committee has been encouraging a "minimalist" approach to this program for a number of years now. In order to encourage A.I.D. to reach the poorest entrepreneurs, last year we recommended that A.I.D. use \$20 million of the microenterprise funds for loans of less than \$300.

What progress has the Agency made in providing loans of less than \$300?

*Answer.* A substantial proportion of A.I.D.'s microenterprise program supports loans of less than \$300. A.I.D. believes that the amount of such lending under A.I.D.-sponsored programs will continue to grow. A portion of A.I.D.'s funding goes directly into loan capital. In 1988 this resulted in 41,000 loans of less than \$300, or 51% of all loans made with A.I.D. funds. The corresponding figures in 1989 were 46,000 and 46% of the total. A.I.D. does not have data for 1990, but indications are that the volume of funding for loan capital continues to increase. A.I.D. is confident that roughly half of the loans made with those funds will be below the \$300 mark.

In addition, A.I.D. supports the development of institutions that make very small loans. Through grants to U.S. private voluntary organizations such as Catholic Relief Services and FINCA, A.I.D. is supporting the development of "village banking" programs that exclusively offer very small loans.

#### MICROENTERPRISE MONITORING

*Question.* Congressional guidance on size of loans, economic status and gender of recipients and the use of local "grass roots" organizations was incorporated into an A.I.D. Policy Determination issued in October 1988. GAO testimony from September 26, 1990 reviews: (1) A.I.D.'s management of the microenterprise program and its compliance with congressional guidance; and (2) the accuracy of A.I.D.'s March 1990 report to Congress.

The GAO visited three A.I.D. missions (Guatemala, Honduras and Jamaica) accounting for a total of 27 percent of the \$30.0 million for microenterprise loans in Fiscal Year 1989. The GAO reported none of the three countries targeted the poor-

est of the poor. Not one of the countries visited had a system to obtain accurate information on loan recipients and therefore much of the data reported from overseas missions were probably based on assumptions. The lack of specific information was not noted in the March 1990 report to Congress and consequently the report gives the impression the data is more factual than is the case. Additionally, 30 percent of missions did not report on loan size or gender and economic issues. Consequently, the report is of questionable reliability.

How has the Agency responded to the substantial tracking system problems highlighted in the GAO report?

Answer. A.I.D. is in the process of establishing a Microenterprise Monitoring System (MEMS) which will provide accurate and timely data on the Agency's work in the microenterprise sector. A field test of this new system has just been completed in Swaziland, Botswana and Malawi. The new system employs a two-tiered approach: the first tier gathers obligations data from USAID field missions on compliance with the earmark, and the second tier systematically collects specific program information directly from the organizations implementing A.I.D. microenterprise projects. A.I.D. believes that this new approach will dramatically increase data accuracy, particularly on issues such as loan size and gender of loan recipients which are of significant interest to Congress.

Implementation of the first tier of the new system is already underway, with preliminary data expected in mid-July, 1991. A.I.D. expects to begin implementation of the second tier by September, 1991. Some data from MEMS will be included in the 1992 Microenterprise Report to Congress.

#### ENVIRONMENTAL ANALYSIS IN POLICY DIALOGUE AND REFORM

*Question.* A.I.D. in June of 1990 announced with great fanfare its "Initiative on the Environment." The initiative purports to lay out a conceptual approach to responding to the world's environmental problems. It also claims that beginning in FY 1991 each bureau (within A.I.D.) will concentrate 75 percent of all new environmental resources to support specific problem areas such as sustainable agriculture, tropical forestry, biological diversity, energy efficiency, and watershed management. It further claims that A.I.D. will use existing project funds and reorient other programs to make this happen.

The problem is that the purpose of this initiative, to provide an action framework to guide A.I.D.'s environmental programs has produced little or no action.

It has been almost a year since this initiative was announced, and its first phase to develop a field mission action plan has yet to be completed. Further, very few of the actions called for have even begun to be implemented.

For example, the initiative states, "beginning in FY 1991 (A.I.D.) will incorporate environmental analysis in all new policy dialogue and policy reform programs." In how many countries has this occurred, and what have been the results?

Answer. A.I.D. is actively promoting its Initiative on the Environment. The Agency has launched a new Environmental and Natural Resources Policy and Training project (EPAT) to advance recognition by developing country policy makers of the linkages between economic policy and the sustainable use of the environment and the natural resources base. The project will sponsor training, and applied economic research, institutional strengthening and policy dialogue support services to A.I.D. countries worldwide. In addition, A.I.D. is redesigning its current Environmental Planning and Management project to provide, among other things, specialized training programs, thereby helping developing countries strengthen their environmental review and analysis. These activities are intended to support new country-level policy dialogue efforts to implement key aspects of A.I.D.'s Environmental Initiative. The Agency expects to engage in dialogue to promote environmental policy reform in developing countries this year.

This is a complex and often lengthy process; and while we cannot predict the number of countries or the results, as a result of initial correspondence with several of our missions on the EPAT project, we find that dialogue on policies which affect the environment and natural resources is likely to be important in: Sri Lanka, the ASEAN countries, several West African countries, Costa Rica, Honduras, Peru and the eastern Caribbean countries.

### GLOBAL ENERGY EFFICIENCY INITIATIVE

**Question.** The initiative further calls for "launching a Global Energy Efficiency Initiative," and creating a Feasibility Fund for Clean Energy Technology. Have either of these been accomplished? If not, when will they be and what will be their scope?

**Answer.** In 1990, A.I.D. launched a Global Energy Efficiency Initiative (GEEI) to improve energy efficiency in A.I.D.-assisted and other "key" countries that have significant potential for adding to global climate change. A.I.D. has budgeted over \$4 million in FY 1991 for the GEEI. Under this initiative, A.I.D. in collaboration with other has:

- Established a U.S. Working Group consisting of Department of Energy (and its national laboratories), Environmental Protection Agency, Office of Technology Assessment, Battelle Memorial Institute, Princeton University, and energy and environmental advocacy organizations;

- Designated a program director;

- Completed a comprehensive study of the impact of energy efficiency on global climate change.

- Moved to establish an International Steering Committee; and

- Prepared project proposals for Indonesia, India, Brazil, Poland, the Philippines, and other developing countries.

Under the Feasibility Fund for Clean Energy Technology, A.I.D. has budgeted more than \$5 million in FY 1991 to promote preinvestment activities for efficiency and renewable energy through:

- A cooperative agreement with the World Bank.

- A private Sector Feasibility Fund.

Two new institutions: the International Fund for Renewable Energy and Efficiency (IFREE) and the Environmental Enterprises Assistance Fund (EEAF).

IFREE is being established in cooperation with U.S. industry and other U.S. agencies (mainly DOE and EPA). The non-profit Environmental Enterprises Assistance Fund is designed to leverage financing for investment in environmental beneficial technologies. These funds will be expended in close cooperation with the industry, the World Bank, other multi-lateral development banks, and NGOs.

### NATURAL FOREST MANAGEMENT IN SELECTED KEY COUNTRIES

**Question.** The initiative further calls for the development of comprehensive program to support natural forest management in selected key countries and that a minimum of 10 percent of A.I.D.'s total forestry budget will be reoriented to fund this in FY 1991. Has this been accomplished? If not, when will it be?

**Answer.** A.I.D. has disseminated information about the basic requirements for a comprehensive program to support natural forest management. Some of the necessary components are in place in A.I.D. projects in selected key countries, including Brazil, Costa Rica, Indonesia, and the Philippines.

In March 1991, A.I.D. co-funded a conference that examined the state of knowledge on natural forest management, including the technical, economic, social, and policy aspects. The results will be used by A.I.D. and others in promoting natural forest management activities.

In FY 1991, more than 10 percent of A.I.D.'s total forestry budget will fund activities that promote natural forest management and sustainable natural resources management. We are also increasing activities that conserve and protect natural forests as part of A.I.D. tropical forestry projects.

### ENVIRONMENT INITIATIVE: SPECIFIC ACTIONS

**Question.** What specific actions mentioned in this initiative has A.I.D. taken?

**Answer.** A.I.D. has taken and is taking several actions to implement the Environmental Initiative:

- Hired additional contract and direct-hire staff in the environmental sector.

- Contracted with the Institute for International Research (IIR) to train approximately one hundred Agency staff per year in the environment.

- Undertaken to design or redesign and implement projects dealing with environmental policy, environmental health, sustainable agriculture, environmental training, and urban and industrial pollution control.

- Recently completed an action plan to implement the Environmental Initiative in Washington and the field in FY 1991, FY 1992 (and beyond at the country level).

- Launched a Global Energy Efficiency Initiative (GEEI) to improve energy efficiency in A.I.D.-assisted and other "key" countries.

—Budgeted more than \$5 million in FY 1991 funds to promote reinvestment activities for efficiency and renewable energy through a cooperative agreement with the World Bank, the Private Sector Feasibility Fund, the International Fund for Renewable Energy and Efficiency (IFREE), and the Environmental Enterprises Assistance Fund.

#### PREINVESTMENT FACILITY

*Question.* In FY 1991, the Committee directed A.I.D. to devote \$5 million to create a preinvestment facility to be managed jointly with DOE and EPA. Its purpose would be to push renewable energy and energy efficiency projects beyond the identification stage to actual financing. Its purpose would be to bridge the gap that developing countries often find themselves in: that is of having many potential uses for renewable energy technology and resources, but of not having the technical expertise to put that potential to use.

My understanding is that both DOE and EPA have committed funding for this facility and that A.I.D. is yet to commit.

What is the status of A.I.D.'s commitment to this facility? How much will A.I.D. commit to the facility and what will the energy industry's role be it in?

*Answer.* A.I.D.'s has budgeted more than \$5 million of FY 91 funds for the facility through an interrelated set of funding mechanisms to identify and assess efficiency and renewable energy projects. The funding mechanisms are:

The new International Fund for Renewable Energy and Efficiency (IFREE), which is being established in collaboration with U.S. industry;

A cooperative agreement with the World Bank; and

A new, non-profit Environmental Enterprises Assistance Fund designed to leverage financing for investment in environmentally beneficial technologies.

Industry's role in these efforts will be substantial as most of the mechanisms are industry or trade related. A.I.D. funding for a portion of the activities will go through the U.S. Export Council on Renewable Energy, a consortium of trade associations. Already, we have had meetings with representatives of one of those trade associations to discuss cooperation in Mexico and Indonesia, with another trade association to discuss the Philippines, Central America, and Kenya, and with several individual U.S. companies to look at other opportunities.

#### AFRICA 1000 AND VITASAT

*Question.* A.I.D. was directed to support innovative technology transfer programs such as Africa 1000, to assist industry in bringing 1000 African villages on renewable resources by 1995, and VITASAT, a low-orbit satellite to provide renewable energy maintenance and technical assistance to in-country PVO's in remote areas. What is the status of A.I.D.'s support of these projects?

*Answer.* A.I.D. has held preliminary meetings with VITA to discuss VITASAT, their low-orbit satellite program, and is currently reviewing a VITA proposal for funding in 1991. We expect to make a decision in April. A.I.D. staff have met with representatives of the Africa 1000 program several times during the past 18 months to discuss the program's goals and approaches and to explain A.I.D.'s strategies and system.

We invited them to submit proposals that take account of market demand for technology and willingness to pay on the part of villagers. Experience suggests that otherwise such projects are unlikely to be sustainable and or to have more than a limited impact.

Recently the U.S. renewable energy industry joined with the original promoters of Africa 1000 to establish a corporation. Together they have set up a board of directors that will soon meet to develop a strategy and hire staff. A.I.D. has an on-going relationship with the industry (including a cooperative agreement with the industry council) and we believe that the new coalition will submit a proposal.

#### ENERGY AND ENVIRONMENT IN EASTERN EUROPE

*Question.* A.I.D.'s Eastern Europe SEED monies were established to assist Eastern Europe in meeting environmental problems. Renewable energy and energy efficiency industries assert that a strong market exists in environmentally-benign energy technologies in rural areas very short in diesel fuel, and urban areas needing electric load reduction. How much money was directed to the Department of Energy to assist renewable energy, and how much was directed to industry consortia?

*Answer.* A.I.D. is working closely with the Department of Energy and the Environmental Protection Agency in developing the FY 1991 energy and environmental

assistance projects for Eastern Europe. Improving energy efficiency and commercializing environmentally-sound technologies are critical to economic restructuring and improving the quality of life in the region. New FY 1991 projects are under way or planned that will help achieve short-term energy savings in industries, promote regional cooperation in energy efficiency and renewables, and improve efficiency and reduce pollution in Krakow, Poland. It is expected that 20-30% of the expected FY 1991 energy funding of approximately \$25-30 million will be directed to the Department of Energy. While the program emphasis and largest market potential is in the energy efficiency area, some part of this funding will support renewable resource assessments with U.S. industry.

#### A.I.D. RESPONSE TO DIRECTIVE ON ENVIRONMENTAL STAFFING

*Question.* For the past three years, Congress has specifically directed A.I.D. to increase its staffing environmental and energy experts. Congress made these specific directives to fill a void at A.I.D., and to enable the U.S. to provide technical assistance to developing countries concerning energy policy and planning, end use efficiency and renewable energy.

Because of supposed shortages in A.I.D. operating expenditures, the Committee gave A.I.D. the authority to use program funds to pay for environmental staffing, and in its FY 1991 report specifically indicated that this was one-year authority and that A.I.D. should "include in its fiscal year 1992 budget request for operating expenses funds necessary to pay for the cost of direct-hire employees."

Preliminary analysis of the 1992 request (performed without the benefit of A.I.D. budget justification) indicates that A.I.D.'s overall direct-hire staff level will decrease slightly in FY 1992, and that the hiring of economists has taken over hiring environmental experts.

In short Mr. Roskens, A.I.D. has ignored the Committee's directive on environmental staffing. What is your response?

*Answer.* I disagree. A.I.D. is strengthening its environmental expertise and plans to add approximately twenty energy, environmental and natural resources (ENR) specialists annually for the years FY 1990 to FY 1992. As of March 1991, thirty positions have been established, of which sixteen have been filled, including seven direct-hire experts. More positions will be added as country level ENR initiatives are developed and approved during the coming years.

The special program funding authority for direct-hire employees authorized by the FY 1990 Appropriations Act was not used because it was not a multi-year authority and we were concerned that it might not be renewed beyond FY 1991. Although the authority is available for FY 1991, A.I.D. has been informed that in FY 1992 the Agency must use operating expense funding to pay the cost of any ENR direct-hire employees. That has left us in the position of wanting to hire new employees at a time when overall personnel levels must be reduced. The trade-offs are difficult, but we are committed to increasing the number of ENR direct-hire employees.

#### ADDITIONAL DIRECT HIRE ENVIRONMENTAL STAFF IN FY 1992

*Question.* How many additional direct-hire environmental staff positions are contained in the FY 1992 request?

*Answer.* Seven of the thirty new energy, environment and natural resources (ENR) positions established since FY 1990 are direct-hire; twenty-three are contract. This represents about one-half of the target established in the Environment Initiative, or twenty new positions each year (1990-92). Our long-range intention is to increase the ratio of direct-hire positions. In this regard, the Environmental Working Group (EWG) has recommended increasing significantly the number of direct-hire employees to manage and direct ENR activities throughout the Agency. With the increased priority being placed on ENR activities in the Agency, we expect to see more direct-hire positions established and filled to meet the growing program demand within the next year.

#### MISSIONS WITH DIRECT-HIRE ENR EMPLOYEES

*Question.* How many A.I.D. missions have environmental or energy experts on their staffs as direct-hire employees?

*Answer.* Twenty missions (out of 70 total) located throughout the four regions have a combined total of 28 direct-hire (DH) employees—20 Americans and 8 Nationals—working as energy, environmental and natural resources (ENR) experts, up from half that number five years ago. The number is certain to increase signifi-

cantly in the next five years as country-level ENR projects are developed and approved, as position ceilings become available for ENR positions, and as ENR specialists are recruited to fill these new positions.

In addition to these direct-hire experts, A.I.D. has an additional twenty-nine American employees working overseas who have academic credentials and/or relevant work experience in ENR matters but are not now assigned to ENR positions. These employees are currently working in areas such as project development or program management where they bring an ENR perspective and capability to mission operations.

Also, virtually all of our seventy overseas missions have identified an employee (usually a direct-hire employee) as the mission environmental coordinator. While these individuals may not have a formal academic background in an ENR subject area, a number are knowledgeable about and conversant with various aspects of energy, environmental and natural resources matters.

#### EDUCATING MISSION DIRECTORS ABOUT ENR MATTERS

*Question.* A.I.D. was directed to educate Mission Directors on environmental and renewable energy and energy efficiency. Has A.I.D. begun this program? Have the program materials been developed? When are meetings planned to disseminate this information?

*Answer.* A.I.D. has a contract with the Institute for International Research (IIR) to design and implement a five-year agenda for training Agency staff in energy, environment and natural resources issues. The program is called ASSET, which stands for A.I.D. Staff Strengthening through Environmental Training. IIR is working in coordination with the Agency's Training Division and A.I.D. environmental managers to develop training materials for the program.

Under the ASSET program, IIR will offer two to three week courses several times each year on environmental impact assessment, environmentally sound development planning and the environmental dimensions of economic analysis. The first course on environmentally sound development planning is scheduled for June 1991. The first session of the environmental impact assessment course is scheduled for November 1991. We expect that about one hundred A.I.D. employees will be trained each year under the ASSET program.

IIR will also provide seminars, speakers and modules for inclusion in other A.I.D. training activities, conferences and meetings (including those designed for Mission Directors and other senior-level employees) designed to raise consciousness and awareness of environmental matters. These activities are expected to reach an additional one to two hundred employees per year depending on the number of sessions held.

#### A.I.D. REORGANIZATION

*Question.* It is my understanding that A.I.D. has contracted privately a management study proposing a new reorganization for A.I.D. Part of this reorganization would involve the development of a new management level between the Assistant Administrator and the regional administrators. There is some concern that this new structure would: require a large expensive new level of bureaucracy at A.I.D.; isolate the Administrator from the regional issues; and delete the current A.I.D./State regional relationships. Has this aspect of the reorganization been scrapped?

*Answer.* Let me begin by correcting the impression that A.I.D. has "farmed out" its reorganization to contractors. The reorganization recommendations are currently being developed by a total of 38 A.I.D. officers, organized in three teams each chaired by a senior A.I.D. manager. We did use a consulting firm to look at organizational redundancies. We have kept that firm on as a background resource for our A.I.D. teams, but I can assure you that contractors are not making, shaping, or guiding any recommendations in the process.

You ask if the reorganization will add a "large new bureaucracy at A.I.D.?" The answer is simple: "No". I have instructed the teams to work within the constraints of present staffing, and to propose no additional staff. You have also asked about the notion of a new management level above the present Assistant Administrators. Many agencies, for example the Environmental Protection Agency, the United States Information Agency and the Federal Aviation Agency have Associate Administrators between top management and their bureau managers.

We are looking at this, among other arrangements; however, we have made no final decisions. We will take great care to protect the relationships between the A.I.D. and State regional bureaus under any organizational scenario. I will personal-

ly preserve a close relationship to the regional programs. for this is the core of our business at A.I.D.

A.I.D.'s Management Action Plan, announced May 9, 1990, follows.

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# Management Action Plan

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**Agency for International Development**

May 1991

Dear Friends and Colleagues:

This is our 30th anniversary, a propitious time, I think, to reflect upon our condition, and to implement important organizational and management changes in keeping with our remarkably different world.

To be sure, reorganization is not an end in itself. It is merely a means through which to improve the quality of our performance. Nearly all of us have concluded at one time or another that improvement was possible and desirable to provide better quality service.

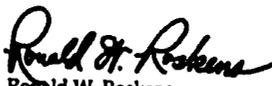
We believe restructuring will provide the Agency with several immediate benefits. It will:

- Group units with similar objectives or functions within the same organizational orbit.
- Minimize redundancies between organizational units.
- Create an internal control staff to give greater visibility and leadership to the Agency's efforts to improve overall management.
- Reduce senior management's span of control without impeding communications.
- Enhance our ability to lead, to monitor and to report accurately and promptly on progress as well as problem areas.

This process was not undertaken lightly. As you know, the credibility of the Agency had been challenged. Some criticisms may have been unwarranted, but we are not satisfied to be regarded as average. Thus, we have not limited our effort to changes which might correct the problems of the past. The charter of our year-long review was to develop the basis for a strong foreign assistance management framework for the 1990s and beyond.

Those whom we serve, including the American taxpayer, expect us to ensure that benefits derived from the Agency's activities represent a solid value for every dollar spent. The President and Congress look to us to ensure that every overseas program is cost-effective and supports the U.S. foreign policy agenda.

It is my conviction that this Management Action Plan will help the Agency for International Development function more effectively. I hope that you concur.

  
Ronald W. Roskens  
Administrator

## Introduction

The Agency for International Development has undertaken a major initiative to assess and enhance the effectiveness of the Agency's management and improve the service we provide. Our goal in conducting this year-long review was to address the concerns about management practices raised by external constituents and by Agency staff, but also to develop a management strategy that ensures the Agency's activities are consistent with effective stewardship of America's investment in the developing world in the coming decades.

The events of the past year have underscored the urgent need for flexible and rapidly available economic, political and humanitarian assistance as a vital instrument of American foreign policy. The 1990s will be a time of great challenge to the United States and the management of U.S. foreign assistance.

The Agency for International Development is now moving to develop the basis for a strong foreign assistance management framework for the 1990s and beyond. For 30 years, A.I.D.'s work has been synonymous with international development leadership. Our staff has pioneered historical breakthroughs that have pushed forward the boundaries of human progress in the developing world, in areas such as health care, agricultural production, literacy, family planning and individual economic opportunity.

The Agency now faces the challenge of linking this development momentum and matchless personnel resources to a dramati-

cally altered foreign policy environment and new development issues.

Although the challenges are enormous, the resources to respond will be limited. Budget and trade deficits and increasing pressures to limit U.S. Government expenditures will continue to influence A.I.D. activities. Big challenges and tight resources require dramatic improvements in management. This Action Plan lays out the steps we will take in the next 12 months to improve management practices and to position A.I.D. to respond flexibly and rapidly to future foreign assistance developments.

### We now are taking decisive action.

The time has come to move beyond introspection and analysis. A.I.D. must take major actions to strengthen its management practices. Not to do so would be to forsake our leadership as the principal instrument of U.S. foreign assistance implementation and squander the Agency's unmatched human resources and our unique network of field missions in the developing world.

The Administrator and the Agency's executive management team are fully committed to improving the quality of Agency management. This action plan proposes changes which will be implemented over the next year to improve the quality and cost-effectiveness of Agency services. The actions we are taking will result in a streamlined organizational structure and greatly simplified operating procedures. Implementation of these actions will require reorganizing the

Agency's structure to ensure that each individual and each office or division has a clear, well-defined relationship to our basic job: delivering sound development programs to partner nations overseas.

## Studies and Findings

Over the past several years, a series of A.I.D. management studies have been conducted. In most cases, recommendations were made, but, unfortunately, not acted upon. Congressional hearings repeatedly have focused on the fact that known problems persist from year to year. As the call for management reform grew louder in 1990 and 1991, the Agency initiated a number of studies to address management shortcomings. These studies included:

- o the Bollinger Task Force on Agency Redundancy (internal);
- o the Administrator's Management Initiatives Task Force (internal);
- o the Administrator's Reorganization Task Force (internal); and,
- o Deloitte & Touche (external).

In addition, the General Accounting Office (GAO) is conducting a general management review of Agency operations.

Based on the findings of all these studies, and especially on the work of the 40 A.I.D. officers on the reorganization task force, we have identified the following areas in which management reform must be focused:

■ **Management objectives must be more clearly defined:** The past four years have

seen considerable turnover in senior management. During this period some A.I.D. managers tended to develop their own management agendas and took independent initiatives to strengthen specific operations. Although these initiatives were well-intended, in some cases the results disrupted the focus and coordination of A.I.D.'s organizational units.

■ **Managers must be held accountable for results:** Committee management, consensus decision-making and the personnel rotation policy have reduced the Agency's ability to hold individual managers accountable for results.

Past evaluation measures have focused on inputs, not outputs—answering the question, "Did A.I.D. deliver what it promised?", not the question, "What development changes resulted?" Performance results were difficult to measure because project objectives were not conducive to measurement.

■ **The Agency has too many activities, programs and projects:** The Agency must focus on what services it delivers. The number and types of projects have proliferated, often in response to constituency groups. The Agency must be willing to terminate projects that do not achieve results or which are no longer relevant to development problems.

■ **Performance incentives must reward real contributions:** Some observers perceive that the Agency's current incentive process does not uniformly recognize those employees or organizational units contributing to the success of Agency objectives.

**A.I.D. must address complaints that:**

- o Assignments and the incentive system are not consistently linked;
  - o Agency objectives are not articulated clearly enough to be linked to performance management;
  - o Rewards/recognition are often based on positions, not actions; and,
  - o Incentives emphasize short-term activity performance, not long-term results performance.
- **Constituent service has absorbed a substantial amount of personnel resources:** A significant amount of A.I.D. staff time is spent preparing legislatively mandated reports and status papers, considering legislatively mandated project design factors and responding to requests for information from Congress, private voluntary organizations, universities and other constituents. With an information-intensive mission, the Agency must develop an information system that makes the best use of personnel and improves the timeliness of responses.
  - **The roles and responsibilities of bureaus must be more clearly defined:** Individual managers have interpreted A.I.D.'s responsibilities differently and have assumed different levels of policy formulation and implementation responsibility. Because these responsibilities were not clearly defined, the Agency now has several bureaus whose management infrastructures duplicate services provided by other A.I.D. units.
  - **Organization structure must facilitate effective management:** The three organizational "tiers" that currently exist within the

Agency—central bureaus, regional bureaus and missions—rely on informal rather than formal reporting relationships. For example, the absence of a direct reporting relationship between the specialized central bureaus and the field missions makes it unclear how the central bureaus can hold the missions accountable for implementing policy.

- **A.I.D.'s organization structure must be aligned with how the Agency now does business:** The Agency's current organization structure has changed little since the A.I.D. reform program of 1972. The number, type and complexity of development projects have increased, while the direct-hire work force has been shrinking. A significant amount of direct-hire management time now is spent managing contractors instead of focusing on the technical aspects of project implementation.
- **The Administrator's span of control is unnecessarily large:** As a key component of U.S. foreign policy, A.I.D. must communicate and coordinate with a large number of organizations, including Congress, the State Department, multilateral donors, private voluntary organizations and universities, as well as with host countries. These organizations demand the Administrator's individual attention. Yet currently we have nine bureaus and eight offices reporting directly to the Administrator.
- **A.I.D. must streamline its processes:** Agency processes are overly detailed, sometimes overstaffed and often require substantial documentation and review before a decision can be reached. It can take as long as two-and-one-half years to plan and approve a project, by which time

the real-world conditions have often changed. Internal management reports indicate that risk aversion contributes to process complexity.

■ **Contracting must be overhauled:**

Procurement staff has been reduced over the past 15 years by approximately 25%, despite an *increase* in the annual number of contracts processed. All projects, regardless of size, go through the same procurement process. Because the Agency budget often is not passed by Congress until the middle of the fiscal year, most contracts are not submitted until the last two quarters, overloading the procurement office.

■ **Information systems must support decision-making and control:** Agency information systems are fragmented, and many bureaus have information systems that do not communicate with Agency-wide systems. Duplicate data collection efforts often are undertaken. As a result, information cannot be quickly exchanged, and there are profound difficulties in assigning priorities, analyzing costs or assessing program and project performance.

■ **A revitalized personnel system must support Agency objectives:** Agency staff have justifiably voiced complaints about current personnel processes. Long-term work force needs have not been adequately matched with long-term program objectives; work force planning must be upgraded; recruiting and career development are not sufficiently responsive to work force needs; the Agency lacks an adequate data base of personnel capabilities/skills; and the Office of Equal Opportunity Programs can be strengthened.

Instituting these significant reforms will require senior management and staff commitment, time and attention. To achieve this goal, we have developed an action plan to improve the effectiveness of Agency operations.

## Action Set #1: Reorganization

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Peter Drucker has said, "Quality in a service or product is not what you put into it. It's what the client or customer gets out of it." Reorganizing our structure is not an end in itself. It is merely a means by which we can focus our organization and position ourselves to provide better quality service to our clients and constituents. We believe restructuring will provide the Agency for International Development with several immediate benefits which are necessary in order to improve other aspects of Agency management. The new structure is designed to:

- Enhance our ability to lead, to monitor and to report accurately and promptly on A.I.D.'s progress and accomplishments in meeting its mission;
- Group units with similar objectives or functions within the same organizational unit to create service delivery efficiencies and, where possible, economies of scale;
- Reduce senior management's span of control, without impeding the communications processes. Over time a streamlined Agency structure will increase middle management's span of control to leverage

management expertise and increase work output;

- Minimize redundancies between organizational units by grouping similar work activities under a responsible senior manager, with emphasis on intra-organization cooperation and service delivery; and,
- Create an internal control staff to give greater visibility and leadership to the Agency's efforts to improve internal controls.

**Reorganization is not a panacea... but it is a vital part of the cure.**

Our action plan to improve A.I.D. management is based on recommendations—most of them developed by teams of A.I.D. officers—that the Agency streamline its organization structure and take immediate action to modify its management processes. Centralizing the control of key management functions and resources, while at the same time decentralizing implementation authority to the field missions and regional bureaus, will produce an agency that is better focused and more effective and that has greater impact. Clearly defined objectives, responsibilities and performance expectations will provide the context in which these organizational resources can be most effectively managed.

We are committed to manage this agency as a first-rate, cutting-edge institution. In doing so, A.I.D. must align itself with the development environment to meet the program challenges of the 1990s. We must do so within the financial constraints of today's budget realities. With this reor-

ganization plan, the Administrator and the senior management team are reaffirming their commitment to fix what needs fixing, to strengthen our management credibility and, over the longer term, to become one of the best-managed agencies in the U.S. Government.

**What will the new A.I.D./ Washington look like?**

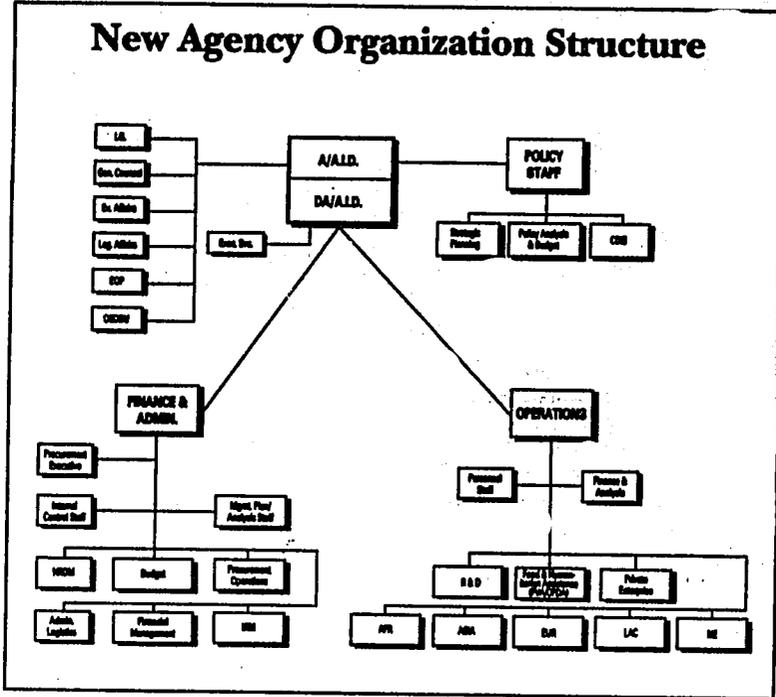
The best way to visualize the overall structure of A.I.D. would be to envision an inverted pyramid with our partner nations at the top, our field missions just below them and the Washington components of the Agency at the bottom.

Because they focus on headquarters functions, our charts will have the more conventional shape. The objective, however, is absolutely clear. We are restructuring around our core development business overseas. The new structure seeks to place everyone either in a direct line relationship with our missions, in a direct supporting role to the missions or in the role of setting the policy and management framework for our overseas programs.

**Key Staff Offices**

The reorganization involves no significant changes in the activities of several key staff offices. These offices are: Equal Opportunity Programs; General Counsel; External Affairs; Legislative Affairs; Executive Secretary; Small and Disadvantaged Business Utilization; and Inspector General.

## New Agency Organization Structure



### Operations

The most important single change in the new organization will be the grouping together in one cluster of all the Washington elements which are directly involved with the planning and delivery of development programs overseas. It will end the historic diaspora of programs such as food aid, housing guarantees, disaster relief, private voluntary organization core grants, microenterprise loan resources and others. All of these programs will come under the same managerial umbrella as the geo-

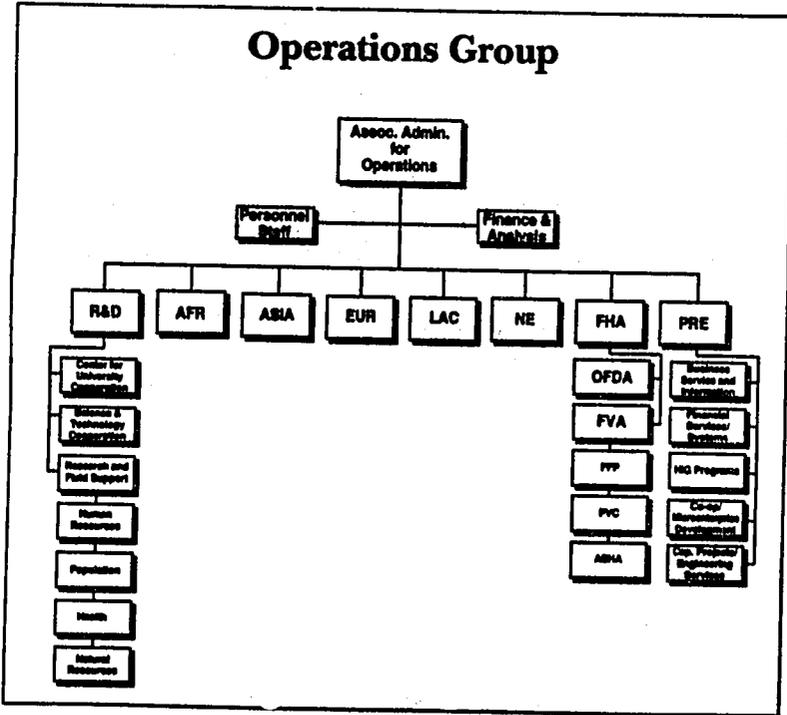
graphic bureaus which manage the traditional bilateral dollar-funded programs. Our goal will be to integrate resources and technical capacities across the board to ensure that we deliver consistent and top-quality support to our field missions worldwide. The Operations cluster will comprise eight bureaus.

**Office of the Associate Administrator:**  
The Associate Administrator for Operations (AA/O) is responsible for integrating and harmonizing our complex mix of overseas programs. While front-line management will continue to rest with the assistant

of the specialized bureaus, this position is where the threads all come together. This is where we will look to ensure that our food aid resources are effectively blended with our dollar resources in a coherent and consistent manner. This is where we will look to see that the goals of our private sector program and those of our environmental staff are effectively balanced and matched. The AA/O is the Administrator's "point person" on issues which relate to the assurance of overall timeliness, efficiency and quality in the delivery of overseas programs. Working closely with the Finance and Administration cluster, and in

continuous contact with the Policy staff, the AA/O works with the eight Operations bureaus to develop an integrated resource plan for all overseas activities.

The Associate Administrator will have two staff offices. The Personnel staff acts as a consolidated Executive Management Staff office for the Operations group. The Finance and Analysis staff develops a consolidated budget request, building on budget plans by each of the Operations bureaus. These requests will then be submitted to the Agency Budget Office for review. This office will be involved in resolving issues of



budget policy compliance and reallocation of budget resources between countries and bureaus. FTE planning for all Operations bureaus is coordinated at this level, and FTE requests will be directed to the Budget Office for review and final recommendations.

■ **Five Regional Bureaus:** The reorganization will shift the allocation of countries among bureaus as follows:

- o Africa Bureau: no change from the present arrangement;
- o Latin America/Caribbean Bureau: no change;
- o Asia Bureau: to the present countries will be added Pakistan, Afghanistan, the Philippines and Cambodia;
- o Europe Bureau: will continue management of programs in Central and Eastern Europe and any programming in the USSR as well as Ireland and Portugal; and,
- o Near East Bureau: will continue management of programs in Morocco, Tunisia, Cyprus, Turkey, Egypt, Yemen, Oman, Jordan, Lebanon, Israel, and Gaza and West Bank.

As part of our effort to bring together everyone in A.I.D. directly involved in overseas programs, other bureaus listed below also will be part of the Operations group. This will facilitate closer coordination and integration between the specialized programs and the geographic strategies of the regional bureaus.

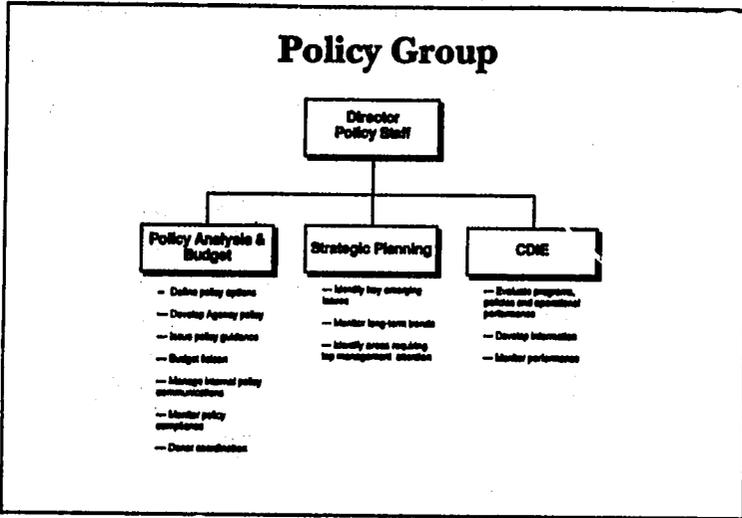
■ **Food and Humanitarian Assistance Bureau:** The new Food and Humanitarian Assistance Bureau is responsible for coordinating disaster assistance, food aid, private and voluntary agency support, and the American Schools and Hospitals Abroad programs.

The Office of U.S. Foreign Disaster Assistance will remain a discrete unit within this bureau.

■ **Private Enterprise Bureau:** The Private Enterprise Bureau will be responsible for the overall outreach to, and support for, domestic and international private sectors. This bureau would not compete with the regional bureaus; rather, it supports regional bureau private sector activities by acting as the primary focal point for the Agency's private sector programs.

■ **Research and Development Bureau:** The Research and Development Bureau (R&D) is the successor to the current Science and Technology Bureau. R&D supports all regional bureaus and field missions in the design and implementation of assistance projects and programs, sector analyses and country development strategy statements. The program and applied research unit will conduct Agency long-term research and provide research management support to the regional bureaus.

We will focus on building new, stronger linkages between R&D technical staff and the technical elements of the other bureaus.



## Policy

An important change is planned for the Policy function. In the past the Agency's policy arm has combined complex budget functions and the management of specialized programs such as Women in Development with the business of policy oversight. We are now structuring the Policy function not as a line element of the organization, but as a staff function, reporting directly to the Administrator. A somewhat smaller Policy team will be freed from the budget management and program management responsibilities.

The Director of the Policy staff advises the Administrator on long-range program planning, economic analysis and the development and monitoring of Agency policies.

The Office of the Director will include a deputy and a special advisor. The Policy staff will have three management units.

■ **Strategic Planning:** The Strategic Planning unit will be responsible for identifying key emerging issues, monitoring long-term foreign assistance and development environment trends, and identifying strategic areas which require senior management attention.

■ **Policy Analysis and Budget:** The Policy Analysis and Budget unit ensures that Agency policies are clearly and consistently reasoned, articulated and communicated to internal and external constituents. In this capacity the unit is responsible for defining policy options, developing Agency policy statements, issuing policy guidance,

formulating the overall framework for program budgets, defining performance indicators, managing internal policy communications and monitoring policy compliance. This office will carry out policy work necessary for coordination with multilateral and bilateral donors.

The Budget function in Policy will perform interagency liaison responsibilities for the Administrator and will ensure that the Administrator is fully current on all major 150 Account issues. It will not, however, carry out budget execution and oversight functions.

■ **Center for Development Information and Evaluation (CDIE):** CDIE is responsible for maintaining a data base of development information, evaluating programs, policies and operational performance, and monitoring overall Agency performance. By better measuring and reporting on our program, we expect to gain both internal and external benefits. With better evaluation information, managers can more readily replicate success and avoid failures. With more frequent and reliable reporting on program outcomes, we can work collaboratively with Congress and with cooperating countries to ensure that A.I.D. builds on its strengths and adapts its programs to changing development needs.

## **Finance and Administration**

The Finance and Administration function coordinates with, and is consulted by, A.I.D.'s other organizational units, ensuring the quality and timeliness of administrative services necessary to fulfill the Agency's

program service responsibilities.

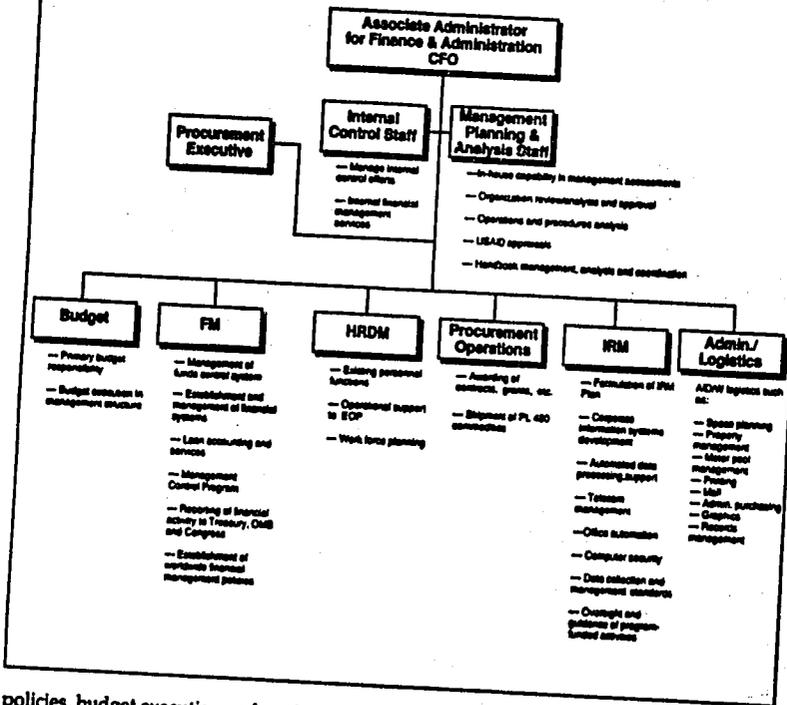
■ **Associate Administrator for Finance and Administration:** The Associate Administrator for Finance and Administration advises the Administrator on financial and management issues and serves as the Agency's Chief Financial Officer as set forth in the Chief Financial Officer Act of 1990. The Associate Administrator oversees audit results, manages administrative systems and is responsible for ensuring that the Agency rigorously addresses internal control issues.

Three staff offices will support the Associate Administrator. An Internal Control staff will support and strengthen the Agency's ability to manage its internal control efforts. A Management Planning and Analysis staff will provide the Agency with management analysis and assessment capabilities, as well as maintain all Agency procedure handbooks. A Procurement Executive will be responsible for assuring quality control for Agency procurement, identifying potential procurement issues and ensuring the integrity of the procurement process.

■ **Budget:** The preparation, execution, transaction management and tracking of the Agency's budget will be centralized in this office. Once broad budget policy has been established by senior management, the operation and management of the budget will be conducted by this group.

■ **Financial Management:** The Financial Management unit will be responsible for managing all of the Agency's financial management functions, including financial

# Finance and Administration Group



policies, budget execution and tracking, financial information systems, loan accounting and services, Management Control Program and reporting of financial activity to Treasury, OMB and Congress.

■ **Human Resources Development and Management:** The Human Resources Development and Management unit will continue to perform all existing personnel functions, as well as support the operational aspects of Equal Employment Oppor-

tunity programs and develop an integrated work force planning process.

■ **Procurement Operations:** The Procurement Operations unit will continue to have responsibility for awarding of Agency contracts and grants, as well as shipment of PL 480 commodities.

■ **Information Resources Management (IRM):** The IRM unit will have primary responsibility for planning and developing

the Agency's information systems and advanced technology requirements. The information system of the Agency is being upgraded to meet program, accountability and efficiency objectives, as well as to reduce vulnerability to misuse. The information resources strategy encompasses new hardware, software, better trained users and standardized data management to ensure that all personnel have accurate and reliable information.

■ **Administration and Logistics:** The Administration and Logistics unit provides A.I.D./Washington with space planning, property management, motor pool management, general management, printing, mail, administrative purchasing, graphics and records management services.

## Action Set #2: Priority Management Reforms

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Reorganization is not an event, it is a process. The best organizations—be they corporations, universities or government agencies—are always making adjustments to their systems and to their structures. What we are doing is aggregating a good deal of organizational change into one package.

This package of changes, however, won't mean very much if we don't work on improving some of the key systems on which our Agency depends. The A.I.D. staff work which supported the reorganization planning paid considerable attention to shaping an agenda for improving our internal systems. We need to move expedi-

tiously on some of these items; others can take a little longer.

This section, which we are calling "Action Set #2" to distinguish it from the first set of reorganizational actions, identifies some of the areas which need our early attention. We have made a conscious effort to move the responsibility for these actions back into the line structure of A.I.D. Although crosscutting teams and committees will be needed to provide insight and creativity to the tasks, we need to locate specific centers of accountability for the efforts. We also need to define the time frames within which the actions should be planned and executed.

**ACTION:** Refine the process for design and approval of A.I.D.'s development programs and projects. Have a new, simpler system in place when the fiscal year begins this October.

Although the Agency has recently attempted to improve this process, much more needs to be done to distill procedures and enhance outputs. A.I.D.'s present process contains cumbersome, lengthy and redundant components which hamper the implementation of sound development programs/projects. The length of the project process is a function of decision-making by committee and the significant number of factors which must be considered. The project cycle is the same whether a \$500,000 or a \$20 million project is being reviewed.

We will establish a special committee by June 1 to analyze the project design and approval process and to develop specific

recommendations to make the process simpler and faster without losses in accountability or quality. The committee, chaired by the Associate Administrator for Operations, will be charged with addressing several major issues with respect to the project/program design process, including:

- Time frame and number of factors considered in designing and approving a project/program;
- Quality of process outputs and ability to measure objectives;
- Decision-making authority and value-added contributions of process participants; and,
- Number of projects reviewed, including cost-effectiveness and feasibility of larger versus smaller projects.

This committee will work in cooperation with the Center for Development Information and Evaluation to ensure that project objectives are measurable and to incorporate lessons learned from project evaluations into future project design and budget approval processes.

**ACTION:** Recharge the incentive system so that it rewards sound management and encourages those employees who are getting the business of the Agency done. Put changes in place by November 1, 1991.

"The achievements of an organization," Vince Lombardi said, "are the result of the combined efforts of each individual." Incentives to spur that combined effort are critical to improving the management of the

Agency. Incentives must be linked to Agency objectives and rewarded uniformly to individual personnel and organizational units for superior performance. A key part of ensuring that we speak with a unified voice on policies and procedures, develop higher morale and create a better sense of teamwork is to have an incentive system in place that accurately mirrors actual performance. This will require reforming such Agency programs as cash awards and assignments to recognize accomplishments that are in line with Agency priorities and to motivate behavior that supports Agency strategies.

A Special Committee on Incentives will be established to study and recommend to the Administrator how to improve the Agency's current incentive system. This working group will be chaired by the Agency's Director of Human Resources Development and Management. The study should address incentives and rewards currently available, incentives and rewards which should be developed, evaluation criteria and an implementation action plan. The special committee should consider the ability of the incentive system to:

- Encourage people to focus on results consistent with Agency objectives;
- Reward and recognize service, excellence, quality and innovation; and,
- Identify parameters for managers to use in evaluating performance.

**ACTION:** Get the Agency's technical capacities lined up with our real business: delivering development overseas.

The new Operations organization structure reduces organizational redundancy by emphasizing the need for quality, timely and cooperative interaction between the Research and Development Bureau and the other Operations bureaus. In order to succeed in this effort, the Agency needs to maximize cooperation and synergy among bureaus. Improving the quality of interbureau services, and avoiding misunderstandings between bureaus, will require that a management process be created to address:

- Delegations of responsibility and authority;
- Parameters for interaction between units;
- Definition of service levels and capacities of the research and development support unit;
- Determination of regional bureau planned technical needs, as well as some capacity for unplanned technical assistance, including the types of talents and skills that may be required; and,
- Creation of a critical mass of technical skills for the development agenda of the 1990s.

The Associate Administrator for Operations will be charged with leading an Operations unit working group to develop this process. In addition to addressing the issues listed above, the working group's recommendations should identify field technical support objectives and performance evaluation criteria. The working group will be instructed to complete its

analysis and recommendations to coincide with the implementation of the new Operations organization structure.

**ACTION:** Implement an integrated system of performance measurement, keeping score out in the open where Congress and the taxpayers can see how well we are doing.

At the beginning of the year the Administrator initiated a program to strengthen the role of evaluation in A.I.D. as a means of improving program and policy decision-making and enhancing the credibility of performance reporting to Congress. Beginning this process will require articulating measurable objectives and defining actionable strategies. Clearly stated objectives will allow our constituents to evaluate us more effectively.

The Policy unit's Center for Development Information and Evaluation will be responsible for accelerating development and coordination of an Agency performance information system. Current activities to implement this initiative are focusing on:

- Integrating field and regional bureau management objectives with senior management goals;
- Improving program performance monitoring by strengthening mission and other operational-level performance information systems; and,
- Developing Agency-wide program performance indicators.

CDIE is in the process of analyzing and

defining the requirements for an Agency performance measurement system. Implementation is expected to start by November 1, 1991.

**ACTION:** Shorten the contracting cycle and open it up to wider competition.

Procurement is a key Agency process which must be improved to provide better management control and improved responsiveness to the Agency's field missions. Shortening the procurement cycle will require improving the communication of contract requirements between contracting officers and field staff requesting contracts. By soliciting proposals from a larger set of potential contractors, the Agency can have greater assurance of procuring the best resources and, therefore, delivering the highest quality service.

A special committee, chaired by the Associate Administrator for Finance and Administration, will be established to study and recommend to the Administrator action steps for simplifying and improving the speed of the Agency's procurement process. The special committee should examine the following procurement issues:

- Size of procurement staff relative to workload;
- Competitiveness of the procurement process and the type of information given to potential contractors on upcoming procurement;
- Training programs for contracts and program officers;
- Project planning process and procure-

ment requirements; and,

- Procurement authorization requirements.

The Special Committee on Procurement should complete its report to the Administrator no later than December 31, 1991. Recommendations should specifically address required changes, cost implications of the changes and an action plan for implementation.

## Conclusion

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**The success of the plan rests with the staff of the Agency.**

Our ability to enhance the focus, effectiveness and impact of the Agency for International Development depends on renewing the Agency's commitment to excellence. By responding to the needs and expectations of our constituents with timeliness, professionalism and quality, we will not only position ourselves externally as an exceptional agency, but also create a more satisfying and rewarding work environment for our employees.

Bill Hewlett, of Hewlett-Packard, has pointed out that "Men and women want to do a good job, and if they are provided the proper environment, they will do so." Creating the proper management environment is critical to improving the quality of the Agency's service. Our management environment must emphasize and reward:

- Setting high goals and standards;

- Ensuring managerial accountability for results;
- Identifying objectives and actions which unify the Agency;
- Developing teamwork through collaboration and close professional interchange among colleagues;
- Encouraging dedication to service, high ethical standards and personal integrity;
- Encouraging respect and recognition between managers and employees;
- Encouraging risk-taking, while recognizing responsibility for results;
- Encouraging participative decision-making; and,
- Developing managers who not only contribute to successful Agency performance, but also take responsibility for developing the next generation of top-quality Agency managers.

**Our success also will depend on our constituencies.**

The challenging pace of change in America's relationship with the developing world is rapid and will probably continue to accelerate. This environment also demands, as never before, that all the talents and resources of A.I.D.—as well as those of our constituents and partners in international development—be used in efficient and harmonious coordination. Together we must focus attention on our ability to deliver results, while restoring administrative simplicity, flexibility and accountability to the management of A.I.D.

It is necessary and timely that A.I.D. changes the way it does business. The context for this change is positive: We want to do our jobs better.

A revitalized Agency for International Development, working in cooperation with its development partners, provides a vital instrument of U.S. foreign policy and human progress to the important and evolutionary relationship between America and the developing world. This Management Action Plan is presented as a significant contribution to that revitalization process.



## Mission Statement

### *U.S. Agency for International Development*

The Agency for International Development administers economic assistance programs that combine an American tradition of international concern and generosity with the active promotion of America's national interests. A.I.D. assists developing countries to realize their full national potential through the development of open and democratic societies and the dynamism of free markets and individual initiative. A.I.D. assists nations throughout the world to improve the quality of human life and to expand the range of individual opportunities by reducing poverty, ignorance and malnutrition.

A.I.D. meets these objectives through a worldwide network of country missions which develop and implement programs guided by six principles:

- \* support for free markets and broad-based economic growth;
- \* concern for individuals and the development of their economic and social well-being;
- \* support for democracy;
- \* responsible environmental policies and prudent management of natural resources;
- \* support for lasting solutions to transnational problems; and,
- \* humanitarian assistance to those who suffer from natural or man-made disasters.

A.I.D.'s mission as a foreign affairs agency of the U.S. government is to translate into action the conviction of our nation that continued American economic and moral leadership is vital to a peaceful and prosperous world.

*September 14, 1990*

**Question.** Prior to implementing the proposed reorganization plan, what type of Congressional approval do you intend to seek? When will this occur. What was the cost of the reorganization study?

**Answer.** We have carried out continuous consultation with the concerned Congressional staffs throughout the process of the reorganization process. Many suggestions and ideas from Congressional staff have been built into the committee's recommendations. We will continue to keep these lines open, and we value the contributions from the legislative perspective.

A final note on the cost of our consultant review of organizational redundancies: the costs for this work which spanned the period from September 1990 through early February 1991 were somewhat under \$150,000.

#### INITIATIVES VS TRADITIONAL OBJECTIVES

**Question.** Recently you announced new Agency initiatives to guide A.I.D. throughout the 1990's. These initiatives include: Democracy, Partnership for Business and Development, Family and Development, and Strategic Management.

How do traditional Agency priorities, such as Child Survival, Health, Education and Population fit into the new initiatives and the new management structure?

**Answer.** Your question is both timely and appropriate. We have just issued our first periodic update of progress on the six A.I.D. Initiatives begun in 1990. Four of these were launched in December of last year, while the Evaluation Initiative began in September and the Environment Initiative dates from early 1990.

The question you posed: "do these Initiatives replace the current portfolio of A.I.D.?" is often asked of me. The simple and direct answer is "no". A.I.D.'s overall objectives are formally expressed in the Agency Mission Statement dated September 1990. The Mission Statement embraces all of the major dimensions of the current A.I.D. program worldwide. As I repeatedly affirmed in my Congressional testimony, the Initiatives do not alter our historic concerns for reducing poverty through a range of ongoing programs to improve health services, to increase the economic returns to agriculture, and to improve the access of the world's poor to education and literacy. These Initiatives are lenses through which the Agency is looking ahead at the development challenges of the 1990s. All our programming should encourage the trend toward more representative governance, recognizing pluralism as a powerful ally of the forces which support equitable growth. Sound environmental policies and the prudent management of natural resources should permeate the entire portfolio of development interventions we undertake.

Some of the Initiatives, Democracy and Environment for example, already have substantial sets of project activities underway in all four geographic bureaus. Others, such as the Family Initiative and the Business and Development Partnership, are in earlier stages of conceptual and programmatic development. It is neither possible nor desirable that specific projects for each of the Initiatives be built into each of our country programs. As we strive to focus our country programs—doing fewer things in each country, and doing those few things very well—we will have to make choices. Consider a country where our program is entirely geared to child survival and AIDS. Although there would be no projects specifically addressing democracy and environment, we would still look to the portfolio to be conscious of our democratic concerns and sensitive to environmental dimensions of the health sector interventions it supports. Certainly, we would be seeking ways to build the family, as the primary decision making and resource allocating unit, into the program themes.

The initiatives are not ends in themselves. They are intended to orient the evolution of the Agency's overall program in the years ahead. I have encouraged our mission directors to seek out opportunities to introduce field perspectives and ground truth into each of the efforts. We will look for opportunities to build strong bridges between our traditional concerns and the new initiatives, and we will keep you closely informed of the process.

## ASSISTANCE TO AFRICA

Type	Fiscal year—			
	1986	1990	1991	1992
Development.....	\$387.9	\$585.0	\$800.0	\$800.0
ESF.....	245.1	33.7	10.3	28.3
Total.....	633.0	618.7	810.3	828.3

**Question.** Dr. Roskens, thanks to initiatives taken by Congress, development assistance for Africa has doubled since fiscal year 1986. However, at the same time Economic Support funds for the region have gone from \$245 million to \$10 million last year. This year, the Administration has only requested \$28 million in ESF for Africa, down from your request of \$56 million last year.

Since most of the ESF support for Africa was for development project assistance, have we really made much progress in providing assistance to Africa?

**Answer.** As illustrated by your table, the FY 1992 request for Africa represents a 31% increase over the FY 1986 level. While the doubling of development assistance funding for Africa has been somewhat offset by the decrease in ESF, we have been able to make substantial progress by using resources allocated to Africa more effectively within the framework of the Development Fund for Africa (DFA).

Since the DFA was initiated in 1988, thanks in large part to your subcommittee and your counterparts in the Senate, we have concentrated resources in countries where there is a commitment to, and a potential for, real economic growth and development. Emphasis is placed on approaches which build on local initiatives and mobilize local resources. We have incorporated sector assistance into our program to improve the environment for sustainable development; we have increased our collaborative efforts with the private voluntary community and other donor organizations; and we have emphasized host government implementation of A.I.D.-assisted projects to enhance the prospects for lasting progress.

**Note for the Committee:** According to A.I.D. figures, the FY 1990 ESF level is \$28.9 million. Also, in FY 1991, counting \$20 million in ESF from the FY 1990 Dire Emergency Supplemental Appropriations Act which will be obligated in FY 1991, the ESF level is \$33.3 million.

## FUNDING FOR AFRICA

**Question.** Why have you proposed no increase from the \$800 million we provided last year for the Africa Development Fund and only a small increase in Economic Support Funding?

**Answer.** There is no question that Africa's development needs are great. The Administration has acknowledged this by increasing its FY 1992 development assistance request for Africa by 40% over the FY 1991 request, consistent with Congressional appropriations for FY 1991.

The levels being proposed for Africa for FY 1992 under the Development Fund for Africa and the Economic Support Fund were the result of the Administration's integrated budget review process. This process takes into account the different purposes for which different kinds of resources are requested and the contribution of each to meeting the Administration's foreign policy objectives. It included tradeoffs between kinds of resources (development assistance, economic support fund and food, for example) and among regional and central programs. The choices were not easy, especially given the budgetary caps legislated for the foreign affairs account for FY 1992. We believe that the result of the review process was a judicious balance that maximizes achievement of the Administration's foreign policy goals, including Africa's long-term development.

## ASSISTANCE TO AFRICA

**Question.** Central America with a population of less than 20 million is projected to receive a total of \$577 million in development and Economic Support Funds in FY 1992 (\$197 million in DA and \$380 million in ESF). Most of our African aid recipient countries have per capita income of less than \$400 per year—in Central America it

exceeds an average of \$1,000. What will it take to bring the Administration around to address Africa as a priority and adjust the inequities in funding levels?

Answer. Africa has been accorded a very high priority in the Administration's FY 1992 development assistance request, as it would receive \$800 million of Development Assistance (DA) funds, or 50% of our geographic DA allocations. At the same time, the seven Central American countries would receive \$196.725 million in DA, roughly 12% of the geographic DA allocations.

DA and ESF are justified on different grounds, DA being directed to long-term development objectives and ESF being directed to promoting economic and political stability. Whereas Central America's relatively high allocation of ESF is due to its geopolitical, strategic importance to the United States, Africa's relatively high allocation of DA reflects the Administration's belief that Africa's development challenge is greater.

However, our assistance should be considered in light of what donors as a whole are providing in all forms of Official Development Assistance (ODA). The most recent OECD statistics on donor commitments (for 1988) show per capita ODA commitments of \$45.24 for all African countries and \$56.18 for Central American countries. Excluding our ESF, the donors as a group committed more ODA per capita for Africa than for Central America in 1988—\$45.16 for Africa and \$40.11 for Central America. Since then, our DA and ESF per capita in Central America has decreased, increasing the difference to favor Africa more.

#### AFRICA DEVELOPMENT FUND

*Question.* GAO has provided us with a draft copy of a report on the Development Fund for Africa. For GAO it is a fairly positive report on the stability of the Fund and its ability to provide assistance to Africa.

One area of the report indicates however that the Fund has concentrated resources in African countries that have demonstrated a willingness to undertake economic policy reforms. Is this the main criteria used for determining African Development Fund country levels?

Answer. This is one criterion we have used in determining Development Fund for Africa country levels, but the decision process is considerably more inclusive. We have concentrated our bilateral resources in twenty-three countries. All of these countries are either engaging in serious economic reform or have good economic policies designed to address their development problems. All of the low-income countries which have populations in excess of five million people and are seriously reforming their policies are included, as are a number of smaller reforming countries.

In response to the Committee's concerns, we have reexamined the principles and factors guiding the annual allocation of DFA funds to give broader scope to poverty alleviation. Our allocations are based on the factors of need, performance and population. The performance factor includes macroeconomic policy criteria and has been broadened to include the host country's commitment to equitable allocation of resources.

#### GLOBAL ENVIRONMENT FACILITY

*Question.* A.I.D. intends to contribute \$150 million over three years to the Global Environment Facility to be administered by the World Bank. A.I.D. is in the process of negotiating with the Bank on procedures and operations. A.I.D. will apparently assist in project development.

Explain why the U.S. endorsed the concept of creating a Global Environment Facility within the World Bank, given their poor record on developing environmental projects.

Answer. During the negotiations leading up to the agreement to create the Global Environment Facility (GEF), the U.S. expressed concerns about the creation of a separate facility such as the GEF, and stated that the World Bank should integrate environmental considerations into its regular lending. However, the other donors made it clear at the September 1990 meeting in Washington that they were prepared to contribute to the GEF with or without U.S. support. The U.S. subsequently decided to contribute to the GEF, on a three-year pilot basis, via a parallel financing mechanism that would allow the U.S. to retain control of its own contribution, and to play a strong role in helping the GEF and the World Bank become leaders in environmental activities.

*Question.* The Bank has taken the position that A.I.D. funds, which represent a co-financing arrangement with the Bank, must be "untied." That implies that A.I.D. cannot impose any conditionality on how these funds can be spent. Again given the Bank's track record, why should A.I.D. or Congress accept such an arrangement?

*Answer.* The term "untied" refers here only to the procurement of non-U.S. goods and services. It means that A.I.D.'s GEF projects can include the purchase of goods and services from all free world and non-terrorist countries. A.I.D. will retain full control of the programming of its contribution to the Facility, which will consist of environmental projects designed and implemented by the Agency in coordination with the investments of the Bank-controlled Core Fund of the Facility, and consistent with the goals of the GEF.

*Question.* A.I.D. claims to be spending approximately \$50 million more in 1992 on environmental activities than they did in 1991. This presumably justifies spending \$50 million out of Development Assistance funds for the GEF. However, in total, DA funds actually decrease by \$25 million in the FY 1992 request. Where will this money come from and why was it not included as additive to FY 1991 levels?

*Answer.* A.I.D.'s overall budget request was developed within the limits established by the Administration and the Congressional leadership last Fall. Within already agreed resource constraints, A.I.D. proposes to allocate within the request levels for the Development Fund for Africa (DFA) and Development Assistance (DA) of \$2,077,000, a total of \$47 million more for environmental programs in FY 1992 than we plan to finance in FY 1991. The aggregate estimates are that A.I.D. will finance \$163 million in environmental projects from DFA and DA funds in FY 1991 and that A.I.D. will allocate a total of \$210 million to such projects in FY 1992.

*Question.* Other concerns raised about the GEF are:

That its creation will allow World Bank overall lending policies to remain unchanged by diverting attention from them.

That the existence of the Facility will slow actual funding of environmental projects because countries will hold out for grants from the Facility versus pursuing loans from the Bank.

That NGOs will not have sufficient access to information about the Facility's projects. How do you plan to deal with these concerns?

*Answer.* In order to ensure that the GEF does have an impact on the Bank's ordinary lending, the U.S. has recommended several modifications of GEF procedures. We have asked for the establishment of substantive guidelines for GEF projects and for the regular Bank projects that ordinarily will be affiliated with GEF projects. We have also asked that provision be made for approval and implementation of GEF components before approval of the associated Bank loan for those situations where successful implementation of the GEF component should be a precondition for the associated Bank loan. The U.S. will also continue its ongoing efforts to improve the environmental quality of multilateral development bank lending, including compilation of A.I.D.'s List of Multilateral Development Bank Projects With Possible Environmental Concerns.

It is unlikely that the existence of the GEF will lead to a decrease in funding for environmental projects. GEF money is additional to the Bank's ordinary lending, so a potential borrower could request both a loan and an attached GEF component—it's not an "either-or" situation.

The U.S. has insisted that GEF Core Fund activities be open and transparent to the public, especially to local NGOs and affected peoples. In addition, we have requested that information about Bank loans that are affiliated with GEF projects should also be available to the public. A.I.D. will encourage meaningful public participation in all of the projects it contributes to the GEF.

#### A.I.D. STAFFING REPORT

*Question.* Mr. Roskens, in July 1989, in the Committee Report, we requested that A.I.D. undertake a study of its staffing distribution around the world. This was because the committee believed that A.I.D. had no systematic way of considering program content and size and integrating that information into decisions concerning operating expenses and staff allocations.

That Report was due February 1, 1990. However, the Committee did not receive any response until September 14, 1990—seven months late. Then, frankly, the report did not do what the Committee intended.—Instead, basically it said: “Stay tuned, we are working on it.” The Report in part said:

“ . . . A.I.D. is also moving to establish a central workforce analysis and allocation unit within the budget area.” . . .

“ . . . In the interim, a working group has been established to review and analyze program and workplace information collected from all overseas missions and Washington offices and bureaus.”

Staffing guidelines for program planning purposes are not an unusual idea. It is precisely those types of guidelines which underlie MEDICARE certification required for federal funding of state mental health and mental retardation centers. Similar standards are used in staffing federal and state prisons.

When do you expect that A.I.D. will have developed some staffing guidelines that the Committee can review and that A.I.D. can use for management purposes?

Answer. A report follows which summarizes progress to date and describes the system which A.I.D. will use during the FY 1993 budget reviews to determine overseas workforce allocation levels. The approach employed is on a number of factors including country program levels and program configuration.

## A.I.D. WORKFORCE ALLOCATION SYSTEM FOR OVERSEAS MISSIONS

This paper provides background on actions taken in the past two years on the Agency's efforts to develop a rational workforce allocation system for the A.I.D. missions overseas and steps currently underway to complete this action.

### BACKGROUND

In the summer of 1989, in an effort to begin sorting out ways to meet expanding program management requirements with limited staff and an increasingly constrained operating budget, A.I.D. conducted a preliminary analysis of staffing in relation to program allocations and support costs of its overseas and headquarters operating units.

That analysis revealed some emerging trends and defined the relationship of current staffing to program size. But it also raised additional questions and issues, on which there was incomplete information. In particular, it highlighted the incompleteness of information on the size, composition and functions of A.I.D.'s non-direct hire workforce. It also raised a series of questions about the reasons for the current configuration of direct-hire staff in relation to program management demands, about the basis for future decisions about staff hiring, training and deployment, and a host of related personnel planning issues.

As a result of that preliminary exercise, in the fall of 1989 the Agency initiated a full-scale study to collect complete data from its headquarters and field operating units on the full range of Agency workforce. This study addressed a number of questions about workforce size and functions. It also sought to test several hypotheses about the relationship between staff and differential operating cost and program management demands.

The study gathered extensive data on all types of field and headquarters workforce American and foreign national direct-hire and non-direct hire staff, contractors and other U.S. Government personnel. Respondents were asked to characterize functions as well as numbers of staff and to relate program management functions to specific projects and other program components. These data were related to unit operating budgets and program size -- obligations, pipeline, numbers of projects, etc.

The resulting data has allowed the Agency to profile the full workforce in its headquarters and field operating units. It has also provided information on the relationship of workforce to support costs and to various measures of program management demand, such as annual obligation level and size of pipeline.

The data collected describes how overall staffing is currently allocated to perform different tasks such as managing projects, performing financial management functions, general administrative support activities, etc. It permits comparisons among and between missions and headquarters offices and bureaus of the use of personnel resources.

The data collected shows that in FY 1989 A.I.D. had a total workforce (defined to include all U.S. and FSN direct-hire, PASAs, RSSAs, IPAs and details-in, and all non-implementation contractors, principally PSCs) of about 11,000, of which approximately 4,400 were direct hire employees. About 78% of the total workforce were assigned overseas, just under 1/4 of whom were engaged in program and project management functions.

Many of the roughly 22 percent of total workforce located in Washington are involved in activities which, by their nature, have no overseas counterparts. For example, most activities related to legislative affairs, external relations, small and disadvantaged business activities, equal employment opportunity activities, central budgeting, development of Agency policy guidance, and certain accounting and personnel functions are uniquely "headquarters" functions.

The data has also fleshed out the earlier partial information about variations in total staff size of the Agency's various operational units overseas, ranging from certain advanced developing countries with a single U.S. direct-hire representative to large missions, and has permitted comparisons of staffing with cost and program resources. Using the information collected, A.I.D. tested some assumptions about total costs of operation and staff size relative to various measures of program management burden. As a result, we are now able to define average costs of the various types of staffers in our missions and to establish ratios of staff to various measures of program size.

The study has confirmed much of what A.I.D. believed about its staffing allocations, and has added to the Agency's understanding of how staff is distributed. Among the important findings of the study are the following:

The availability of qualified local direct-hire and contract staff is an important

determinant of the number of U.S. direct-hire employees needed to staff an A.I.D. mission. The Agency has made great efforts to operate efficiently and economically by utilizing local staff where feasible. In 1989, more than half of the staff engaged in managing A.I.D. projects overseas were foreign national direct-hire or personal service contract employees (percentages by region were 43% in Africa, 50% in Latin America and 56% in Asia and the Near East).

- o U.S. direct-hire employees (USDH) are the most expensive component of A.I.D.'s overseas staff, largely because of housing and other allowances. In FY 1989, the average direct cost (exclusive of salary and benefits) of maintaining a USDH employee at an overseas mission was about \$133,000 (average costs by mission ranged from under \$90,000 in several Latin American posts to over \$200,000 in a few African countries). By way of comparison, the average cost of foreign national direct-hire employees worldwide was under \$19,000.

However, the study was not able to isolate any combination of program variables -- like annual obligation levels, size of pipeline, or sectoral characteristics -- which could serve as sufficient basis for workforce allocation decisions. Although there are certain rough correlations between staff size and program measures such as size of pipeline, there are also numerous exceptions. Nevertheless, such comparisons are useful for both further workforce analysis and for program planning, and the Agency has incorporated the study's results into the FY 1993 budget preparation and review process.

The kinds of information produced in the study described above are an essential starting point. A small workforce analysis and allocation staff, established within A.I.D.'s budget office in early 1991, will continue to develop and refine a better analytical base for the allocation of staff to field and headquarters units. Further, the staff works closely with analysts responsible for allocating program funds and operating expenses, ensuring greater integration of Program and OE and workforce decision making.

#### CURRENT ACTIONS

Our efforts to date lead to the conclusion that the application of even complex models will not be sufficient to determine precise staffing levels appropriate to any given mission. It is, however, feasible and appropriate that such models be employed to

provide a set of standards to determine parameters for mission staffing levels. Our observation is that a relatively simple model based on current year funding levels and program configuration, could be applied to determine a range of appropriate staffing. Precise staffing levels would be determined by adding to the model's results, judgments concerning variables such as the sophistication of the recipient country, availability of local staff and numbers and types of assistance activities. Given these conclusions, we have developed a simple model which we will be using during the upcoming budget season.

Applying the model to A.I.D.'s FY 1991 Operating Year Budget and FY 1992 request yields predictable results: the African missions are staffed less adequately than those in the other regions. In fact, African posts are, in aggregate, staffed at levels generally consistent with the model, while those in Asia, the Near East and Latin America have more U.S. direct-hire staff than the model would dictate.

FY 1993 initial regional overseas staffing ceilings will be set by assuming global conformity with the model by FY 1995 and treating FY 1993 as the first year of transition from FY 1992 to the new levels. While regional bureaus will be allowed to distribute the ceilings by country as they choose, significant variations from the application of the model on a country specific basis will have to be justified during the summer budget reviews. As a result of these reviews, the overall applicability of the model will be determined.

In addition to the staffing model, AID's Center for Development Information and Evaluation (CDIE), in conjunction with other offices, is undertaking a study of overseas staffing approaches to determine the most cost-effective way for AID to carry out its program in the future. During the course of this study, planned for completion in November, 1991, the reasons for AID's overseas presence will be articulated (e.g., program management, knowledge of the recipient country, access to recipient country decision makers), staffs of selected Missions interviewed to determine whether current staffing is consistent with these reasons, the staffing approaches of other donors will be reviewed and proposals will be put forward for changes in the way AID staffs its overseas posts.

The model thus represents a starting point to establishing a consistent approach to staffing overseas Missions. The additional information provided by the budget reviews (a "reality test" of the model) and by the CDIE overseas staffing study will provide the basis for establishing staffing levels for FY 1993 and beyond that are significantly less "ad hoc" than those of previous years.

MISSION WORKFORCE ALLOCATION MODEL**A. ASSUMPTIONS:**

-- That the levels of staffing for field operation are limited by the Operating Expenses budget appropriation.

-- That concern for vulnerability and accountability require a minimum core presence when bilateral assistance programs are underway.

-- That the construction of the program, the level and mode of assistance utilized, has a direct relationship to the level of staffing required.

-- That a rational workforce allocation process is dependent on the establishment and implementation of program development criteria and controls.

**B. MINIMUM CORE MISSION STAFFING:**

When a bilateral assistance program is instituted, experience has dictated that a minimum core staffing level in country is required to protect Agency and U.S. Government stewardship of appropriated funds. A core staffing model for a bilateral Mission would include:

MINIMUM CORE STAFFING MODEL

Principal A.I.D. Officer  
 A.I.D. Controller  
 A.I.D. Executive Officer  
 Program Officer/Project Development Officer

The minimum core staffing model assumes that Legal and Contracts Officer expertise is available on a regional, TDY or shared bilateral basis.

C. COUNTRY PROGRAMMING PRINCIPLES and GUIDELINES:

To control and rationalize country workforce allocation levels, it is essential that a set of models be established the basis of which will determine staffing levels beyond the minimum core staffing requirements. The following is an initial attempt at creating these models:

Segregate Programs by principal driving force:

Development Programs

- Category 1 - Large (\$30 mil) - Multi-Sector - Good Perf. (15 -20 people)
- Category 2 - Med. (\$15-30 mil) - 2-3 Sectors - Good Perf. (10-15 people)
- Category 3 - Small (Less than \$15 mil) - 1 Sector - Good Perf. (5-10 people)
- Category 4 - Buy-Ins (Less than \$15 mil) - 1 sector Adequate perf. (0-5 people)

Political/Security Programs:

- Category 1 - Large, highly visible, U.S. Nat'l Interests. \$30 million or more (15 or more people)
- Category 2 - Medium - strategic - \$15-30 Mil. (5-15 people)
- Category 3 - Reconstruction (Emerging Democracies) (1-5 people)

Advanced Developing Country Programs:

Beyond concessional assistance, S&T focus, Private Sector, program level, per se, not directly relevant. (0-5 people)

Emergency Relief Programs:

- Countries where sole purpose is disaster relief - Ethiopia, Sudan, Liberia etc. (1-5 people)

**D. VARIABLE FACTORS:**

Within staffing parameters by program category, additional personnel will be added as necessary, taking into consideration:

Numbers of Sectors  
No. of activities or management units  
Pipeline size  
Avail. and Competence level of FSN staff  
Degree of Sophistication of LDC Institutions  
Sector/Program/Project Assistance Mode  
P.L. 480 (type and amount)  
Local Currency generations  
Policy Reform Focus

**Question.** In the 1992 budget process, how did A.I.D. relate and compare staffing needs across countries and regional bureaus?

**Answer.** A.I.D.'s approach to staffing requirements was based on country specific analyses considering such factors as program magnitude, e.g., obligations, pipeline, number of projects, etc., and such variables as the availability and aptitude and the foreign service nationals, relative sophistication of host country government institutions, etc. This was not a systematic effort to relate or compare country or regional staffing levels to one another. In the FY 1993 budget process, we will apply common standards to all overseas workforce levels so that final determinations will be based on comparisons within the established standards as well as on country specific factors.

#### DEVELOPMENT ASSISTANCE FOR THE WEST BANK

**Question.** The Fiscal Year 1992 request for the Middle East provides for a small increase in development assistance for the West Bank (from \$15 to \$18 million), and generally the same levels for other Gulf area countries. Do you foresee any changes in this funding level now that the war is over?

**Answer.** The \$18 million in development assistance referred to is for the Middle East Regional account. Under this account, three discrete programs will be funded:

	<i>Million</i>
West Bank and Gaza .....	\$12.0
Middle East regional cooperation .....	5.5
Regional project design and studies .....	0.5

I assume your question is directed to the West Bank/Gaza portion of this amount. At this time we do not foresee an increase in that level.

With regard to other programs in the region, as a result of the war and competing priorities, Yemen's recent level of \$20 million has been lowered in FY 1992 to \$3.0 million, Jordan's level was dropped from \$35 million to \$30 million, and Tunisia was cut from \$10.9 million to \$3.0 million.

Other funding in the region continues at about the same historical planning levels, i.e.: Oman (\$15 million); Lebanon (\$6 million); Morocco (\$35 million); Israel (\$1.2 billion); and Egypt (\$815 million).

#### PARTNER COUNTRIES

**Question.** You also mention in your statement that in the future we will "not be working with recipient countries but with partner countries." Does this mean that we will be selecting our foreign assistance programs based on what they can do for the United States, or on how we can help these countries?

**Answer.** This refers not to the selection process of countries which will receive U.S. economic assistance, but to how we will work with these countries to implement our programs. We want to move from a traditional donor-recipient relationship to one which is more of an equal partnership. The developing countries with whom we work are increasingly sophisticated. Our success in supporting their economic and political reforms, establishing the broadly-based and sustained economic growth they seek, and promoting expanded opportunities for the poor in their countries, depend greatly on a relationship of openness, trust and equality. In addition, our economic relations with the developing world are increasingly interrelated in a growing and interdependent global economy. Here, too, we need to work together to find solutions to problems which promote the interests of both partners.

#### A.I.D. STAFFING REPORT

**Question.** As you know, the committee has had a lot of concern about the extremely thin staffing that is being proposed for Eastern European programs. It is amazing to me that today, fifteen months after we appropriated the first money for Eastern Europe, we only have one permanent A.I.D. person actually located in the region. Now, we have a letter promising more staff in Eastern Europe by mid-summer. But, my point is that A.I.D. without any staffing guidelines seems to have no rational approach to answering the question—what is a reasonable number of staff for the region, or for each country, for the type of programs that are planned. Do you agree with that assessment? If not, can you explain on what basis those staffing decisions have been made?

**Answer.** A.I.D. has taken a very rational approach to developing staffing guidelines for the East European program.

As you know, the East European program is being managed and designed in Washington. This structure was guided by the particular circumstances of the SEED

I legislation which authorizes the President to appoint, in the Department of State, a Coordinator of East European assistance. Both the Coordinator and the two Deputy Coordinators are in Washington. In order to bring the expertise of the entire U.S. Government to bear on Eastern European development issues, it makes the most sense for the program managers to be in Washington also.

In addition, in contrast to most A.I.D. programs, this program is obligated primarily in the United States with U.S. organizations, universities, firms and other U.S. Government agencies, rather than with foreign governments. In FY 1991 some 80-90% of the program will be obligated in the United States. It certainly has helped to be close to the contractors at this early stage of the program when initial contracts and grants are being negotiated, rather than dealing with them by phone and FAX from Eastern Europe.

By law and policy, a much larger number of other U.S. Government agencies are involved in this program than in other A.I.D. programs. The negotiation of inter-Agency transfers and appropriate monitoring by A.I.D. of other Agency programs using A.I.D. funds is more easily done at the Washington level, although clearly their work in the field must also be monitored by the A.I.D. Representatives as well.

It is imperative that our assistance be fast disbursing to show the people of Eastern Europe that the West can move quickly to help them through their initial hardship period. We were able to begin design and implementation of the actual program activities almost immediately from Washington rather than focussing instead on the lengthy process of getting clearance and administrative and logistical support for people in the field.

We currently have over forty people working full-time on the Eastern Europe program in Washington, compared with ten when the program started in 1989. That number will soon expand to over 80 positions working full-time on the program. Many of these will be performing frequent TDYs to the field.

Regarding overseas staffing, as mentioned in our previous letter, we have an A.I.D. Representative in Warsaw who has been serving there since August, 1990. We will be augmenting his staff by three positions and placing A.I.D. Representatives in Hungary, Czechoslovakia, Bulgaria and Romania. By early summer they will be supplemented by Foreign Service Nationals hired at each post. We plan to have an additional American person in Budapest as well, subject (as are all positions) to Ambassadorial clearance.

I have mentioned previously that we will conduct a professional review of our field staffing needs in July and every six months thereafter. We will request additional staff any time it becomes necessary, and have done so already even before the July review.

I hope this conveys our rationale for the management structure we have adopted. As mentioned, we will soon have well over 80 Americans working full-time on Eastern Europe between Washington and the field, and on TDY—a not excessively thin total. I will keep you and your staff informed as our plans progress.

## Questions for the Record Submitted by Mr. Porter

### FURTHER EFFORTS AGAINST MALARIA

**Question.** I read recently that new strains of malaria which are immune to the medicines currently given to prevent infection are becoming a real threat in many developing countries. If this situation continues to get worse, millions worldwide could be infected and tens of thousands could die.

Part of A.I.D.'s mission is to facilitate disease prevention and control and related health planning and research. What types of programs currently exist within A.I.D. that could deal with a problem like the one many developing nations are facing with malaria? Are there any specific plans to focus on malaria prevention or research?

**Answer.** A.I.D. strongly supports efforts to develop new tools for prevention, treatment and control of malaria. The changing patterns of man and disease contact—driven, in part, by changing environmental conditions in areas of intense economic development and population migration—have dramatically increased the risk of malaria spreading to new or previously controlled areas. This situation has been aggravated by a steep rise in drug and insecticide resistance among malaria parasites and the mosquito vectors. The yearly impact of malaria is staggering: over 100 million people infected, and over 1 million deaths, mostly children. The need for development of new chemotherapeutic and control measures is urgent.

A.I.D. follows an integrated strategy that includes:

**Interventions which are economically and culturally sustainable;**  
**Strengthening institutional and human resources for preventing, treating and controlling malaria.**

In FY 1991 A.I.D. committed over \$28 million for malaria prevention and control, about half for development of new tools, including:

On-going support of \$1.5 million for WHO's Tropical Disease Research Programme.

\$4 million in grants and technical assistance to support:

Operations research on malaria in Africa by the Centers for Disease Control;

Trial of bed nets to control transmission of malaria in Africa;

The testing of new diagnostic and control measures.

\$1 million in grants to research institutions in Asia, Africa and Latin America.

These grants are intended to support basic research on malaria, as well as to strengthen the scientific research capabilities of developing country institutions.

\$8.5 million to support malaria vaccine research. Progress has been made over the past several years. Multiple candidate vaccines are now under development. Several have undergone testing in humans.

The remainder of the \$28 million supports technical assistance for malaria control programs in the developing countries.

#### A.I.D. AND THE BALTICS

*Question.* The brutal repression of the people in the Baltic states has prompted many members of Congress to look for ways to provide aid and assistance directly to the freely elected governments of the Baltics and PVOs and NGOs that operate there and bypass the government in Moscow.

Is A.I.D. currently doing any work in the Baltics? What type of constraints is A.I.D. under in regard to operating in the Baltics? Do you see any promise for an expanded A.I.D. role there?

*Answer.* A.I.D. is administering a \$5 million, one year activity using "disaster preparedness" authority to provide urgently needed pharmaceutical and medical supplies to the Soviet Union, including the Baltics. The \$5 million covers costs of the program being administered by Project Hope—the medical supplies themselves are being donated by the private sector. This effort is part of a larger Presidential package of economic measures for the Soviet Union announced on December 12, 1990.

The first shipment of pharmaceutical and medical supplies was recently distributed to the three Baltic states and Ukraine.

Section 620(f) of the FAA of 1961, as amended, prohibits assistance to Communist countries. It specifically names the Soviet Union, Lithuania, Latvia and Estonia. This provision would need to be changed or a Presidential waiver granted in order to provide assistance on a regular basis.

At the present time, however, no new programs for assistance for the Baltics are being planned. Even so, we believe that it is desirable to develop contacts at all levels of society engaged in the difficult process of transition to a democratic and open society. We expect to begin to make contacts as a result of the medical supplies initiative for the Soviet Union.

#### GLOBAL ENVIRONMENT FUND

*Question.* As you know, the Administration has decided against U.S. participation in the Global Environment Fund at the World Bank and has decided instead to commit parallel financing of \$50 million per year, divided evenly between energy and biodiversity projects, through A.I.D.

How does the A.I.D. budget request reflect this commitment? Is there an additional \$50 million above and beyond what was included for environmentally sound energy development and biodiversity last year?

*Answer.* Last Fall the Administration agreed to participate in the Global Environment Fund and, subject to the availability of appropriations, pledged up to \$150 million over a three-year period beginning in FY 1991 as the U.S. contribution to the Fund.

Because the U.S., through the Agency for International Development, already is financing bilaterally a relatively large portfolio of energy and biodiversity projects in developing countries, the Administration decided to make A.I.D.'s installed capacity and experience available to the International Bank for Reconstruction and Development (IBRD) and avoid redundant efforts in this technical field by providing the U.S. contribution through A.I.D. in the form of parallel financing of projects which meet Global Environment Fund criteria. A.I.D. efforts to develop and analyze energy and biodiversity projects will continue and be coordinated with IBRD work.

The projects will be reviewed and approved by the Global Environment Fund staff at the IBRD.

A.I.D. has proposed a budget for FY 1992 which provides for a \$47 million increase in funding for energy and biodiversity projects above the levels we plan to commit in FY 1991. The proposed increases for such projects are justified and described in the Congressional Presentation. The total increase results from a combination of Development Assistance and Development Fund for Africa allocations for projects expected to meet Fund criteria.

#### TERMINATION OF PROGRAM SUPPORT GRANTS

*Question.* I know that A.I.D. is focusing on four new program initiatives in the coming year, Family and Development, Democracy, Business and Development Partnership and Strategic Management. These sound like important initiatives and I support your efforts.

I am concerned, however, that A.I.D. not stray too far from its fundamental missions. I know you come from a farm state and you were president of a university with a very excellent Ag. program. It's right up there with the University of Illinois. You understand agriculture and I'm sure you understand how technically backward many developing countries are in the agricultural sector and that agricultural inefficiency is a major development constraint. Agriculture is the dominant sector in many developing nations and is an essential means of alleviating hunger.

I have heard from several universities that are very concerned that A.I.D. is de-emphasizing agricultural research and technical assistance to developing countries and downgrading the link that A.I.D. has traditionally had with universities, especially ones that specialize in agricultural research.

Specifically, could you explain why A.I.D. has terminated Memoranda of Understanding and Program Support Grants with 29 agricultural universities and without prior consultation with the universities?

*Answer.* The Memoranda of Understanding (MOU)/Program Support Grants (PSG) have not been terminated. A.I.D. plans to discontinue the MOUs/PSGs have not been without prior consultation. All 29 grants will be funded in FY 91. For 24 of these grants, this is the last year of funding under the terms of their agreements. For the other 5, the current agreements are scheduled to be completed in 1994. However, the Memoranda of Understanding, which underlie the Program Support Grants, provide for termination at the option of either party with one year notice. We have informed these schools of our intent to conclude this program in June of 1991 and expect to send the formal termination notices in June 1991.

There have been extensive discussions with all 29 Program Support Grant recipients dating back to April of 1990 when the BIFAD was briefed on our plans. Each school was briefed on our plans and there have been two additional advance BIFAD meetings. By providing this additional advance notice, we hoped to ease the impact of our decision on these universities.

Program Support Grants, pursuant to Memoranda of Understanding, are provided to the faculties of Departments of Agriculture in 29 U.S. universities. Although each grant is relatively small, the total program accounts for nearly \$4 million in our agricultural account. Many of these programs began in the late 1960's and were designed first to build and then sustain a capacity in the recipient institutions to support A.I.D. agricultural projects overseas by providing their core faculty on a long term basis. It was anticipated that A.I.D.'s projects would require long-term commitment of faculty from these institutions and, therefore, special funding was required to enable the institutions to devote staff to supporting international activities. As an alternative, such special funding could be included in the contracts under which the universities are providing faculty in support of long term international activities.

Although these institutions have provided valuable support to the Agency and remain an important part of our agricultural program, we do not see the continuing need for this kind of extraordinary long term faculty commitment in the years ahead. A 1989 external evaluation of these institutional grants indicated that the broadened participation and increased commitment may be "mobilizing resources" for yesterday's needs rather than tomorrow's opportunities. The external evaluation also noted the unusual nature of the PSGs, in that the measures of accomplishments are all tied to activities external to the PSGs. The evaluation report recommended that the "closed system" nature of the present grants be openly competitive to encourage other universities and collaboration between universities and the private sector.

Developing country requirements have changed, with agribusiness, environmental, and natural resources issues becoming more important. We do not anticipate

that long-term institution-building contracts will be an important part of our program as they were in the 1960's and 1970's: and clearly different kinds of skills will become more important.

A.I.D. has had numerous exchanges with the universities concerning its plans to conclude these programs. In April of 1990, we indicated to the BIFAD Board our intention to bring the Program Support Grants to an orderly closure and begin a new program that would be able to relate to the entire university community, not simply a particular sector. The new program which was designed collaboratively with the university community will emphasize linkages with developing country institutions and will be open to all universities on a competitive basis.

There has been tremendous interest in this new linkage project as over 200 colleges and universities have requested the application. We simply do not have the budgetary luxury of initiating new programs without also reducing lower priority existing programs.

Nevertheless, we are very sensitive to the need to conclude this program in a way that minimizes any significant disruption. Therefore, we intend to fund the PSG program in FY 1991, and do not intend to conclude it until a year from this summer. We have also offered to provide other flexibilities within the current agreements to ensure that they have ample time and opportunity to use the available funds to minimize any disruption which this decision to discontinue may have caused.

Change is always disruptive, but we have tried hard to manage our decision in a way that provides substantial advance notice and considerable flexibility for the PSG recipients.

#### FUNDING FOR AGRICULTURAL RESEARCH

*Question.* And in more general terms, could you give me a year by year rundown (FY 1985-1992) of A.I.D. funding, identified by project or program, that was allocated, or you project will be allocated, for scientific and technical cooperation by agricultural institutions of higher learning?

Is there a de-emphasis on Ag research and funding?

*Answer.* The Agency for International Development (A.I.D.) instituted a new program management reporting system beginning in FY 1989 which reports project components by activity codes and special interests (AC/SI). This system does not report the information in the exact form you requested.

The system reports total Agency funding for agricultural research as follows: FY 1989—\$138,900,000; FY 1990—\$137,800,000; FY 1990—\$137,600,000. For FY 1992 a modest increase, largely ESF, is projected, mainly for Europe/Near East/Asia.

While the above figures are relatively constant, A.I.D.'s budget for research reflects declines in the areas of food, agriculture and nutrition programs over the late 1980s, but, in part that is because funding for such programs was at a high point in 1985. At its current FY 1991 level, A.I.D. support for those programs, including research components, is still greater than for any other development assistance program category. Assisting developing countries improve their food and agricultural production and the nutrition of their people continues to be a high priority of A.I.D.

When overall budget availabilities decline, as they have for A.I.D.'s centrally managed agricultural programs, it is necessary to terminate projects, even successful projects that have concluded a specific phase of their effort and are unable for a variety of reasons to move to the next phase. That was the situation in our decision to conclude certain marine fisheries projects. Similar difficult decisions have been taken by A.I.D. in terminating or phasing out some long-standing bilateral agriculture and fisheries projects.

The nature of A.I.D.'s agricultural assistance program has changed over the 1980s also. Except in Africa, the Agency is no longer heavily involved in assisting developing countries establish agricultural universities and extension systems, projects for which the U.S. Land Grant and other agricultural universities had a very important capability and a strong role during past decades. Currently, A.I.D.'s agricultural programs are more likely to fund collaborative research between U.S. and developing country or other scientists; policy analysis; agribusiness and market development; rural savings and financial systems; and agroforestry. U.S. agricultural universities are among the collaborating institutions for these efforts, but the dollar volume of business is not so great as with past institution building projects. Also, there is not the same requirement for a long-term commitment of faculty to support A.I.D. agricultural programs overseas.

It was in terms of this changing program that A.I.D. made the decision to conclude the Program Support Grants to the 29 U.S. Universities with which we had

Memoranda of Understanding. None of the grants has been terminated, however, and we plan to fund all of them in FY 1991. We expect to send termination notices in June 1991 and to conclude the program in the summer of 1992.

The program will be replaced by a new project that will encourage linkages between U.S. and developing country institutions and between universities, private voluntary organizations, and the private business sector. The response from the U.S. university community to the new project has been encouraging. More than 200 colleges and universities have requested applications, and A.I.D. has received 150 pre-applications, including 40 from Land Grant and other universities. We expect that the broader participation and collaboration of U.S. organizations will have mutual benefit for all parties, including the developing countries.

## Questions For the Record Submitted by Mr. Lehman

### FAMILY PLANNING/CHINA

*Question.* You have previously stated that A.I.D. is very dedicated to family planning assistance, calling it a "major priority item." The State Department's 1990 Human Rights Report reflects improvement in the Chinese population program. Do you believe that the Administration's policy on family planning assistance to China through UNFPA warrants review in light of this improvement?

*Answer.* We do not believe the 1990 Human Rights Report reflects significant improvement in the Chinese population program. Coercion may involve physical compulsion and somewhat more subtle means to force couples to comply with authorized birth limits. The Report states that "(p)hysical compulsion to submit to abortion or sterilization is not authorized, but continues to occur as officials strive to meet population targets."

Regarding other forms of coercion, the 1990 Report states as follows:

"Individual and family decisions about bearing children are regulated by the State, with rewards for those who cooperate with, and severe sanctions against those who deviate from, official guidelines. The central Government sets a nationwide goal for the number of authorized births, apportioned down to the local level and, ultimately, to each work unit. . . . For urban couples, obtaining permission to have a second child is very difficult.

"China's population control policy relies on education, propaganda, and economic incentives, as well as more coercive measures, including psychological pressure and severe economic penalties. Rewards for couples who adhere to the policy include monthly stipends and preferential medical, food, and educational benefits. Disciplinary measures against those who violate the policy often include stiff fines, withholding of social services, demotion, and other administrative punishments. In at least a few cases people have been fired from their jobs (a very serious penalty in China, affecting housing, pension, and other social benefits) for refusing to terminate unauthorized pregnancies. \* \* \*

"Because penalties for excess births can be levied against local officials and the women's work units, many individuals are personally affected, providing an additional potential source of pressure."

My commitment to family planning assistance is firm, and it is a major priority item for A.I.D. We will not provide any support for China's coercive program, however, directly or indirectly through UNFPA. A.I.D. will satisfy this commitment by directing United States assistance to other voluntary family planning programs.

### FAMILY PLANNING/ROMANIA

*Question.* We sought funding for family planning in Romania last year on an emergency basis. I notice now that you are obligating \$1.5 million in Population Planning grant funds for organizations such as the Centre for Development and Population Activities (CEDPA) there. Can you give us some details on how those funds will be used?

*Answer.* CEDPA is the grantee and it has been in Romania since April 6 planning the implementation schedule. Under its grant from A.I.D., CEDPA has sub-grant authority to enlist assistance from other PVOs. For instance, one of the groups it has enlisted is the Johns-Hopkins University which will provide training in modern surgical methods of contraception. CEDPA will return to Washington on April 26. From their initial field reports, we can state that the grant is presently being targeted towards the following activities:

Institutional Support to the Society for Education, Contraception and Sexuality (SECS). The immediate activity is to collaborate on a national workshop scheduled

for May. Long-term activities include: assistance in developing the corporate structure for SEC; the training of trainers; securing office space, equipment, and staff; developing a communication program; developing a counselling program; and, the provision of contraceptives supplies.

Developing Model Clinics. CEDPA will assist SECS to develop a model family planning clinic in Bucharest. This will also serve as a national training center. From this center, as trainers are trained, other centers will be sponsored in provincial capitals using existing hospital facilities. These facilities have set aside clinic space but need staff training and some supplies to operate family planning services.

Change the Legal and Regulatory Structure. Presently, only Ob-Gyn physician specialists can prescribe oral contraceptives and IUDs. This cadre represents only about 5% of the total number of physicians in the country. The majority of physicians are general practitioners, approximately 80% of the total. As these physicians are trained in family planning service delivery, the Ministry of Health will lift the ban on prescription practices and permit them to prescribe modern contraceptive methods for their patients. Before the grant was signed, an expert medical team, under direction of the former Surgeon General of the U.S., was sent to Romania (with funds outside the \$1.5 million earmark), to review the clinical situation. Prior to departure for Romania on April 6, CEDPA was briefed by this team. Their recommendations have served to inform CEDPA on the most effective and expeditious steps it can now take to implement the Congressional earmark.

## Questions for the Record Submitted by Mr. Green

### CONTRIBUTION TO THE UNITED NATIONS POPULATION FUND

*Question.* Would you clarify for the Subcommittee the precise conditions under which A.I.D. would resume contributions to the United Nations Population Fund?

*Answer.* A.I.D. may not consider making a contribution to the United Nations Population Fund (UNFPA) until it becomes eligible under the Kemp-Kasten amendment which prohibits assistance to an organization that supports or participates in the management of a program of coercive abortion or involuntary sterilization. This restriction applies to UNFPA because of the management assistance it provides to China.

The problem in China is its one-child policy and how it is implemented. Targets for authorized births are apportioned down to the local level and, ultimately, to each work unit. These targets are treated as quotas by officials whose performance is reinforced by a system of rewards for success and punishment for failure. Special benefits are provided to couples who comply with policy, and economic and other penalties are imposed on those who do not. This system has set in place a program for population control that has resulted in a wide variety of abuses, including coerced abortion and involuntary sterilization. To set these targets, monitor compliance with them, and enforce the one-child policy, China needs to obtain and analyze demographic information effectively.

Although UNFPA does not directly fund abortion or coercion in China, the quality and substantial amount of management assistance UNFPA provides to China has had a significant impact on China's ability to obtain and analyze the information China needs to manage its one-child policy. UNFPA has helped China develop the modern capability to establish and monitor compliance with authorized birth targets: computer hardware, support to make China self-sufficient in training demographers, and training for family planning workers who implement China's abusive population program including coerced abortion and involuntary sterilization.

In 1985, the A.I.D. Administrator concluded that the Kemp-Kasten amendment applies to UNFPA because of the management assistance it provides to China, and this determination was sustained in the federal courts. Since then, there has not been substantial change either in the China program or in UNFPA's support for it that would justify A.I.D.'s making a contribution to UNFPA. In fact, the President vetoed the 1990 foreign assistance bill shortly after UNFPA started its second five-year program in China because funds were earmarked for UNFPA and its new program is not significantly different from the first.

It is very difficult to speculate about the kinds of changes UNFPA would have to make for A.I.D. to resume assistance to it. Certainly, placing U.S. funds in a segregated account which cannot be used for China would not satisfy the Kemp-Kasten restriction, and would not be an effective way to express United States concern about coercion in China. Funds are fungible. As long as China continues to have coercive abortion and involuntary sterilization, A.I.D. will not provide support to

UNFPA unless it ceases to provide assistance to China, or unless UNFPA provides the kind of assistance which cannot directly or indirectly support coercive abortion and involuntary sterilization in China, as UNFPA currently does with its management assistance, perhaps by providing only contraceptive commodities.

#### MEXICO CITY POLICY IMPLEMENTATION STUDY

*Question.* A.I.D.'s internal evaluation of the Mexico City policy, while finding no problems in compliance with the new restrictions, did find problems of an opposite nature, that is—a tendency on the part of groups dependent on A.I.D. funding actually to suppress all information about the incidence and health impact of illegal abortion, to deny treatment to women suffering from the effects of such dangerous abortions, and in other ways to act contrary to good medical practice and public health.

What is A.I.D. doing to address the problems raised by your evaluation? (Entitled, "The Mexico City Policy Implementation Study," By John Blane and Matthew Friedman, November 21, 1990.)

*Answer.* The report identified anecdotal evidence that some health practitioners were reacting with undue caution, but by and large the clauses were interpreted correctly and the health workers were providing the appropriate information.

The report indicated that domestic cooperating agencies understand the procedures for implementing the Mexico City Policy, but some foreign subgrantees may not. Assistance is provided through cooperating agencies so these agencies may help foreign subgrantees conduct effective programs in accordance with the terms of A.I.D.'s agreements. We are planning to ask cooperating agencies to provide more support to their foreign subgrantees in understanding the procedures for implementing the Mexico City Policy. In addition, A.I.D. intends to revise the standard clause used in grants and cooperative agreements to clarify areas that are not restricted.

#### RESPONSE TO GAO'S CONCERNS ABOUT POPULATION PROGRAM

*Question.* In May 1990, the GAO issued a report on A.I.D.'s population program arguing that, among other things, A.I.D.'s bilateral assistance is not well managed and does not achieve established legislative goals with regard to population.

Has A.I.D. taken any steps to address the concerns raised by the May 1990 GAO report?

*Answer.* A.I.D.'s population program is well-managed. The GAO identified some areas for improvement which A.I.D. has moved quickly to implement. As the Agency's March 15, 1991 report to the Senate Appropriations Committee points out, A.I.D. has been committed to delivering family planning services since 1965, with a clear and consistent strategy based on the premise that providing family planning services is the most appropriate response to the developing world's population problem. A.I.D. is committed to reducing rates of population growth as a means to achieving the broader objective of better social, economic, environmental, and health conditions in the developing world.

The GAO report equated decentralization of the population program with management diffusion and lack of coordination. Such an assessment fails to recognize the important features of A.I.D.'s decentralized management structure which emphasizes a strong field orientation, and the many formal and informal mechanisms that insure effective coordination. These mechanisms include the Population Sector Council which discusses Sector Council which discusses strategy, budget and programming issues; regular and adhoc meetings between the Office of Population and regional bureau technical staff and the field; regular staff rotations between Washington and missions; and the Office of Population resource allocation plan which identifies the Office's country priorities and budget allocations which complement mission programs.

The Congressionally authorized use of program funds for operating expenses will help A.I.D. strengthen the financial and technical oversight of A.I.D.'s population program. These funds are being used to:

- Strengthen management information systems (MIS) and automation for the population program;
- Increase monitoring of field programs by A.I.D. direct hire staff through additional travel for program design, monitoring and evaluation; and

- Further develop the technical and managerial skills of population program staff.

The GAO also identified some weaknesses in A.I.D.'s population evaluation program. Through a new evaluation initiative, A.I.D. is making a systematic effort to improve its understanding of the impact of A.I.D.'s population assistance and to develop standard measures for assessing this impact.

## GAO REVIEW OF A.I.D.'s ENERGY PROGRAMS

**Question.** On March 6, 1991 GAO issued a preliminary review of A.I.D.'s Energy programs. Regarding global warming, the GAO report notes, "this issue has had a marginal impact on the orientation of agency programming." (pg. 5) How can U.S. A.I.D. enhance the priority it gives to global warming initiative?

**Answer.** Within the past year, A.I.D. has enhanced the priority of global warming by funding additional energy activities designed to ameliorate global climate change. Also, we have increased our collaboration with other U.S. agencies, multilateral development banks (MDBs), U.S. NGOs and U.S. industry. A.I.D. has:

- Launched multi-year energy efficiency projects in Morocco, Egypt, and Pakistan that provide technical assistance and equipment to demonstrate and commercialize energy efficiency services and technologies;

- Ongoing or planned projects to assist six Eastern and Central European countries, including three that emphasize energy efficiency for this coal burning region;

- Begun new energy efficiency programs in Brazil, and Mexico;

- Expanded the Energy Conservation Services Program (ECSP) which offers shorter term assistance and helps A.I.D. Missions develop new programs; and

- Engaged a contractor to design and implement a five-year training program for Agency staff on energy, environment and natural resources.

In collaboration with the Costa Rican government and an electric utility, A.I.D. is assessing efficiency options and load control programs to devise "least cost utility planning" methods based on efficiency and demand options that are less costly than supply options. This activity is intended to be a model for other Central American countries and India.

A.I.D. has launched the Global Energy Efficiency Initiative (GEEI) to: (1) improve cooperation among U.S. agencies and U.S. NGOs regarding energy efficiency programs in LDCs and (2) establish an international network that can attract resources and attention. Under GEEI, the Group has completed a comprehensive study of the impact of energy efficiency on global climate change and is setting up an International Steering Committee. Members of the U.S. Group are considering project proposals prepared for Indonesia, India, Brazil, Poland, and the Philippines.

The agency increased its FY 1991 funding for renewable energy activities to expanding preinvestment activities. New activities have recently been initiated in Mexico, Indonesia, Honduras, and Belize. A.I.D. is planning renewable resource assessments in Eastern Europe with DOE and the renewable energy industry.

### MULTILATERAL DONOR COORDINATION ON ENERGY CONSERVATION

**Question.** How effectively are A.I.D., the World Bank, and the regional banks coordinating their activities in areas such as energy conservation programming?

**Answer.** A.I.D. chairs the Multi-Agency Working Group on Power Sector Innovation (MAGPI), which also includes: World Bank, International Finance Corporation, regional multilateral development banks, and the United Nations. A.I.D.'s objective is to implement "bankable" energy efficiency and renewable energy projects.

A.I.D. activities stemming from MAGPI include:

- \$3.5 million to support pre-investment work in energy efficiency and renewable energy projects through a cooperative multi-year agreement with the World Bank.

- \$20 million for preinvestment studies and pilot projects in India as part of a five-year energy efficiency effort designed in cooperation with the World Bank, the Asian Development Bank, and several bilaterals. The results will be used by other institutions in allocating more than \$1 billion to finance India's energy sector.

Discussions with the staff of the Global Environmental Facility at the World Bank regarding potential collaborative efforts.

Because many of these cooperative efforts began only recently, no formal evaluation has been done. However, the cooperation to date indicates a recognition of mutual interest and suggests that the arrangements are important to the participating organizations.

WEDNESDAY, MARCH 13, 1991.

## LATIN AMERICA

### WITNESSES

**BERNARD ARONSON, ASSISTANT SECRETARY, BUREAU FOR INTER-AMERICAN AFFAIRS, DEPARTMENT OF STATE**

**JAMES MICHEL, ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**HENRY ROWEN, ASSISTANT SECRETARY, INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE**

### CHAIRMAN'S OPENING STATEMENT

Mr. OBEY. Good morning.

Today, the Committee will review the fiscal year 1992 request of \$1.4 billion to Central and Latin America. Our principal witnesses today are Assistant Secretary Bernard Aronson, Bureau for Inter-American Affairs, Department of State; James H. Michel, Assistant Administrator, Bureau for Latin America and the Caribbean, Agency for International Development; and Henry S. Rowen, Assistant Secretary for International Security Affairs, Department of Defense.

Gentleman, I have a time crunch this morning. So what I would appreciate is if you could simply each summarize your statements in about 5 minutes then we will get right to the questioning.

Let me simply observe, before you start, that in the, I do not know how many years, I think 16 years that I have been a member of the Committee, in all but 2 years, this region has dominated the bill. Not in terms of the size of the appropriation, but in terms of the heat and the controversy surrounding policy in the region.

El Salvador has always been a front burner item, with Nicaragua intermittently intervened. For the moment, there is an apparent lag in the controversy. But I do not think that is going to last very long. And I think it depends, at least with respect to Salvador, upon what happens in that country.

I think that the Government, the Army and the rebels at this point pretty much have their fate in their own hands. And I think the conduct of each of them can very much determine what happens here in Congress.

I will be frank in stating my own view. I have never been thrilled with the idea of conditionality. I believe in the old fashion approach that the way for Congress to deal with an issue is either to appropriate money or not to.

We have approximately two months to assess the good intentions of all of the parties in that country after the elections which oc-

curred recently. I would simply say that I hope that both sides to those negotiations understand that rigidity, or unreasonableness, or lack of good faith, or lack of movement on the part of either of the parties will really determine what this Committee does this year.

Because, frankly, I think if we want to we can produce a bill which has an absolute cut-off. I think if we want to we can produce a bill which has conditionality. I think if we want to we can produce a bill which provides full funding.

I think there are enough people in a swing position to go any of three ways, depending upon how parties respond and depending upon how credible the Administration's own efforts appear to be in Congress at the time.

So, I would hope that there would be an opportunity to put things together at long last in that country. I am frankly very skeptical that the rebels will, in fact, do what is necessary. Also I am very skeptical that the military will do what is necessary.

I do not have much doubt that Mr. Christiani would try to do what is necessary. The question is how relevant he is and how forceful the other two parties are going to be.

So, let me simply stop at that point and invite you to make whatever remarks you think are appropriate for a brief period.

Mr. ARONSON. Thank you, Mr. Chairman.

#### MR. ARONSON'S OPENING STATEMENT

I will submit my prepared statement for the record and in the interest of time, make some brief opening remarks.

First of all, I think that the tone and the absence of division in our own politics, even though we sometimes disagree, is a healthy sign. And I appreciate the bipartisan spirit in which this committee has tried to coordinate and help make U.S. policy in this region. And I hope that that will continue. It certainly will from our side and I know that it will from yours, Mr. Chairman.

#### EL SALVADOR

Since you mentioned El Salvador, let me just say that El Salvador, I think, is a good example of the fact that when the U.S. sustains a commitment and the U.S. provides aid and insists that our values are respected, that progress is possible, even in a society that began as far back as El Salvador did when we first became engaged. And it is not fashionable to say that El Salvadorans improved or that our involvement has made a difference. But that is profoundly true.

And I say that because this committee appropriates foreign assistance in a country in which foreign assistance is never popular. It is not a politically popular thing to do. But I think one of the lessons of the last 2 years throughout this hemisphere, including El Salvador, is that the assistance that we have given has made things better for the people of the region. And it has certainly furthered the interest of our own country.

The elections that we just went through in El Salvador were the broadest in their history. They were observed by hundreds of international observers, including the OAS, from support that this committee provides.

The parties of the left participated more fully and won more seats than ever before, in part, due to a consensus among the parties to broaden the numbers in the national assembly.

We are closer to peace than ever before in the history of that country and I think peace is possible this year. And I think you are right to say that it depends on the will of both sides. We are going to make a maximum effort to support the negotiations.

If the FMLN wants peace and genuine reform, they can have both today. And I believe President Cristiani, in fact, has brought the military further in terms of embracing fundamental restructuring of its role, reduction in its size, expanded civilian authority, codification of human rights than a lot of us who have watched this country for a long time would have thought possible.

I recently returned from another successful election in Haiti that many doubted would be possible. And once again, funds voted by this committee helped to ensure the integrity of the balloting process, and a flood of international observers, which gave some hope to the people of that country.

#### NICARAGUA

Elsewhere in Central America, we saw the successful end to a war in Nicaragua, the demobilization of 20,000 armed resistance members, the beginning of national reconciliation, the beginning of pluralism and democracy. Again, the aid this committee appropriated was essential to those achievements, as was the bipartisan agreement that the Secretary of State negotiated with the Congress, including the chairman of this committee.

#### PANAMA

The aid that we provided for Panama has helped that country reduce its unemployment rate more than any country in the Western Hemisphere, enjoy record growth, begin to establish effective civilian control over the police, and begin to train an entire new generation of Panamanians to become members of the police and take the place of the old Noriega corrupted Panamanian Defense Forces.

#### PERU

In Peru, epidemiologists trained by AID with funds appropriated by this committee were the ones who detected the cholera that is ravaging that country and we are helping through the Center for Disease Control, to try to contain the disease.

#### PARAGUAY

And I could go on and on. In Paraguay, a place that many do not pay much attention to, 125,000 acres of rain forests will be preserved because of the actions of a Government and an environmental group supported by funds appropriated by this committee.

Suffice it to say, I think throughout this hemisphere, we have seen more movement toward the consolidation of democracy and opening markets than ever in history. And both of those trends are good for the United States. Everything that we care about in our own foreign policy agenda, from combatting drugs, to controlling

flows of immigration, to preserving the environment, are strengthened when we can cooperate with stable democracies in those pursuits and are weakened when we face corrupt dictatorships of either the left or the right.

#### MILITARY COOPERATION

And I would note, even in the response of the hemisphere to our collective efforts in the Gulf, every country in the hemisphere, with the exception, perhaps, of Cuba, fully backed the U.N. sanctions.

Argentina sent troops. Venezuela increased its oil production to help deal with the immediate effects of the invasion of Kuwait. Honduras pledged troops. Many countries in the region suffered severe economic dislocation because of their honoring the sanctions. But they did.

We have also seen important motion in some other areas that are important to our global agenda. Brazil and Argentina have committed to implement full scope safeguards on their nuclear program and to waive the Treaty of Tlatelolco into effect.

We have seen some important changes in the missile proliferation regime. Argentina has committed to end production and dismantle the components of the Condor missile system which was being developed under the old military regime.

If that missile had gone forward, the military balance in the Gulf would have been very different. It matters to the United States when we have democracies.

Our aid request for this fiscal year, Mr. Chairman, represents a very modest increase over the previous year. And the total ESF, FMF, and DA represents about 17 percent of our worldwide assistance. My statement breaks down the detail.

#### TRADE AGREEMENTS

But I would just conclude by saying that the United States goes wrong in Latin America more by disengaging than by intervening too much. And we have an enormous opportunity to remain engaged and to see the final consolidation of what will be the first hemisphere in history that is completely democratic and, just as important, a hemisphere that is moving steadily from Mexico, to Venezuela, to Argentina, to Jamaica, to Costa Rica, to El Salvador, in the direction of open markets.

We are the natural beneficiary of that opening. Our trade with Mexico doubled in the last 4 years as Mexico opened its market. We are now selling \$30 billion of exports and our own growth and expansion is being led by the export sector.

So we have a deep stake in the continuation of these trends and I hope that the committee will support our assistance.

I would like to just say one last word on the record since we have an opportunity to address several members of Congress. The proposal to continue fast-track authority that the President has submitted, I think, is the most important foreign policy initiative that the Congress will consider this year. And that does not in any way diminish the importance of others.

We will either be a fundamental player and shaper of global trade in the Uruguay Round and in this hemisphere, or we will retreat and be left out.

And if we retreat and are left out, those who will pay the price are American workers and American consumers. And I cannot imagine a more self-destructive step than to vote down that authority. It does not commit any member, ultimately, to support any free trade agreement, whether an Uruguay Round agreement or a Mexican agreement. Every member can reserve his right on those final agreements.

But to deny the President that authority will be to cripple the United States at a time when our prosperity and our ability to grow out of this recession depends fundamentally on our ability to export.

It is a myth that trade is a zero-sum game. It is not. The growth and development of Mexico is in our interest in every way and we will be the main beneficiaries of such an agreement. So I hope that the members here will give consideration to that.

Thank you.

[The information follows:]

Statement of Bernard W. Aronson  
Assistant Secretary of State for Inter-American Affairs  
Before the House Appropriations Committee  
Subcommittee on Foreign Operations  
March 13, 1991

Mr. Chairman, I am pleased to be here this morning to share with you and the Subcommittee my perspective on the state of our hemisphere and U.S. policy. I want to discuss the Administration's policy priorities with regard to Latin America and the Caribbean, and to present our security assistance request for fiscal 1992.

We want to work with the Congress to achieve five basic objectives in this hemisphere: consolidating democracy and advancing human rights; encouraging economic reform and development in which the poor will benefit; promoting regional peace; ridding the hemisphere of the scourge of drugs; and cooperating with the nations of this hemisphere on a post-Cold War agenda of safeguarding our environment and stopping the spread of missile and nuclear weapons technology around the world.

The opportunity to achieve these objectives is great. In the last decade, voters led a political revolution throughout the Americas, burying a tradition of dictatorship through the peaceful act of going to the polls. In this decade, the leaders they elected are driving an economic revolution of equally far-reaching consequence.

Revolution is a strong word, but it is no exaggeration. When Argentina sells its state airline and telephone company to private companies, that's revolutionary. When Mexico cuts its tariffs from over 100 percent to an average of ten percent, that's revolutionary. And when Jamaica opens its largest export industry tourism -- to private investment, that's revolutionary. These are but three examples of a sharp turn to a new economic philosophy that sees opportunity, not danger, in economic freedom and full participation in the competitive international marketplace.

This revolution is widespread, but it hasn't yet succeeded. In many cases, it involves a political struggle against the entrenched elites that benefit from the privileges of the old, protected economic system. Let there be no doubt that we have a profound interest in its success.

A democratic hemisphere with modern, open economies will be a stable hemisphere. It will be a hemisphere that fulfills the promise of human rights, not just as people vote in elections but as they make free choices in the marketplace. It will be a hemisphere of social justice, where greater economic freedom leads to a broad-based prosperity.

And it will be a hemisphere that offers increased opportunity for American workers and businesses. Right now about 13 percent of our exports -- \$47 billion in 1989 -- go to Latin America and the Caribbean. If you doubt that successful economic reform in Latin America can make a difference to the U.S. economy, just look at Mexico, a country leading the way in economic reform, where our exports have doubled between 1986 and 1989.

To help this economic revolution succeed, and to achieve our broader objectives in this hemisphere, we need the help of Congress.

Reauthorization of fast-track negotiating authority for free trade agreements is essential, not just for the North American Free Trade Agreement with Mexico and Canada, but also for the President's vision of an entire hemisphere free of trade barriers.

The Enterprise for the Americas Initiative offers more than the vision of free trade -- it encourages the free flow of international investment and offers new opportunities for debt reduction and environmental protection. To make these investment and debt initiatives possible, we urge Congress to pass the Enterprise for the Americas Initiative Act.

As we ask the Andean nations to stop the supply of cocaine, we need to respond to their need for greater export opportunities. The Andean Trade Preferences Act is a key component of the war on drugs, and I urge you to support its passage.

Our foreign assistance request is the absolute minimum we need to help our democratic partners to reach the political and security goals we have in common, and we need your help in securing its approval in Congress.

Mr. Chairman, I want to underscore one central point: we stand to benefit from a period of nearly unprecedented opportunity in this hemisphere. Democracy is strong. Economic policy is on the right track. Nations want to cooperate with us in the war on drugs. We have ended the rancorous debate over Central America that distanced us from our neighbors and divided us at home.

This hemisphere is turning to the democratic processes and free market policies the United States has long espoused. The question before us is whether we can take yes for an answer. We owe it to our neighbors and to ourselves to respond with energy and creativity to the extraordinary opportunities before us.

#### The Persian Gulf

Let me turn briefly to the Persian Gulf and this hemisphere's reaction to the crisis. We are heartened by the nearly uniform solidarity of the hemisphere to the crisis. Argentina provided two ships for the allied effort, and Honduras offered troops. Venezuela, Mexico and Colombia all boosted oil production and exports to make up for the Persian Gulf production shortfall. Every country in the hemisphere except Cuba has supported the sanctions against Iraq -- even though for some it means real economic sacrifice. And even Cuba condemned Iraq's invasion of Kuwait. We have also enjoyed full cooperation in protecting against terrorist threats related to the Gulf situation.

#### The Caribbean

On February 7 I attended the inauguration of the first democratically elected Haitian president in recent memory. The atmosphere in Port au Prince was full of optimism, as Haiti joined the hemisphere's democratic mainstream. Under the auspices of the OAS and the UN, and with U.S. financial support, election observers from 22 countries witnessed the Haitian election and helped guarantee its fairness. The OAS alone sent 200 observers.

I am proud that insistent U.S. support for democratization in Haiti, and financial support for the elections, contributed to this happy result. In the past year this support included an invitation to interim President Trouillot to meet with President Bush in Washington and a visit to Haiti by Vice President Quayle. I made three trips to Haiti myself. We are now committed to assisting President Aristide in consolidating democracy and improving the lot of the Haitian people.

The task is daunting. The poorest country in the hemisphere, Haiti's needs for both human and infrastructure development are enormous. Its infant mortality rate of 12 percent is twice the region's average, while the percentage of secondary school age population actually enrolled -- 17 -- is one third of the hemisphere's average. Sound growth-inducing policies and well-targeted social investments can, however, move Haiti rapidly forward. At President Aristide's request, we also are reexamining the sensitive issue of Haitian migration to the United States.

The island nations of the Caribbean are among our closest neighbors and best friends. Most of them are poor with a narrow economic base -- this leaves them vulnerable to sudden changes in the world economy and, most dangerously, to exploitation by drug traffickers. Through the Caribbean Basin Initiative and the Enterprise for the Americas Initiative, we want to help these nations diversify their economies through expanded trade and investment.

In most of the Caribbean, democracy and respect for human rights have quietly flourished for a quarter century. The exceptions to this trend remain Suriname and, of course, Cuba. We deplore the December military coup in Suriname that overthrew a democratically elected government. We urge the interim government in Paramaribo to keep its pledge to hold free and fair elections on May 25, to make them open to full international observation, and to respect the results. OAS Secretary General Baena Soares also has insisted that the present government guarantee the observers' autonomy in carrying out their mission. We are also concerned about indications that Suriname is serving as a transit point for cocaine shipments to Europe and, more recently, the U.S. This hemisphere will not tolerate another drug dictatorship.

In Cuba, where a Marxist dictator makes all the decisions, there is little consideration of democratic reform, and human rights are systematically denied. Defenders of human rights are routinely intimidated or arrested for exercising their basic right of free speech. One example is Samuel Martinez Lara, the leader of the Cuban Human Rights Party. He was jailed for nearly a year without charges, then last month was accused of "nonviolent rebellion" and sentenced to three years' probation. Even after the wave of democracy that swept Eastern Europe, the Cuban government has rejected international calls for a plebiscite.

As Cuba's former allies in Eastern Europe have turned to democracy and economic freedom, they have limited their economic relationship with Cuba. Aid from Eastern Europe is

almost non-existent; trade once amounting to 15 percent of Cuba's total trade is less than half its previous level. Soviet oil deliveries fell by 20 percent from 1989 to 1990, and will remain at 1990 levels this year; aid and technical assistance will be reduced. In an interview February 14, Fidel Castro described the impact on Cuba's economy of changes in Eastern Europe and the Soviet Union as catastrophic. The Soviets have urged Cuba to adopt economic reform in order to compensate for reduced trade and aid; to date this advice has fallen on deaf ears. Castro's response has been extensive rationing, sending people from the cities to do farm labor, replacing farm machinery with animals, and importing hundreds of thousands of bicycles. The Cuban government's behavior has isolated Cuba -- from Cuba's former allies, from the rest of the hemisphere, and from the United States.

We would like to see a change in our relationship with Cuba, and I believe that change must come. Our relations with the Soviet Union improved because the Soviet Union committed itself to new thinking in foreign policy and undertook economic and political reform. The critical question is when will the Cuban government see that reform -- both political and economic -- is inevitable. Our hope, like that of many Cubans, is that democratic change will come soon and peacefully.

#### Mexico

Nowhere in the hemisphere are the prospects for a closer, more cooperative bilateral relationship brighter than in Mexico. President Carlos Salinas has embarked on a bold course of economic reform. We should assist and encourage his efforts. The Salinas administration has reduced tariffs, privatized state-owned companies, and has announced its readiness to negotiate a free trade agreement with the United States and Canada.

A North American Free Trade Agreement is an important goal of this Administration. It will -- and already has -- given momentum to the entire hemisphere's drive to lower trade barriers. Already, Argentina, Brazil, Uruguay and Paraguay are negotiating a common market for the southern cone. Already, the Andean nations have established an ambitious plan for regional economic liberalization. If Congress fails to approve fast track negotiating authority, it will send a crushing, negative signal to the entire hemisphere at a time when our neighbors, after a decade of stagnant growth rates, are moving aggressively to remove barriers to global trade and investment.

A North American Free Trade Agreement will spur growth in both the U.S. and Mexico, and it will help make both economies

more competitive vis-a-vis the rest of the world. Free trade with Mexico also means jobs -- not jobs lost, but jobs gained. According to U.S. Department of Commerce estimates, every billion dollars we add to U.S. exports creates 25,000 new jobs for American workers. In 1990 we exported nearly \$30 billion in goods to Mexico, double our exports of only four years ago. According to that estimate, those increased exports would translate into 375,000 new jobs.

But our interests with Mexico go far beyond trade. I can tell you today that our relations with Mexico are stronger across the board than they have been in many years. To cite just one key example, our cooperation in the war against drugs has never been better. We have established the Northern Border Response Force, we are cooperating on patrol flights by U.S. P-3 aircraft, and we have provided helicopters to Mexico to bolster interdiction efforts. We have seen significant progress in marijuana and opium poppy eradication. Most of Mexico's naval operations and 25 percent of its army personnel are devoted to counternarcotics activity.

#### Central America

Central America has made great progress in the last decade, and has great opportunity ahead. Elected governments that took the reins of power from military juntas at the beginning of the last decade have been replaced, peacefully and quietly, by new democratic successors. Elections and dialogue have shown the way to ending military conflict. Full regional peace, once achieved, will allow Central Americans to devote their energies once again to the twenty-year-old dream of economic integration. This time, the effort will be led by governments that see strength, not danger, in full participation in the competitive world economy.

The Central American republics have a common historical identity dating from their independence in 1821. They think in regional terms, and in our day we see that they prefer to address problems through common regional approaches. From Washington, we all see that the crisis atmosphere of the 1980's is past, but we cannot allow this to draw our attention away from this region. Instead, our foreign policy must seize today's opportunities and build on the progress already made.

We will keep our focus on Central America, and we want to keep our friends around the world involved as partners in the region's development. During the past year, the Administration has been working to foster an international partnership -- the Partnership for Democracy and Development in Central America. The objective of the PDD is to pool the energies of the

governments of the 24 OECD nations, the six Central American countries, Colombia, Mexico, Venezuela and representatives of key international institutions in a common effort to support democracy, peace and economic development in Central America. This concept is receiving strong support from key European and Far Eastern nations as well as from our Central American neighbors themselves. I will be going to San Jose, Costa Rica on April 10, along with representatives of the countries I just mentioned, to participate in the Partnership's organizational meeting.

The recent elections in Guatemala and the inauguration of President Jorge Serrano are clear signs of progress and hope. This marks the first time in Guatemala in 40 years that the candidate of an opposition party has been elected in a free, honest vote and allowed to assume office peacefully.

During the Cerezo Administration, Guatemala's failure to effectively pursue the investigation of the murder of an American citizen, Michael Devine, made it necessary to suspend security assistance in December 1990. Earlier, other failures to prosecute human rights cases led us to recall our Ambassador in March 1990. In contrast, the first signals from President Serrano -- starting in his inaugural address, when he warned the security forces that their human rights violations would no longer be met with impunity -- tell us that Guatemala has a president who is firmly committed to establishing civilian authority over security forces and instituting broad respect for human rights and the rule of law. President Serrano's economic policies show similar promise, and we are engaged in an active dialogue with him and his government to help him meet these important goals.

Voters in El Salvador will go to the polls on March 10 to elect all 84 members of the legislative assembly, plus mayors and municipal council members in all 262 municipalities. Twenty-four seats were added to the legislative assembly as the result of an agreement among the full range of Salvadoran political parties. Twenty of these seats will be filled by at-large candidates running on national lists -- this should help smaller opposition parties to win seats.

This will be the seventh election since an era of democratic reform began in El Salvador in 1979. The people of El Salvador alone deserve the credit for this achievement, and for the broad political space beginning to be enjoyed by people of all points of view. But we should be proud of our role -- consistent U.S. support for the democratically elected governments of the late President Jose Napoleon Duarte and President Alfredo Cristiani has been an important factor in the expansion of democracy in El Salvador.

Like previous elections in El Salvador, this election will take place under the microscope of international observation. The OAS, to its great credit, is leading the observation effort with 160 observers deployed in El Salvador's 14 departments, including those where military conflict has been most intense.

I would note as well that last year El Salvador's economy -- despite the systematic destruction and violence wreaked upon it by the FMLN -- enjoyed positive real growth and one of the lowest inflation rates in the hemisphere. That is a tribute to the reform policies of the Cristiani government, but bipartisan U.S. support for economic reform -- steady, patient, continuing -- also contributed significantly to this achievement.

Over a year ago, the world was shocked by the brutal murder of six Jesuits, their housekeeper and her daughter in San Salvador. Even though nine Salvadoran officers and enlisted personnel were arraigned in this case -- and four others have been charged with obstructing justice -- the armed forces have not fully cooperated in the investigation. The Government of El Salvador knows that the disposition of this case will deeply influence our future relationship.

At the same time, under the auspices of the United Nations, negotiations between the Government of El Salvador and the Farabundo Marti National Liberation Front aimed at bringing an end to El Salvador's decade-long civil conflict continue. The U.S. fully supports these negotiations and hopes that the international community will energetically support a prompt negotiated solution to El Salvador's civil war. There are many obstacles in the path of a lasting peace and sustained democratic rule in El Salvador, but I am still optimistic that this is the year for peace in El Salvador.

In Nicaragua, the democratically elected government of Violeta Chamorro will soon celebrate its first anniversary. Nicaraguans still bear the heavy burden of a decade of Sandinista misrule -- high inflation, unemployment, a bloated and costly collection of bureaucracies and state enterprises, and deep social division. But President Chamorro has brought a new spirit of optimism with her tireless effort to heal old wounds and the promise of thorough economic reform. She already has several achievements to her credit -- the war is ended, the Resistance peacefully demobilized, the state's foreign trade monopoly is abolished, wasteful subsidies have been eliminated, confiscated properties are being returned, and the army has been reduced by over 50 percent, to name just a few.

National reconciliation is moving forward despite the tragic assassination of Enrique Bermudez and the killing of some 40 former Resistance fighters over the past year. We join with President Chamorro in condemning such violence and urging those responsible to end the last vestiges of political polarization and join in the effort to move the country towards greater individual freedom and economic well-being.

Our aid programs are playing a significant role. Working with \$30 million in funds we provided, the International Commission of Verification and Assistance -- directed by the OAS and the UN -- has helped some 90,000 former combatants and family members of the Nicaraguan Resistance to return to civilian life.

Since Mrs. Chamorro's election we have pledged \$537.1 million in economic assistance to Nicaragua. Of that total, \$35.1 million was in immediate emergency assistance. A \$300 million assistance package was approved for fiscal 1990, and an additional \$202 million for fiscal 1991. Since April 1990 the U.S. has signed agreements obligating \$289.4 million of the 1990 aid package, of which \$155.1 million has been disbursed. Of the 1990 funds, \$128 million have been set aside to provide balance of payments assistance in support of Nicaragua's economic stabilization and structural reform. An additional \$50 million has been set aside for the international effort to clear Nicaragua's IDB and World Bank debt arrearages. \$47 million has been allocated for the repatriation of the ex-Resistance and refugees. \$75 million is being used for long term development projects, to generate immediate jobs, to provide new textbooks for the public school system, and for emergency medical supplies.

Panama is another Central American democracy emerging from a debilitating period of dictatorship. We are working closely with President Endara and his government to strengthen democracy and spur economic recovery.

Under President Endara's administration and with U.S. assistance, Panama's economy grew last year at an annual rate of nearly four percent, among the highest in the region. To assist the recovery, we are providing Panama with some \$452 million in economic aid and \$500 million in loans and guarantees for fiscal 1990 and 1991, the largest aid package in the hemisphere and the third largest in the world. The United States also made immediately available to the new democratic government some \$430 million in Canal fees which was held in escrow for the government of Panama during the last two years of the Noriega regime.

Part of our aid is repairing war damage, providing new housing for the residents of the Chorillo neighborhood in Panama City, which was destroyed by the fleeing Noriega forces during Operation Just Cause. Other aid has been used for the health care system, public works, and to provide new credit for the private sector.

Panama is committed to transform the former corrupt, Noriega-dominated Panama Defense Forces into a civilian-led national police. Most officers above the rank of captain have been replaced. \$13.2 million of our aid is devoted to an extensive police training program administered by the Justice Department's International Criminal Investigative and Training Assistance Program. The first class of police trainees at the newly established U.S.-supported police academy graduated last February 22.

At the end of this decade, Panama will assume full control of the Canal and its operations, as provided in the 1979 treaties. Last September, in accord with the treaties, the first Panamanian citizen, Gilberto Guardia, was installed as Administrator of the Panama Canal Commission. Panamanian participation in the Canal workforce has grown to 86 percent.

It is fashionable to denigrate the achievements of Panama's new democratic government -- measuring it against a standard of perfection instead of how far it has come from where it began. But a little over one year since American forces bravely liberated Panama in Operation Just Cause, Panama is free; honest and open elections for National Assembly seats have been held; the economy is growing and unemployment has been reduced by ten full percentage points; civilians -- not the military -- make political decisions; the country successfully restructured its official bilateral debt at the Paris Club and is moving to regularize its financial relations with the World Bank, IMF and Inter-American Development Bank; tough statutes have been enacted on money laundering; the Panama Canal Treaties are being implemented; and Panama has been welcomed into the Central American regional economic and political summit talks. The United States can be proud of the role it has played in the liberation of Panama.

### South America

The democratic governments of South America today are eager to define their new role in a post-Cold War world and their relationship to the United States, and need our continued support. The large countries of South America -- notably Brazil and Argentina -- are increasingly important global actors. Democratic Chile will also assert itself on the

international stage in the period ahead. We hope to strengthen our cooperation with these countries in key areas such as curbing nuclear proliferation and supporting for regional stability elsewhere in the world.

Argentina, Brazil and Peru are still grappling with serious inflationary pressures and a daunting array of related economic problems. These problems derive from the ingrained statist and protectionist economic model, which resulted in the region's poor growth record during the 80's. Most countries in the region have begun to pursue market-oriented and private-sector driven policies. Some, such as Chile, Bolivia, Colombia and Mexico, have made significant progress and achieved deep structural changes. Although reform often carries short-term social costs, these costs pale in comparison to the prospect of repeating another "lost decade" under the old economic policies. The new thinking is taking hold, and in key countries investor confidence is beginning to return.

In Brazil, President Fernando Collor, the first directly elected president in 29 years, has embarked on a bold economic reform program designed to break Brazil's inflationary spiral and liberalize economic and trade policy. Much remains to be done, including reduction of the government's deficit and privatizing state industries, in order to reduce Brazil's high inflation.

We are working closely with the Collor government to improve our cooperation in scientific research. We are also working to address the problem of controlling the spread of technologies with potential military applications.

The survival and preservation of Brazil's Amazon region is an important environmental concern. In April 1989, the government of Brazil introduced a program called "Our Nature" to preserve the Amazon; it included suspension of certain tax incentives that encouraged deforestation. When President Collor took office, he eliminated those tax incentives permanently. His government is moving aggressively to create guidelines and zoning regulations for land use, with an emphasis on the Amazon. As a further sign of President Collor's commitment to work with the international community to address environmental concerns, Brazil will host the 1992 UN Conference on Environment and Development. The Agency for International Development has also recently initiated a new cooperative program with Brazil to address problems related to the issue of global climate change.

In the struggle against narcotics, the United States continues to assist the signatories of the Declaration of

Cartagena in their efforts to reduce production, improve interdiction, control precursor chemicals, and stop money laundering. Just two months after Cartagena, Attorney General Thornburgh joined some 20 other ministers of justice in an OAS-sponsored meeting in Ixtapa, Mexico to give region-wide application to the Cartagena principles. With full support from the Administration, the OAS has developed the world's toughest model standards on the export and import of precursor chemicals. Our Justice Department is helping OAS experts to draft comprehensive model codes to curb money laundering in the hemisphere.

In Colombia, President Gaviria, like his predecessor, has shown great political courage in dealing with the problems of violent drug traffickers and insurgency. In 1990, Colombia seized over 50 tons of cocaine, destroyed over 200 cocaine labs and arrested over 7000 suspects on trafficking charges. In the first two months of this year, about twelve metric tons of cocaine were seized. Last month, President Gaviria came to Washington for a working visit with President Bush and signed an agreement that will help our two governments share evidence in narcotics investigations. No nation has shown more courage or commitment in the war against narcotrafficking or paid a greater price than Colombia.

We are also encouraged by recent successes in negotiating a peaceful end to Colombia's guerrilla insurgencies. We support the initiative of President Gaviria to offer dialogue to the EPL and FARC guerrillas and hope they respond affirmatively.

President Fujimori of Peru faces the triple scourges of an entrenched, brutal guerrilla war, powerful cocaine trafficking organizations, and now pandemic cholera. In the past, anti-narcotics programs in Peru have suffered from a lack of firm policy guidance, but President Fujimori is working on comprehensive approaches to stop drug trafficking and provide economic alternatives for peasants now dependent on the cocaine economy. We are funding a \$27.9 million Upper Huallaga Valley Special Project to provide agricultural services and community development support to ex-coca farmers who switch to alternate crops.

The Fujimori government has courageously sought to address the economic and debt crises it inherited. It needs and deserves the international community's continued support as it moves forward on the path of economic reform.

Bolivia, the region's second largest producer of coca leaves, is making steady, progress toward its commitment to

reduce and eventually eliminate illicit coca production. Nevertheless, the threats of corruption and growing terrorism remain of serious concern.

In 1990 the U.S. provided \$45.5 million to Bolivia for basic economic reform and for alternative development projects. For the past three years, an AID-funded project has provided irrigation to the arid and poor Cochabamba high valleys to eliminate the population's need to earn extra income through seasonal work in the Chapare coca region. Before the program started, surveys showed that up to 75 percent of the available men migrated from the high valleys to the Chapare for temporary work. This year almost none have left. Other projects we fund have employed over 100,000 laborers in roadbuilding and other community development work.

Five years ago, Bolivia faced a 25,000 percent inflation rate; today their inflation is lower than ours -- a testament to Bolivia's steadfast commitment to sound economic policy.

In the Southern Cone, our relations with the new democratic government of Chile continue to expand and strengthen. In his December visit to Chile, President Bush addressed a joint session of the Chilean Congress and supported Chile's democratic transition and pace-setting free-market policies. In many ways Chile is emerging as a model for Latin America -- a model of democratic consolidation and national reconciliation, and a model of economic reform that produces real gains, as Chile's steady record of growth and new investment demonstrates.

Chile has expressed interest in a Free Trade Agreement similar to the one being negotiated with Mexico. We have restored GSP benefits to Chile, lifted sanctions imposed on the previous regime, and made progress in bilateral trade and investment issues. We are concerned, however, about the escalation of terrorism against U.S. interests in Chile.

Perhaps nowhere in the region has the shift in foreign policy emphasis been clearer than in Argentina under President Carlos Menem. Argentina has renewed diplomatic relations with the United Kingdom and contributed naval vessels to the Gulf coalition. Just before President Bush's South America trip, on November 28, 1990 Presidents Menem and Collor announced that they will place all their nuclear facilities under International Atomic Energy Administration safeguards and work to bring the Treaty of Tlatelolco, the Latin American non-proliferation treaty, into force. This agreement is a major step forward, and it could be a model for similar agreements elsewhere in the world. On the economic front,

privatizations of the national telephone company (Entel) and airline (Aerolineas Argentinas) are beginning to reverse state domination of the economy. Politically, it is clear after the failed military revolt last December that the Argentine people have no desire to return to authoritarian rule.

President Bush also visited Uruguay on his five-nation tour of South America, underscoring our support for democracy and for President Lacalle's efforts to create a more open, market-oriented economy, and spelling out the benefits to be derived from the Enterprise for the Americas Initiative. Uruguay, as a middle income developing country, is not eligible for some kinds of U.S. assistance, but we have provided some security assistance to enhance Uruguay's ability to interdict drugs. We also made a surplus food grant last year, the sale of which provided about \$2.8 million for Uruguay's Social Investment Fund. To their credit, both Uruguay and Brazil adhered with great integrity to UN economic sanctions against Iraq, despite the serious cost.

In Paraguay, President Rodriguez is steadily, courageously leading his nation -- so long locked into dictatorship -- into the mainstream of the hemisphere's democracies. The U.S. has reinstated GSP benefits contingent on the reform of labor practices, including the right to organize. We also are providing, through the National Endowment for Democracy, money to train observers for the May 1991 municipal elections, the first such vote in Paraguay's history. Finally, Paraguay has joined its Southern Cone neighbors in negotiations for a common market and in negotiating a joint framework agreement with the U.S. under the Enterprise for the Americas Initiative.

#### The Enterprise for the Americas Initiative

When I began my statement, I discussed a revolution in economic thought and policy in this hemisphere -- a sharp turn away from statist, protectionist policy and toward economic freedoms. For the poor of this hemisphere, for those who want to see democracy succeed, for those who look to participate in the economy of the Americas, this change in thinking represents a profound opportunity, and its impact can be far greater than any amount of aid we would extend.

President Bush got a strong sense of this new thinking in February 1990 when he went to the Andean drug summit in Cartagena, Colombia. The presidents he met gave him an emphatic message -- more than aid, they want their citizens to have the opportunity to sell their goods in the world economy, including the U.S. market. On the flight home from Cartagena,

President Bush told his advisors that we owe our neighbors a bold response.

Within four months, on June 27, 1990, the Enterprise for the Americas Initiative was born. In its spirit, it is an offer of partnership among countries eager to forge ahead with economic reform. It is based not on dependency and aid, but on concerted action to free our economies from restrictions that have helped economic elites and stifled the poor and the industrious. It offers a vision of free trade throughout the Americas.

The programs of EAI promote prosperity through trade and investment liberalization and debt relief, with a new emphasis on environmental protection. EAI offers the most to those that are doing the most to reform. We are encouraging other nations, especially Japan, to pursue similar objectives for the region. We hope that Japan and the European Community will contribute to a proposed EAI Multilateral Investment Fund to be administered by the Inter-American Development Bank. The fund would provide \$300 million in grants annually over the next five years to support comprehensive reforms in investment policy, privatization and human capital needs.

Since the EAI was launched, we have negotiated framework agreements with five countries, and discussions are underway with nine others. These agreements establish principles for cooperation on trade and investment, and can set the framework for negotiating free trade agreements. We trust that the Congress will provide the President the authority necessary to move ahead in expanding free trade in this hemisphere.

We are also working with the Inter-American Development Bank on a new program that will provide lending to support countries that removing impediments to international investment.

I also urge the Congress to take rapid action on the remaining portions of the debt element of the EAI. We are moving forward quickly with debt reduction agreements on P.L. 480 programs under the authority granted by the 1990 farm legislation. We still need authority for debt reduction agreements on concessional debt administered by AID, and for debt-for-equity and debt-for-nature swaps relating to Commodity Credit Corporation and Ex-Im programs.

The Latin American region today is in a position to launch self-sustaining growth within a democratic and stable political framework. There is nothing automatic nor guaranteed about continued progress, but it is certain that the programs of the EAI provide powerful leverage to continue economic reforms.

### Overview of Our Budget Request

The Administration's request for assistance for Latin America and the Caribbean for fiscal 1992 balances the vital interests of the United States, the need to meet the challenges that the region poses, and the reality of ever-increasing fiscal constraints.

For fiscal 1992 we are requesting \$1.520 billion for economic and anti-narcotics assistance and \$280.2 million for security aid. This represents an increase of \$104 million, or six percent over levels requested for fiscal 1991. The total requested, \$1.799 billion, accounts for less than 17 percent of our worldwide assistance request, a modest sum considering the importance of the region to the United States.

### Security Assistance

At this point I would like to address the security assistance component of our request. In fiscal 1992, we have requested \$713.9 million in Economic Support Funds (ESF) and \$280.2 million for military assistance (FMF and IMET), totalling \$994.1 million, or 12.1 percent of the requested worldwide security assistance. In addition, AID has targetted \$406 million in development assistance with special emphasis on job creation to benefit the poor, primary health care, education, strengthening of democratic institutions, and preserving the environment.

Of the sum requested for military assistance, \$13.75 million will go to the International Military Education and Training (IMET) program. As you know, Mr. Chairman, in past years this popular program has provided professional and technical training to Latin American military officers and noncommissioned officers. Through well-structured courses, this program gives the future military leaders of our region important training in human rights and civil-military relations. In the hope that we can build on the successes of the past, we are requesting IMET programs in virtually all countries in Latin America and the Caribbean with which we maintain diplomatic relations.

This year, thanks to the initiative of friends in the Congress, we have a revision in the fiscal 1991 IMET legislation which enables us to include civilian officials in our IMET training programs. Effective civilian control of the military will become reality only when there are enough well trained civilians who can play leading roles in defense programs and budgets, strategic planning, force structure management, and of course the management of the U.S. military assistance programs. We are working to make IMET-funded courses for civilians begin within the next few weeks.

Of the \$266.4 million in Foreign Military Financing (FMF) that we have requested, \$137 million will support the Andean Counternarcotics strategy in Bolivia, Colombia and Peru. It also includes \$5 million for Ecuador. A total of \$108.9 million in FMF will support the key democratic countries in Central America. This leaves only a request for \$15.5 million in FMF outside the Andes and Central America. Of that amount, \$11.9 million is for the drug-threatened Caribbean. The remaining \$3.5 million will go toward reinforcing civil-military relations in Argentina, Chile, Paraguay and Uruguay.

We have taken steps to ensure that our security assistance, including that provided to fight narcotics trafficking, supports our key policy objectives in the region. Together with the Defense Department, the DEA and other agencies, we have developed a human rights training program which will be administered to our officials, both military and civilian, before they assume duties related to the implementation of our counter-narcotics and military assistance programs in our embassies. The training will provide our personnel with a thorough understanding of human rights law and policy, as well as information about the human rights situation in the country to which they will be assigned.

Our security assistance has helped us make progress in the drug war in the first year of the Andean strategy. We have helped Colombia to maintain its vigorous campaign against narcotics traffickers, yielding a 37 percent increase in seizures over the previous year. Accomplishments include the seizure of over 50 metric tons of cocaine, the destruction of over 300 processing labs, and 7,000 arrests. Colombian police also have eradicated virtually all marijuana cultivation in traditional growing areas. The Government has dealt severe blows to the leadership structure of the Medellin cartel by keeping drug kingpins such as Pablo Escobar constantly on the run. Colombia extradited 14 drug suspects to the United States in 1990; the total extradited since August 1989 is 26. Three other major traffickers have surrendered under President Gaviria's amnesty decrees which guarantee confessing traffickers a shortened sentence and no extradition. However, Colombian security forces continue to pay a heavy price. In the last year, over 400 National Policemen have died at the hands of the traffickers.

Our narcotics-related security assistance has yielded good results in Bolivia as well. Coca eradication during the year reached a record level of over 8,000 hectares, making possible a net reduction in the amount of coca cultivation for the first time. Joint police, Air Force, and Navy task forces

have expanded counternarcotics operations, disrupting trafficking patterns. A major narco-trafficker was arrested, along with his lieutenants, planes, laboratories, and other personal assets, in a combined operation.

In Peru, President Fujimori has expressed his government's commitment to fight narcotics trafficking. Though concrete actions have, until recently, been limited, we are beginning to see promising signs. There are increasing reports of effective Peruvian military and police coordination against traffickers in the Upper Huallaga Valley. In addition, the Peruvian Air Force has forced down two planes in the Upper Huallaga Valley, both laden with narcotics. President Fujimori has proposed an innovative, comprehensive agreement, integrating alternative development and law enforcement, which should provide a solid framework for our future counter-narcotics cooperation. Negotiations should conclude shortly. We thus are hopeful that our two governments will soon be jointly working effectively against narcotics production and trafficking.

Our focus is fighting narcotics, not insurgency, notwithstanding the evidence of collusion between narco-traffickers and guerrilla groups in Colombia and Peru. Our assistance is in all instances channelled through the civilian governments. While our preference is to work with established police forces, we have seen that these units are often not trained or equipped to engage the paramilitary forces of narcotics traffickers in remote and dangerous areas. Thus, we believe that specially-trained military units can bring a significant resource in the war on drugs, if properly coordinated and directed by civilian authorities. I want to stress that our military trainers will be limited in number and will not become directly involved in counternarcotics operations. As their title conveys, they will only train.

### Conclusion

Mr. Chairman and Members of the Subcommittee, I have submitted this detailed statement to give you a full picture of the challenges and opportunities we face in this hemisphere. I am optimistic about the future of the Americas, and I believe our policies respond to our interests and to our neighbors' concerns. Moreover, I am confident that we are delivering a dollar's worth of good for U.S. interests for every dollar we spend in the region. My staff and I look forward to working with all of you to make our policies and programs a success.

Mr. OBEY. Mr. Michel.

**MR. MICHEL'S OPENING STATEMENT**

Mr. MICHEL. Mr. Chairman, thank you.

I too have a prepared statement which I would like to submit for the record.

**NEW STRATEGY FOR LATIN AMERICA**

Mr. Chairman, I agree that we have a time of remarkable opportunity in our relations with the countries of this hemisphere. There is a broad consensus as we see the spread of democracy and the adoption of market-based economic policies regarding the need for a new strategy based on mutual respect and mutual responsibility to deepen those roots of democracy, to restructure those economies, and to help achieve stability and prosperity throughout the hemisphere.

The words of President Bush in launching the Enterprise for the America's Initiative last June, were that "the future of Latin America lies with free governments and free markets".

We hope that the program proposed by the Agency for International Development will support that vision through \$713.9 million in economic support funds (ESF), \$406.2 million in development assistance (DA), and \$300.2 million in Public Law 480, \$125 million of which is administered by the Department of Agriculture under Title I.

Mr. Chairman, we have seen a cyclical pattern which follows the rise and fall of national security threats in our attention to this hemisphere, and that is certainly reflected in the aid levels. They went up in the early 1960s when Fidel Castro came to power. Though aid levels went down in the 1970s, there was a significant increase when the Sandinistas took control in Nicaragua. Now we are faced with the question of whether that cycle will be repeated just as the broad consensus in favor of political and economic freedom is beginning to show promise of real results.

**A.I.D.'S OBJECTIVES**

The program for A.I.D. for the 1990s is intended to support three objectives: broadly based and sustainable economic growth, the evolution of stable, democratic societies, and responding to specific challenges to the attainment of growth and democracy.

With respect to growth, we look at four elements. First of all, market-directed economic policies that promote investment, productive employment, and outward oriented diversification.

Second, the promotion of a vigorous response by the private sector to such a policy environment to create new jobs, new economic activity, third, increased participation in the economy by the disadvantaged, and fourth, preservation and sustainable use of the natural resource base.

We have learned, with respect to economic policy reforms, that bad economic policies erase the benefits of even the best targeted humanitarian programs.

The majority of our requests for ESF for fiscal year 1992 will support economic policy reform with local currency generations

used primarily for public investments that will cushion the impact of the adjustments on the most needy.

Because we can make only a limited investment from appropriated funds, it is critical that we target that assistance to maximize benefits and reach the largest number of poor and disadvantaged.

We think that support for policies that create an environment for broadly based economic growth will have a greater impact on the poor than relief that reaches only a few and lasts only while external funding continues.

Economic policy reform is also a necessary objective because it is important for the beneficiary countries to adopt reforms that will regain access to the international financial institutions, which are an increasingly important part of the capital flows to the region. Commercial bank lending is not there anymore.

Many countries, as this chart shows that have begun to implement economic reforms are achieving positive growth in their economy. As that growth occurs, we see a couple of interesting things on the trade front.

First of all, we see that exports from the region to the United States have begun to rise as the countries have rationalized and liberalized their economies. In my prepared statement, there is a version of this chart that extends it into 1990 and the stepping stones keep going up. The exports from the region to the U.S., reflecting a diversification and an opening up of the economies, also create new demands in those economies for imported goods.

Just as their exports to the U.S. have risen, so have our exports to Latin America and the Caribbean, from a low of \$26 billion in 1983 to \$48 billion in 1989. The estimate for 1990 is \$55 billion. So the effect of economic reform is economic growth. And economic growth, we believe, is important to development. You cannot just divide up poverty. You need to have a growing economy.

As a more favorable policy environment is being generated, we seek to encourage the private sector through a variety of programs to respond to new opportunities. We are providing about \$100 million in our request for 1992 to help local businesses obtain information and services through export investment promotion activities, to help link local and U.S. businesses, and to provide technical assistance.

We have established with the Department of Commerce a Latin American and Caribbean Development Center to serve as an information clearinghouse and one-stop shop for U.S. businesses and businesses in the region.

In Costa Rica, we have a country where economic reforms and a vigorous response to them by the private sector have led to impressive growth. GDP has averaged 4 percent over the last 3 years on an annual basis. Unemployment has fallen to about 4.5 percent. Nontraditional exports have risen about 28 percent each year over the last 8 years.

All levels of Costa Rica's society have benefited from this export-led growth. But as this chart shows, the lower-income brackets are receiving the highest increases in income. Now, I think this is largely because Costa Rica's economy has evolved with the opening, the liberalization of the economic reforms, and with the new kinds of industries that have been established there.

It is not that there is a sudden surge in demand for coffee or sugar or bananas. It is the dramatic diversification that has occurred in the pattern of nontraditional export growth. That same pattern that has so profoundly affected the incomes of the poor in Costa Rica is holding true for other countries in the region as well.

Now, just as the A.I.D. private sector programs seek to broaden and accelerate the benefits of policy reforms, we also seek, through our development assistance, to broaden and accelerate the opportunities for the disadvantaged to participate in economic growth. For fiscal year 1992, we are proposing \$50 million for child survival activities, \$29 million for other health activities, \$8 million for AIDS activities, \$57 million for population, \$22 million for basic education.

There have been significant social advances over the past few years throughout the region. Infant mortality rates are down, primary school retention rates are up. The countries in the region need to address systemic problems in social service delivery systems, and we are putting an emphasis on support for improvement in those systems.

At the same time, we will continue to support small and micro enterprises, the private voluntary organizations, and those working to address the barriers to integration of the informal sector into the economy.

The preservation and sustainable use of the environment obviously is essential for growth to be sustained. The A.I.D. program will put emphasis on sound policies, strong institutions, protection of bio-diversity in tropical forests, global climate change, integrated pest management, coastal zones, and many other activities. We are planning \$66.3 million in addition to local currency generations for environmental activities in the hemisphere in fiscal year 1992.

Turning to the strengthening of democracy, this economic development occurs in a political context, where development, we believe, can best be sustained over the long term in a political environment in which individual liberty is protected and in which human rights are respected. This map shows the dramatic change that has occurred over the past decade in the political landscape of our hemisphere. For the first time in history, nearly every country has a democratically elected government.

Our program for the 1990's will focus on strengthening the competence of government institutions with checks and balances and decentralization of authority that diminish the concentration of political power. Our program includes support for municipalities, the judiciary, the legislative organizations, as well as the promotion of a vigorous civil society and the strengthening of democratic values through the range of the AID program.

Our deliberations in developing this program of support for democracy reflect what we have learned from our experience of collaboration with our neighbors over the years. We seek to be responsive to their priorities, not to introduce a "Made in the U.S.A." prescription.

#### NARCOTICS

Finally, Mr. Chairman, a statement would not be complete without mention of the special challenges faced by the hemisphere, and

in particular the challenge of drugs. Production, trafficking, and consumption of drugs affects every corner of the hemisphere, threatens both the economic growth and the evolution of stable democratic societies.

We are requesting \$250 million in ESF for the Andean counter-drug initiative to help address this challenge. This will provide macroeconomic and alternative development assistance to help offset the loss of foreign exchange, stimulate alternative means of earning a living through legitimate activities, and also will support the capacity of the justice systems to deal with the criminal aspect of the drug trafficking.

We are seeing some progress. The Chapare Valley in Bolivia is now exporting pineapples and bananas for the first time in several years, not just drugs. Fewer workers from the surrounding high valley are migrating to cultivate coca because of new opportunities closer to home, and A.I.D.'s programs have provided short-term employment for more than 100,000 laborers in community development projects and related activities.

We are just about doubling our request for resources for narcotics education and prevention from 1990. We are looking for \$6.8 million for fiscal year 1992 for those programs to diminish demand and educate the populace in the region on the evils of drugs.

Another challenge is Central America, where the challenge for the countries is to learn how to work together as a region and to overcome many of the common regional problems, such as environment, trade, and energy, through collaborative means. We will seek to work with those countries within a regional framework. We have developed a regional economic assistance strategy for Central America that has been submitted to the subcommittee.

That work, of course, will be done within the context of the Partnership for Democracy and Development and in working with the key regional institutions.

Mr. Chairman, I believe this program is one that is responsive to the needs and aspirations of the people of Latin America and the Caribbean, and that it supports vital U.S. interests in the hemisphere which we share with them. It focuses on key objectives; it is results oriented. I hope that the Congress and the American people will support it and we can work with you. I am looking forward to much progress in the 1990's in our relations within this hemisphere.

Thank you.

[The information follows:]

**PREPARED STATEMENT OF JAMES H. MICHEL**  
**Assistant Administrator**  
**Latin America and the Caribbean Bureau**  
**Agency for International Development**  
 before the  
**Subcommittee on Foreign Operations**  
**Committee on Appropriations**  
**U.S. House of Representatives**  
 Washington, D.C.  
 March 13, 1991

Mr. Chairman, Members of the Committee, it is a pleasure to be here today to discuss the current state of affairs in the Western Hemisphere, the prospects for FY 1992 and beyond, and A.I.D.'s role in helping further U.S. interests and objectives in the region.

There is a new political and economic landscape in this Hemisphere. With the spread of democratically-elected governments and the growing acceptance of market-based economic policies, Latin American and Caribbean (LAC) countries have begun the process of recovery from the crises of the 1980s.

While much has been accomplished to achieve peace, democracy, and economic recovery in the Hemisphere, much remains to be done. The gains are fragile and future outcomes satisfactory to U.S. interests are not assured. It is important that U.S. policy seek to sustain these favorable trends toward a democratic and prosperous Hemisphere.

There is a broad consensus throughout the region and within the international community that a new strategy of cooperation based on mutual respect and mutual responsibility is needed. The vision of the Enterprise for the Americas Initiative (EAI) sets the tone. The Initiative contemplates a cooperative endeavor to advance our increasingly shared interests and values, embracing the three issues of greatest importance to Latin America -- trade, investment, and debt. It will build upon the efforts already underway in the region to deepen the roots of democracy, restructure economies, and achieve economic stability and prosperity.

President Bush said when he launched the Enterprise for the Americas last June that "the future of Latin America lies with free governments and free markets." To support this vision, A.I.D. has carefully designed its program for the 1990s to respond to the new challenges and new opportunities in the Hemisphere. We are requesting from the Congress a program level of \$1.4 billion for FY 1992. This includes \$713.9 million in Economic Support Funds (ESF), \$406.2 million in Development Assistance (DA), and \$300.2 million in P.L. 480 resources, including Title I programs administered by the U.S. Department of Agriculture.

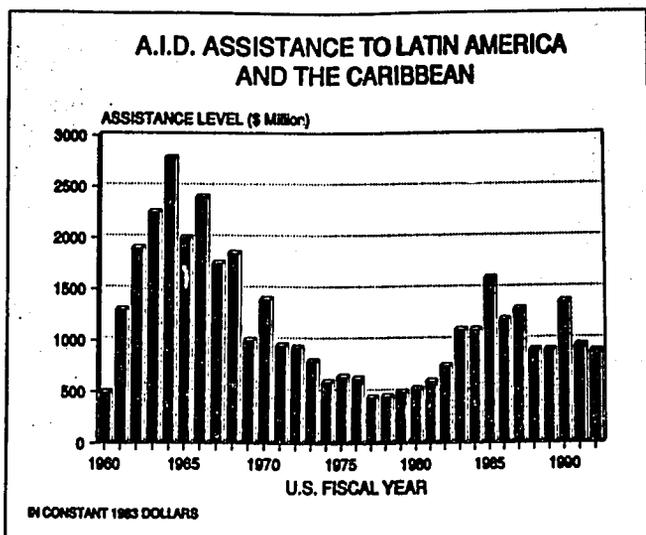
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I realize that an investment of nearly \$1.4 billion is a large amount to ask the Congress and the American taxpayers to make. I certainly believe that such an investment is needed. If we fail to provide adequate support for our neighbors in the Hemisphere at this critical juncture, today's bright prospects for long-term stability and broadly based growth may be in jeopardy. If elected governments carrying out market-based economic policies cannot demonstrate that their principles work in practice for the benefit of all segments of society, then desperate people may again be tempted by extremists. And we will be faced in a few short years with the prospects of a much larger investment to protect our national interests.

Our aid levels to the Hemisphere have had a cyclical pattern which follows the rise and fall of national security threats. Levels were high in the early 1960s when Fidel Castro took power in Cuba. Through the 1970s, aid levels fell. However, we significantly increased levels again when the Sandinistas took control in Nicaragua and began to support insurrection in neighboring countries.

The broad consensus in favor of political and economic freedom is beginning to show results. The Hemisphere is on the threshold of achieving the political stability, economic prosperity, and social justice that have for so long eluded most of the people in the region. It would be tragic if we were again to turn our attention away from Latin America and the Caribbean at this moment of new challenges and new opportunities by once again reducing our assistance too far, too fast.

Chart 1



The FY 1992 A.I.D. request reflects the minimum amounts necessary to ensure that the prospects for long-term stability and broadly based growth are realized. Our A.I.D. program is designed to get maximum benefit from the investment we are asking the Congress and the American taxpayers to make.

It should also be emphasized that foreign assistance is only one element in our economic relations with our neighbors. In addition to your approval of the A.I.D. program, this Committee's support is needed for continuation of the "fast track" authority needed to bring into force a North American Free Trade Agreement. Your support is also needed for early approval of legislation to permit full implementation of the Enterprise for the Americas Initiative and the Andean Trade Initiative. All of these measures are inter-related; all are important to advancing our interests in a prosperous and democratic hemisphere.

#### A.I.D.'s Objectives for the 1990s in the Western Hemisphere

The objectives of our program for the 1990s are:

- (1) support broadly based, sustainable economic growth;
- (2) support the evolution of stable democratic societies; and
- (3) respond to specific challenges to the attainment of growth and democracy.

#### Broadly based, Sustainable Economic Growth

It is axiomatic that sustainable economic growth is necessary to reduce poverty and increase opportunities for participation in society. If economic growth does not occur, very little can be done to alleviate poverty. In fact, as with the economic crises of the 1980s, economic decline causes the number of poor to increase. The poor need economic growth which leads to real and lasting jobs. Only with the creation of such employment will individuals earn enough income to pay for their essential needs of food, shelter, water, health care, and education. Also, without economic growth, public and private sectors cannot make and maintain adequate investments in education, health care, sanitation, and basic infrastructure.

In order to promote the achievement of broadly based, sustainable economic growth in the LAC region, A.I.D. is focusing on: (a) market-directed economic policies that promote investment, productive employment, and outward-oriented diversification; (b) promotion of a vigorous response by the private sector to such a policy environment; (c) increased participation in the economy by the disadvantaged; and (d) the preservation and sustainable use of the natural resource base.

**(a) Promoting market-based economic policy reforms**

We have learned over the years that poor economic policies cause enormous harm to the poor and tend to erase the benefits of even the best targeted humanitarian programs. Overvalued exchange rates, for example, limit employment and growth while promoting consumption of imported goods -- goods which are mainly consumed by middle- and upper-income people, not by the poor. Large fiscal deficits lead to high inflation, a condition which almost invariably hurts poor people the most. Inefficient and money-losing parastatal enterprises soak up scarce government resources -- leaving less for higher priorities like education and health -- and provide little employment opportunities for all but the politically well-connected.

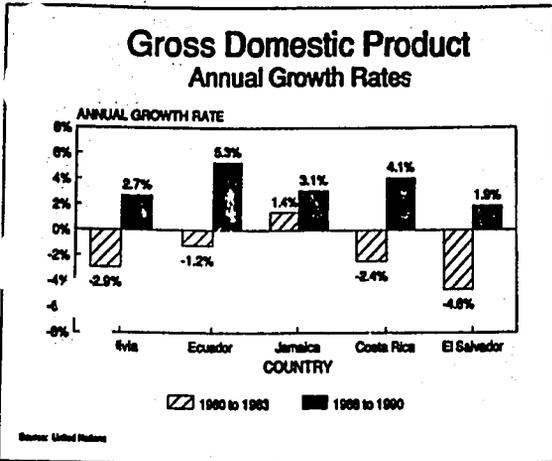
Because of the limited amount of investment that A.I.D. can make, it is critical that we target that assistance to maximize benefits and reach the largest number of poor and disadvantaged. Supporting policies that create an environment for economic growth that is broadly-based, creates jobs, and improves incomes is more likely to have a broad and significant impact on the poor than providing only temporary relief that reaches only a few and lasts only while external funding continues.

Responding to the hemisphere-wide movement toward market-based economies, A.I.D., along with other international donors, is placing an important emphasis on helping governments reform their economies. As many of the countries in the region begin to change their policies, A.I.D.'s program will help ease the difficult adjustment to market-based economies. Policy changes that A.I.D. plans to support with a majority of the \$713.9 million in ESF resources requested include correcting overvalued exchange rates, reducing fiscal deficits, controlling inflation, diversifying exports, promoting investment, and privatizing government enterprises.

Most nations throughout the Hemisphere have realized that reforming their policies is the best way to help their citizens. Many countries have already begun to implement economic reform programs. For a number of these countries, positive results have already begun with gross domestic product (GDP), annual growth rates improving over the last few years (Chart 2).

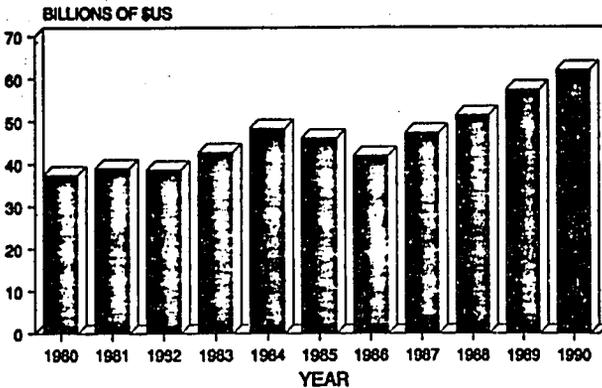
A.I.D. support for policy reform has been instrumental in assisting countries in Latin America and the Caribbean to adjust their economies so they can compete in world markets. More open, competitive economies have produced a growing volume of exports, generating foreign exchange and creating much needed jobs at all levels of society.

Chart 2



Exports from the LAC region to the U.S. have been on the rise over the last four years as many countries have begun to open up their economies. Exports were flat or were slightly declining throughout most of the early and mid-1980s, when the impact of the economic crises was the most severe (Chart 3).

## LATIN AMERICA EXPORTS TO THE US 1980 TO 1990

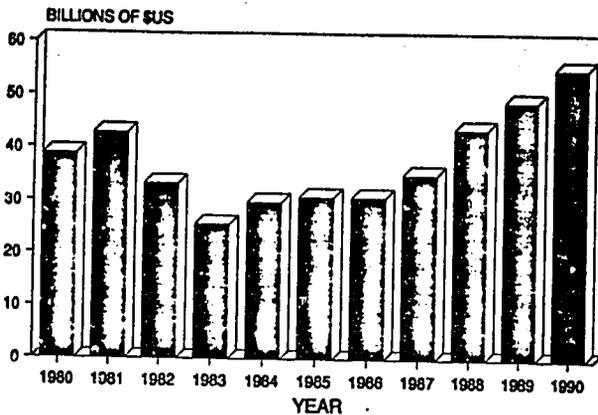


Source: Based on US Imports provided by Department of Commerce.

It is important to underscore that as policy reform in the region leads to more market-based economies and increasing exports, the benefit is realized not only by the developing countries. As the Hemisphere develops economically, new and larger markets closer to home are opening up for the United States. As a result of the economic problems of the early 1980s, purchases of U.S. goods fell sharply from \$42 billion in 1981 to \$26 billion in 1983. This cost the United States an estimated 400,000 jobs. As many of the economies began to recover in the late 1980s, U.S. exports to the region rose to \$48.8 billion in 1989 and an estimated \$55 billion in 1990 (Chart 4).

Chart 4

### US EXPORTS TO LATIN AMERICA 1980 TO 1990



Source: Department of Commerce

Of particular interest is the fact that U.S. market share of total exports to the LAC region increased from 50% in 1980 to 56% in 1989. When focusing only on the countries of the Caribbean Basin, the shift is even more dramatic: U.S. market share rose from 63% in 1980 to 71% in 1989.

As the region continues to develop, the opportunities for increased trade and investment will expand. Many U.S. businesses are already looking to the Hemisphere. In 1989, total outstanding U.S. direct investment in the region stood at \$61 billion, or 67% of all such U.S. investment in developing countries. In addition to quickly improving quality of products, services, and labor, other positive aspects of the region are attracting U.S. businesses, such as the shorter shipping routes and the fact that most of the region shares U.S. time zones.

**(b) Encourage a vigorous response by the private sector**

As a more favorable policy environment is being generated, A.I.D.'s program also seeks to encourage the private sector to respond to the improved policy environment with increased investment and expansion, thus leading to job creation and higher incomes. A.I.D. is focusing its efforts on working with progressive elements within the private sector who are committed to broad-based development and a democratic society.

A.I.D.'s program for FY 1992 will provide over \$100 million in ESF and DA assistance to the private sector in a variety of ways. Activities range from business counseling to training and technical assistance to the provision of credit to microenterprises. A.I.D. also supports financial market development to mobilize capital for new business starts and expansion of existing businesses. Through the International Executive Service Corps, A.I.D. supports volunteers from the United States who work with senior management in local businesses to help achieve more productive use of resources.

A.I.D. is helping local businesses to obtain timely, relevant information and targeted services through export and investment promotion institutions. A.I.D. programs also help to link local and U.S. businesses for joint ventures, and provide technical assistance in marketing, packaging, shipping and production.

In addition, A.I.D. is working with U.S. businesses to involve them in the development process while at the same time generating new markets and opportunities for them. The new A.I.D. Partnership for Business and Development Initiative emphasizes that sustainable economic growth is inextricably linked to the strength of the partnership between business and development.

As U.S. businesses get involved in the region through investment and trade, they will have a positive impact on development. As development occurs in the region, there will be greater opportunities for U.S. firms as they compete in the world marketplace. In short, U.S. business is good for development, and development in the Hemisphere is good for U.S. business.

As part of the Business and Development Initiative, A.I.D. is working closely with the Department of Commerce, having established the new Latin America and Caribbean Business Development Center. The Center serves as an information clearinghouse and a "one-stop-shop" in Commerce for U.S. businesses interested in the LAC region.

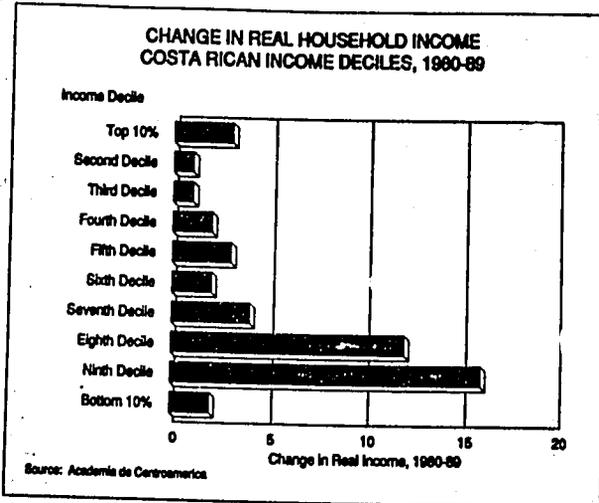
A.I.D. also provides assistance to U.S. firms located in the region. Information and services are provided in areas such as investment opportunities, market analyses, joint venture production, possibilities for sourcing, and import/export procedures.

In 1990, A.I.D. assistance to U.S. firms engaged in local production contributed to 312 investments averaging \$1.6 million. A.I.D. assistance to local firms in the region helped produce an additional 393 investments averaging \$683,000.

(c) Increase participation in the economy by the disadvantaged.

Costa Rica is an example of a country that is realizing the benefits of economic reforms and a vigorous response to those reforms by the private sector. GDP has risen an average of 4.1% over the last three years and unemployment has fallen to the 4.5% range. Non-traditional exports have risen an average of 28% each year over the last 8 years. Most of the exports are from labor-intensive agriculture and manufacturing businesses which provide opportunities that benefit low-income workers. All levels of Costa Rica's society benefited from export-led growth, with the lowest income brackets receiving the highest increases in income (Chart 5).

Chart 5



Costa Rica is used as an example because reliable data is readily available. Although Costa Rica is not representative of the region in some respects, especially in its century of democratic stability, the structure of its economy is typical of Latin America. It was largely agricultural, with exports consisting primarily of a few basic commodities produced on a large scale -- such as bananas, coffee, and sugar.

The growth of Costa Rica's economy, and the economies of other countries that have implemented economic reforms, is not due to the surge in demand for those commodities. Rather, growth in exports and in gross domestic product is attributable largely to the dramatic diversification that is creating new industries, new jobs, and new products and services. The pattern of non-traditional export growth that has so profoundly affected the incomes of the poor in Costa Rica holds true for other countries in the region as well. For those that started with an even more skewed income distribution, it is likely that the impact has been even more profound.

For example, in Jamaica, economic reforms were implemented beginning in the mid-1980s, including lowering tariffs, eliminating a number of quantity restrictions, removing price controls and untargeted food subsidies, and privatizing a number of public enterprises. The results are impressive: GDP growth rate for the last three years has averaged 3.1%, non-traditional exports have risen an annual average of over 30% in the last five years, and over 100,000 jobs were added between 1985 and 1988. Manufacturing employment which affects the lower income brackets grew by 35%, adding 34,000 jobs.

In Guatemala, small farmers are growing winter vegetables for the U.S. market in part because of a favorable exchange rate and reduced red tape for exports. This is much more profitable and labor intensive than traditional crops like corn. In other cases, whole villages of Guatemalan Indians are now sewing clothing for the U.S. market. Incomes in villages engaging in exports have risen significantly.

In addition to supporting policy reforms and private sector activities that result in job creation and rising incomes, substantial amounts of Development Assistance will be targeted specifically to accelerate and expand opportunities for the disadvantaged to participate in the benefits of economic growth. A.I.D. will continue to help LAC countries increase access to basic education and primary health care, with an emphasis on improving child survival, family planning, and nutritional services, and improve the efficiency of those delivery systems. For FY 1992, total A.I.D. resources to be allocated to the LAC region include approximately \$50 million for child survival activities, \$29 million for health activities, \$8 million for AIDS activities, \$57 million for population activities, and \$22 million for basic education.

There have been significant social advances over the past few years throughout the region. Infant mortality rates are down; primary school retention rates are up. Nevertheless, most health and education services are poorly administered and inefficient. LAC countries need to address problems in education and health sectors in order to be able to develop sustainable, more efficient, decentralized educational and social service delivery systems.

For example, on average, 90% of the education budget pays for personnel, leaving very little for textbooks, teacher manuals, equipment, and other critical operating expenses. Most ministries of education in the region are inefficient bureaucracies. As a result, programs and projects experience delays, and available resources do not reach the local level.

A.I.D. plans to target assistance to help governments in a variety of ways including: reallocation of resources within their education budgets, improvement of curriculum and the quality of instruction, development of national capacities for textbook production, decentralization of administrative functions, and computerization of management information systems to improve efficiency.

The health sector has similar inefficiencies that A.I.D. plans to address as well. Those include weak management and inadequate administration, poor allocation of funds between curative and preventive services, poor access to primary health services, and more.

In addition to this emphasis on sectoral reforms needed for widespread and lasting change, A.I.D. will continue to support small and microenterprises in both rural and urban areas, and will continue to support the important work of private voluntary organizations working directly with the poor and addressing barriers to the integration of the informal sector into the economy. A.I.D. will also continue to direct local currency generated from the ESF balance of payments support to social investment funds targeted for the extreme poor.

Another A.I.D. initiative, Family and Development, recognizes the family as a fundamental building block in social and economic development. As part of its efforts to increase the participation in the economy by the disadvantaged, the Agency will focus on the family unit as a starting point. Analysis of family units can prove useful for determining what people need, how they use the resources they have, and what impediments exist to full access to the economy. A.I.D. will identify innovative ways to increase the mobilization of family resources to stimulate economic growth and social development.

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**(d) The preservation and sustainable use of the environment**

Clearly economic growth cannot be sustained without preserving the environment. As one of its highest priorities, the Agency is providing leadership in environmental management and the sustainable use of the natural resource base in the LAC region through policy dialogue, institution building, training, and demonstration projects.

For example, in the area of policy dialogue, A.I.D. has been conducting a series of natural resource policy inventories across Central America to document the diverse and fragmented policies and laws, lack of institutional and financial resources, and limited coordination among institutions responsible for enforcing natural resource management policies. Based on these inventories, we are encouraging policy alternatives and suggesting future areas of research.

A.I.D. is also improving and expanding programs in the protection of biodiversity and tropical forest management, global climate change, integrated pest management, coastal zone management, debt-for-nature exchanges, environmental education, environmental business development, and grass-roots support through nongovernmental organizations. For environmental activities in FY 1992, A.I.D. is planning \$66.3 million in DA and ESF, in addition to local currency generated by A.I.D. programs.

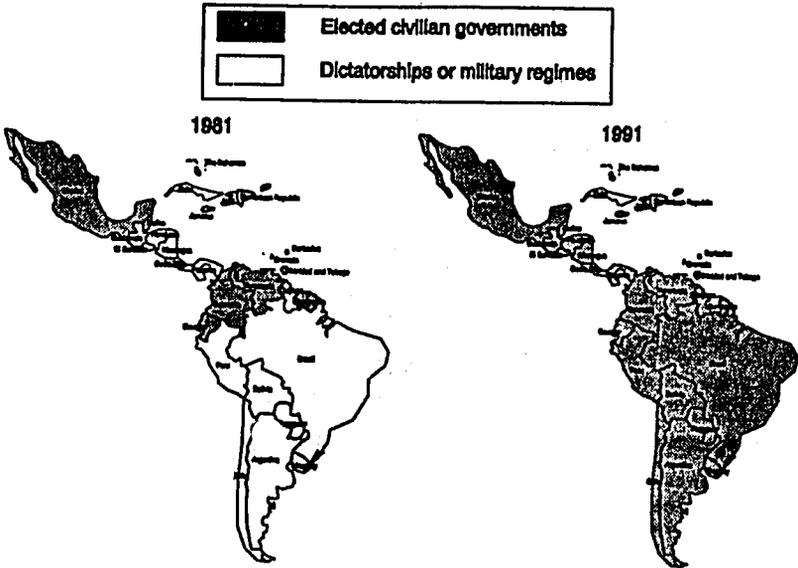
**Evolution of Stable Democratic Societies**

As I have already mentioned, extraordinary changes have occurred in the Hemisphere over the past decade. For the first time in history, nearly every nation has a democratically elected government (map).

In addition to a variety of initiatives focused on helping them move towards more market-based economic policies, the new democratically-elected governments need assistance in deepening the roots of democracy. While elections have been held throughout the LAC region, many democratic institutions are still weak.

With its Democracy Initiative, A.I.D. has made strengthening democracy a major goal of its program. Latin America and the Caribbean have been in the forefront of this effort since the transition to democracy began at the end of the 1970s. By helping democratic societies evolve, A.I.D. is helping governments become more responsive to the needs of the people. As citizens' views are better represented in government, then the needs of the people will be better identified and addressed.

## LATIN AMERICA AND THE CARIBBEAN



Economic development occurs in a political context. Experience has repeatedly demonstrated that development can best be sustained over the long term in a political environment in which individual liberty is protected and nourished and in which human rights are respected. There are many examples that support the conclusion that political freedom and economic freedom are mutually reinforcing in support of the well being of a nation's citizens.

In a fully functioning democratic society, individuals are better able to obtain the economic freedoms they need by pressing for policy changes through the democratic process. The democratic process also leads to better designed health care and education systems which respond to the needs of the people. Better environmental policies tend to be implemented when people's concerns are well represented in government.

It is no coincidence that Costa Rica, where democracy has been in existence for 100 years, has the most extensive national parks system in all of Latin America, and Haiti, which only recently had its first democratic elections, has some of the worse environmental problems in the Hemisphere.

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A.I.D.'s program for the 1990s will focus on (a) strengthening the competence of government institutions with checks and balances and decentralization of authority that avoid the concentration of political power; (b) helping create a pluralistic, autonomous, vigorous civil society that can balance and limit state power while providing channels for the articulation and practice of democratic interests; and (c) strengthening the democratic values, attitudes, beliefs, and information that support democratic pluralism and are required for effective leadership.

During the past year A.I.D. has been developing a comprehensive five-year strategy for meeting these democracy objectives in the region. Our deliberations have reflected what we have learned from our experience of collaboration with our neighbors. Our program is responsive to their priorities in their ongoing efforts to strengthen democracy; it is not a "made in the U.S.A." prescription.

Like other development problems, strengthening democracy will require a long-term effort. For FY 1992, we are requesting \$91.8 million in DA and ESF resources.

(a) Strengthening the competence of government institutions

In order to merit the confidence of the people, governments need to be accountable and responsive. The rule of law must be taken seriously, with a strong judicial system in place to enforce the law and protect human rights. Legislatures should be strengthened to improve government responsiveness to citizens and to check excessive executive power. Honesty and competence in government should be the norm, particularly in the area of financial management. Beyond the decentralization of power at the national level, political power needs to be decentralized geographically and local and municipal governments strengthened.

Through training and technical assistance in such areas as legislative organization and management, the administration of justice and financial management systems, A.I.D. can make a significant contribution in this area.

(b) Helping create a civil society

Just as economic competition is essential to the notion of free markets, so too is intellectual and political competition essential to a truly democratic political system. In addition to ensuring democratic competition, non-governmental organizations contribute to the public awareness and the deliberation of issues of common concern. Political parties across the spectrum, free press and media, "think tanks", labor unions, business organizations, and other grassroots and civic organizations are all essential to a fully functioning democracy and need to be strengthened.

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A.I.D.'s program will involve assistance in areas such as training in standards of journalism, the development of indigenous public policy research centers, and seminars for labor leaders and other advocacy groups.

(c) Strengthen democratic values and leadership

Formal democratic structures do not succeed where citizens do not share a commitment to common democratic values. Political participation, tolerating diverse opinions, abiding by the rules and accepting the results of political competition are all concepts which must gain acceptance.

In the LAC region, A.I.D. assistance includes civic education programs, assistance in the development of independent centers of research and policy analysis, and support for organizations protecting human rights. A.I.D. also provides short-term and long-term training for potential leaders, bringing them to the United States to observe our democratic values and practices.

A.I.D.'s democracy programs are designed to complement those efforts being carried out by other organizations such as the National Endowment for Democracy, other U.S. agencies such as the U.S. Information Agency (USIA), and other donors. A.I.D. will continue to work closely with other U.S. agencies such as the Departments of State and Justice and USIA. It should be emphasized that we fully recognize that our contribution in strengthening the institutional structures of democracy is only a part of a broader U.S. policy, the success of which must ultimately depend as much on political will and popular demand as on institutional capacity.

Special Challenges

Andean Counterdrug Initiative

The production, trafficking, and consumption of drugs is a serious problem that affects every corner of the Hemisphere and threatens to interfere with the attainment of market-based economic growth and the evolution of stable, democratic societies. The \$250 million in ESF resources requested for the Andean Counterdrug Initiative will be used to help address this challenge.

The Andean countries need to strengthen their legitimate economies in order to enable them to move away from dependence on a cocaine economy. As part of President Bush's overall Andean Counterdrug Initiative, A.I.D. is providing both macroeconomic and alternative development assistance to help offset the loss of foreign exchange inflows resulting from counterdrug activities, while helping stimulate legitimate economic growth which will produce the jobs necessary to replace the drug-related ones. Alternatives must be available in order to persuade individuals to stop growing, producing, and processing illicit drugs.

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The overall goal of the Andean Counterdrug Initiative is to disrupt and dismantle the multinational criminal organizations that support the production, processing, transportation, and distribution of cocaine to the United States and to other nations. It is only within this overall context that alternative development and income-substitution programs will have any chance of success. Sustained, vigorous law enforcement can successfully disrupt the coca market and lower the farm-gate price of coca leaf. Alternative economic opportunities then become viable.

As a result of U.S. assistance this past year, progress has already been made. For the first time there was a net reduction of coca cultivation in Bolivia of 2,600 hectares in 1990. Recently, 16,000 pineapples were bought from Chapare Valley farmers and shipped to Buenos Aires, the first major non-coca shipment in five years. More shipments of pineapple and bananas are expected this year.

Very few workers from the surrounding high valleys have been migrating to the Chapare Valley to help cultivate coca because of new job opportunities at home. Because of critical irrigation and agriculture assistance provided by A.I.D., workers are staying home to cultivate their own alternative crops. In addition, as a result of A.I.D. assistance, more than 100,000 laborers have been employed in short-term jobs in road maintenance and other community development projects.

The presidents of Colombia, Bolivia, and Peru and President Bush agreed to work together to combat illicit narcotics production, trafficking, and consumption at the Cartagena Summit. They also agreed that one of the most useful ways to do so was to help the Andean countries open up trade. Through liberalized trade and investment relations under the Andean Trade Initiative and the EAI, the U.S. Government can help generate alternative sources of jobs, income, and foreign exchange throughout the economy. The Andean countries also want to work together to dismantle barriers to greater intra-regional trade relations. A.I.D. assistance is enabling the Andean countries to capitalize on a more open trading system.

In addition to economic assistance and alternative development and income generation, A.I.D. also is providing resources for narcotics education and prevention, administration of justice, and other democratic initiatives focused on the special challenge of drugs. For example, last year in Peru, drug education programs were implemented in 17 high schools, reaching 11,500 students. The substantial increase in our administration of justice program for Colombia this year recognizes the priority need to strengthen the judicial system so that narco-traffickers can be brought to trial in Colombia's own courts.

### Central America

For the first time in history, all the countries of the Central American isthmus, from Guatemala to Panama, are led by democratically elected governments committed to market-based economic policies. There is an unprecedented opportunity for the region over the next decade to achieve political stability, economic prosperity, and social justice.

The special challenge facing the Central American countries is how to work together as a region. Many of the problems facing each country are rooted in common regional problems. Therefore, as expounded in the Declaration of Antigua, the Presidents of the Central American countries have pledged to strengthen intraregional integration and cooperation.

The United States has widened the scope for cooperation with Central America through the EAI and has called for broad multilateral support for the region through a Partnership for Democracy and Development (PDD). At the same time, U.S. foreign assistance levels for Central America are declining from the historic amounts that were provided during the conflicts and economic crises of the last decade. The challenge for the 1990s is to sustain the positive but still very fragile trends towards political freedom and economic growth, utilizing diminished resources in a manner that will have the maximum impact.

A.I.D. has developed a new strategy for U.S. economic assistance for Central America in the 1990s which will support the broad objectives identified by the Central American Presidents in the Declaration of Antigua adopted in June 1990, as well as the commitments they made in the Declaration of Puntarenas in December 1990.

To foster regional cooperation, A.I.D. will place greater emphasis on implementing initiatives identified by the Central Americans within a regional framework. A.I.D. will encourage policy, legal, and other reforms to further liberalize trade within Central America, to strengthen democracy and protect human rights, and to safeguard the region's natural resource base. Much of the effort will be made within the framework of the PDD, working with key regional institutions while at the same time helping them to achieve greater self-sufficiency and reduce their dependence on donor resources.

A.I.D. will pursue these objectives through its bilateral and regional programs, and through heightened collaboration with other U.S. Government agencies, multilateral development institutions, and other bilateral donors. A.I.D.'s implementation strategy will emphasize greater concentration of resources on the solution of specific sectoral problems as macroeconomic environments improve.

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**Conclusion**

Mr. Chairman, Members of the Subcommittee, I believe that the A.I.D. program for FY 1992 and beyond is responsive to the needs and aspirations of the people of Latin America and the Caribbean, and that it supports vital U.S. interests in the Hemisphere we share with them. It focuses on key objectives and it is results-oriented. I hope that the Congress and the American people will support our proposed \$1.4 billion investment as one that is modest in cost with excellent prospects for returning substantial dividends.

Thank you.

Mr. OBEY. Mr. Rowen.

MR. ROWEN'S OPENING STATEMENT

Mr. ROWEN. Mr. Chairman, I have a statement, too, and I will be very brief in my oral remarks.

Latin America absorbs a very small part of the Defense Department's activities and spending. It also, as you have observed in your opening statement, receives a small part of our assistance. With regard to our military assistance, it is about 5 percent of the overall total.

It also, judged by the amount spent on military activities in Latin America, Central and South America, it is a very nonmilitarized area by world standards. Less than 1 percent of the area's total product, gross national product, is devoted to military activities. It is the least militarized region in the world.

Moreover, its governments have been reducing their armed forces—Argentina's army dropped from 175,000 in 1983 to 95,000 in 1988; the Brazilian army went from 541,000 in 1987 to 319,000 in 1988; Chile went from 126,000 in 1983 to 96,000 in 1988. In addition, arms imports to the region went from an annual average of \$2 billion a year in the late 1970's to less than \$1 billion in the late 1980's.

Now, the major causes of this, a low level of military activity and its decline, have been the progress of democracy, of which we have just heard, and the decline of Soviet intervention and debt crises which have limited available funds.

Well, this environment described, obviously, enormously affects our own aims. First of all, we encourage economic development, which has been pointed out. We promote the proper role of the military in democracies. We encourage a deeper respect for civilian authority, for human rights and other democratic values in the armed forces.

An important tool in this effort is the International Military Education and Training program, the IMET program, where we emphasize these values both through instruction and example. And now thanks to legislation which was passed last year, we can enroll both military and civilian personnel; that is, we can add civilians to this program. We are working with the Government of Argentina in planning a pilot program, and we hope to introduce this expanded IMET program to Chile and others as well.

While we applaud the many triumphs of democracy and the decline in hostilities in the region, there are still several problem areas. One obvious one is the large-scale nature of narcotics production and trafficking which threatens governments in the region and causes much human anguish both there and in the U.S. But while we work at home to reduce the demand for narcotics, the President's drug control policy works to stem the flow of cocaine and other illicit drugs from the Andean region. And security assistance is an important component of this effort.

We seek an end to the armed conflicts in the region, an end in which the democracies win. And our military assistance program

supports democratically elected governments; this has been and still is the case in countries such as El Salvador, Honduras, and Colombia. And finally, basic American security interests in the hemisphere need to be protected, including trade routes, lines of communication, national and international air space.

Mr. Chairman, as the history of Latin America and the Caribbean is closely intertwined with that of the U.S., so will be our futures. The potential benefits of free democratic hemisphere, where trade is unfettered, investment climates stable, and security not threatened are very great. Much progress has been made, obviously, but we are not quite at that enviable state. So we need to sustain our efforts towards this goals, and security assistance is a small part of this strategy, but it is an important part.

Thank you.

[The information follows:]

TESTIMONY BY  
ASSISTANT SECRETARY OF DEFENSE HENRY S. ROMEN  
BEFORE THE HOUSE APPROPRIATION SUBCOMMITTEE  
ON FOREIGN OPERATIONS  
MARCH 13, 1991

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO DISCUSS WITH YOU AND THE OTHER DISTINGUISHED MEMBERS OF THE COMMITTEE THE PRESIDENT'S FY 1992 SECURITY ASSISTANCE PROGRAM FOR THE INTER-AMERICAN REGION:

LATIN AMERICA ABSORBS A VERY SMALL PART OF THE DEPARTMENT OF DEFENSE'S ACTIVITIES AND SPENDING. IT ALSO RECEIVES ONLY A SMALL PART OF OUR TOTAL MILITARY ASSISTANCE SPENDING -- ABOUT 5 PERCENT.

ALSO, JUDGED BY THE AMOUNTS SPENT ON MILITARY ACTIVITIES IN CENTRAL AND SOUTH AMERICA -- LESS THAN ONE PERCENT OF THE AREA'S GNP -- THIS IS THE LEAST MILITARIZED REGION IN THE WORLD. MOREOVER, ITS GOVERNMENTS HAVE BEEN REDUCING THEIR ARMED FORCES. ARGENTINA'S ARMY DROPPED FROM 175,000 IN 1983 TO 95,000 IN 1988. THE BRAZILIAN ARMY WENT FROM 541,000 IN 1987 TO 319,000 TROOPS IN 1988. CHILE WENT FROM 126,000 TROOPS IN 1983 TO 96,000 IN 1988. ARMS IMPORTS TO THE REGION WENT FROM AN ANNUAL AVERAGE OF \$2 BILLION IN THE LATE 70'S TO LESS THAN \$1 BILLION IN THE LATE 80'S.

THE MAJOR CAUSES OF THIS LOW LEVEL OF MILITARY ACTIVITY HAVE PROBABLY BEEN THE PROGRESS OF DEMOCRACY, THE DECLINE OF SOVIET INTERVENTION, AND DEBT CRISES WHICH HAVE LIMITED AVAILABLE FUNDS.

SECURITY ASSISTANCE IS A VITAL COMPONENT OF AN INTEGRATED U.S. STRATEGY THAT SEEKS TO STRENGTHEN U.S. NATIONAL SECURITY BY SUPPORTING LATIN AMERICAN EFFORTS TO CONSOLIDATE DEMOCRACY, STIMULATE ECONOMIC GROWTH, DEVELOP FREE MARKETS, COMBAT ILLEGAL NARCOTICS PRODUCTION AND TRAFFICKING, RESOLVE CONFLICTS, AND IMPROVE NATIONAL AND REGIONAL SECURITY. A STABLE, DEMOCRATIC LATIN AMERICA AND CARIBBEAN WOULD PRESENT CLEAR POLITICAL, ECONOMIC AND SOCIAL GAINS FOR ALL CITIZENS OF THE WESTERN HEMISPHERE.

WE ARE PROUD OF THE TRIUMPHS OF DEMOCRACY IN LATIN AMERICA, AND BELIEVE THAT SECURITY ASSISTANCE HAS CONTRIBUTED TO THE PROCESS WE HAVE SEEN TAKE ROOT IN RECENT MONTHS AND YEARS. BUT VICTORY OVER SOVIET EXPANSIONISM DOES NOT MEAN THAT OUR WORK IS DONE. WE MUST HELP DEMOCRACY GROW, AND CONSISTENTLY SUPPORT OUR LATIN PARTNERS.

IN MANY WAYS, LATIN AMERICA AND THE CARIBBEAN STILL FACE THE SAME POLITICAL AND ECONOMIC PROBLEMS THEY FACED DURING THE COLD WAR. THEY ALSO CONFRONT ADDITIONAL PROBLEMS FROM THE DRUG TRADE. WITHOUT FURTHER U.S. SUPPORT, WE FORESEE CONTINUED

NARCOTERRORISM, CIVIL AND MILITARY CONFLICT, AND ECONOMIC STRIFE.

### PURPOSES OF U.S. MILITARY ASSISTANCE

MILITARY ASSISTANCE IS PART OF AN INTEGRATED, MULTI-DIMENSIONAL STRATEGY TO PROMOTE STABILITY AND BETTER RELATIONS IN THE WESTERN HEMISPHERE. FURTHERING THESE AIMS WOULD HELP ENSURE A STABLE SECURITY ENVIRONMENT FOR THE UNITED STATES IN THIS HEMISPHERE. I WILL NOW EXPLAIN EACH OF THESE AIMS IN GREATER DETAIL.

### CONSOLIDATING DEMOCRACY

MANY COURAGEOUS LATIN AMERICANS --SUCH AS FORMER PRESIDENT ALFONSIN IN ARGENTINA, PRESIDENT AYLWIN IN CHILE, AND OTHERS-- HAVE STRUGGLED AND SACRIFICED FOR FREE ELECTIONS AND THE RULE OF LAW. DEMOCRATICALLY-ELECTED GOVERNMENTS REIGN WITH THE EXCEPTIONS OF CUBA AND SURINAME. BUT WHILE WE APPLAUD THE BLOOMING OF DEMOCRACY IN LATIN AMERICA, WE MUST REMEMBER THAT DEMOCRACY IS MUCH MORE THAN VOTING. THE CHALLENGE OF THE 1990'S IS TO REINFORCE DEMOCRATIC INSTITUTIONS SO THEY MAY WITHSTAND THE PRESSURES THAT HAVE TOPPLED THEM IN THE PAST.

OUR IMET PROGRAM SEEKS TO STRENGTHEN ALLIANCES AND FOSTER THE PROPER ROLE OF DEFENSE ESTABLISHMENTS IN A DEMOCRACY. A FUNDAMENTAL MISSION IS TO INSTILL DEEPER RESPECT FOR CIVILIAN AUTHORITY AND HUMAN RIGHTS IN THE ARMED FORCES. AS FUTURE MILITARY LEADERS STUDY IN U.S. SCHOOLS, WE EMPHASIZE PROTECTING

HUMAN RIGHTS, ENSURING MILITARY JUSTICE, AND STRENGTHENING CIVILIAN-LED, DEMOCRATIC INSTITUTIONS THROUGH INSTRUCTION AND EXAMPLE.

THANKS TO LEGISLATION CONGRESS ENACTED LAST YEAR, WE CAN NOW TRAIN BOTH MILITARY AND CIVILIAN DEFENSE LEADERS TO BETTER MANAGE DEFENSE RESOURCES AND PROGRAMS. WE ARE WORKING WITH THE GOVERNMENT OF ARGENTINA IN PLANNING AND IMPLEMENTING A PILOT PROGRAM. THE PROGRAM WILL EMPHASIZE DISTINCT ROLES FOR MILITARY AND CIVILIAN PERSONNEL IN A DEMOCRATIC SOCIETY WHEN FORMULATING AND IMPLEMENTING NATIONAL DEFENSE STRATEGY. WE HOPE ALSO TO WORK WITH THE GOVERNMENT OF CHILE, WHERE THE AYLWIN GOVERNMENT HAS MADE HISTORIC STRIDES IN RETURNING CHILE TO ITS DEMOCRATIC TRADITION.

WE ALSO ARE WORKING WITH OUR MILITARY COUNTERPARTS AND THEIR RESPECTIVE GOVERNMENTS TO REEXAMINE THEIR SECURITY NEEDS IN THE POST-COLD WAR ERA. FOR EXAMPLE, BRAZIL HAS COOPERATED WITH U.S. SECURITY OBJECTIVES IN NUCLEAR NONPROLIFERATION BY DECLARING AN END TO ITS NUCLEAR WEAPONS DEVELOPMENT PROGRAM. ARGENTINA HAS PUBLICLY ANNOUNCED AN END TO ITS CONDOR PROGRAM.

AS THE ARMED FORCES REDEFINE THEIR MISSIONS WITHIN THE CONTEXT OF DEMOCRATIC, CIVILIAN-LED GOVERNMENTS, THESE COUNTRIES COULD PLAY INCREASINGLY IMPORTANT ROLES IN THE UN AND THE OAS. DURING THE PERSIAN GULF CRISIS, WHILE ONLY ARGENTINA SENT MILITARY

FORCES TO THE GULF, OTHERS SUCH AS COLOMBIA, HONDURAS, MEXICO AND VENEZUELA PLAYED KEY SUPPORTING ROLES AT THE UN AND OPEC.

COMBATTING NARCOTICS PRODUCTION AND TRAFFICKING

AS YOU ARE AWARE, THE FY 1989 DEFENSE AUTHORIZATION AND APPROPRIATIONS ACTS DESIGNATED DOD AS THE SINGLE LEAD AGENCY OF THE FEDERAL GOVERNMENT FOR THE DETECTION AND MONITORING OF THE AIR AND SEA TRANSIT OF ILLEGAL DRUGS INTO THE U.S., ALONG WITH THE REQUIREMENT TO INTEGRATE COMMAND, CONTROL, COMMUNICATION, AND INTELLIGENCE ASSETS INTO AN EFFECTIVE COUNTERNARCOTICS NETWORK. ADDITIONALLY, IN SEPTEMBER 1989, SECRETARY CHENEY DIRECTED THAT DOD ENTITIES ENGAGED IN THE IMPLEMENTATION OF THE PRESIDENT'S NATIONAL DRUG CONTROL STRATEGY ASSIST U.S. AND HOST NATION COUNTERNARCOTICS LAW ENFORCEMENT AGENCIES BY ENHANCING COUNTERNARCOTICS EFFORTS AT THE SOURCE, IN TRANSIT, AND WITHIN THE U.S. WE RECOGNIZE THAT WE CANNOT WIN THE WAR ON DRUGS WITHOUT REDUCING U.S. DEMAND, BUT THIS IS OUTSIDE THE SCOPE OF MY TESTIMONY.

AT THE SOURCE, THE ANDEAN STRATEGY IS THE CORNERSTONE OF THE PRESIDENT'S PROGRAM. IT IS A COMPREHENSIVE, MULTI-FACETED APPROACH TO CONTROLLING THE COMPLEX PROBLEM OF COCAINE PRODUCTION AND DISTRIBUTION WITHIN COOPERATING HOST NATIONS. THE PLAN EMPHASIZES DEVELOPING HOST NATION CAPABILITIES THROUGH TRAINING, MATERIEL, INTELLIGENCE, AND TECHNOLOGICAL SUPPORT. IN ADDITION, NATION BUILDING ASSISTANCE IS AN INTEGRAL PART OF THE OVERALL CONCEPT.

WHILE U.S. MILITARY ASSISTANCE IS AN IMPORTANT ELEMENT OF THE ANDEAN STRATEGY, IT IS ONLY ONE PART. LET ME ASSURE THE COMMITTEE THAT WE DO NOT CONTEMPLATE A LARGE U.S. MILITARY PRESENCE IN THE ANDES, NOR DO WE SEEK TO CREATE LARGE, NEW PARAMILITARY FORCES IN THE REGION. OUR GOAL IS TO ASSIST THE DEMOCRATIC GOVERNMENTS OF THE ANDES SO THAT THEY CAN DEFEAT THE NARCOTRAFFICKING ORGANIZATIONS THEMSELVES. THIS POLICY IS THEN COMPLEMENTED BY EXPANDED ECONOMIC ASSISTANCE TO THE ANDEAN COUNTRIES TO HELP OFFSET THE NEGATIVE IMPACT ON THE LOCAL ECONOMY AS COCA IS PHASED OUT AS A RESULT OF OUR EFFORTS.

APPROXIMATELY 51% OF OUR FMF REQUEST IN FY 1992 WILL SUPPORT THE ANDEAN STRATEGY. OUR MILITARY ASSISTANCE IS DESIGNED TO INCREASE THE EFFECTIVENESS OF MILITARY AND LAW ENFORCEMENT ORGANIZATIONS TO COMBAT COCAINE AND OTHER ILLICIT DRUG TRAFFICKING

WITH THE LARGE SIZE OF THE ANDEAN COUNTRIES AND THE REMOTENESS OF GROWING AREAS AND PROCESSING CENTERS, OUR NARCOTICS LAW ENFORCEMENT UNITS DO NOT HAVE THE RESOURCES, EQUIPMENT, OR TRAINING TO COPE WITH THE SCALE OF THE PROBLEM. HOST NATION MILITARY FORCES CAN PROVIDE TRANSPORTATION AND LOGISTIC SUPPORT; PATROL RIVERS AND COAST LINES; AND PROVIDE SECURITY AGAINST INSURGENTS. FOR THESE REASONS, PARTICIPATION BY THE HOST COUNTRY MILITARIES IS NECESSARY.

KNOWING OF THE COMMITTEE'S CONCERN FOR HUMAN RIGHTS, I CANNOT STRESS ENOUGH THAT WE ARE WORKING HARD TO EMPHASIZE RESPECT FOR HUMAN RIGHTS IN ALL OUR TRAINING, INCLUDING COUNTERNARCOTICS TRAINING. U.S. SPECIAL FORCES MILITARY TRAINING TEAMS ARE REQUIRED TO TEACH RESPECT FOR HUMAN RIGHTS IN BOTH FORMAL CLASSROOM LECTURES/DISCUSSIONS AND IN PRACTICAL HANDS-ON INSTRUCTION. STUDENTS ALSO ARE TAUGHT THE CONSTRUCTIVE BENEFITS FROM POSITIVE CIVIC ACTIONS, SUCH AS PROVIDING MEDICAL TREATMENT TO CIVILIANS.

ONE MEASURE OF OUR SUCCESS IN THE ANDES MAY BE THE SHIFT IN ILLEGAL DRUG TRADE TO OTHER COUNTRIES. OUR SECURITY ASSISTANCE REQUEST FOR FY 1992 REFLECTS INCREASED RESOURCES TO POTENTIAL SOURCE AND TRANSIT COUNTRIES. WE CANNOT RELENT IN OUR WAR ON NARCOTRAFFICKERS SIMPLY BECAUSE THEY PREDICTABLY MOVE THEIR OPERATIONS TO NEW AREA. OUR POLICY MUST REMAIN FLEXIBLE.

AFTER THE FIRST YEAR OF THIS FIVE-YEAR STRATEGY, THERE HAVE BEEN NOTABLE ACHIEVEMENTS. NEW, DEMOCRATICALLY-ELECTED GOVERNMENTS IN EACH NATION HAVE REPEATEDLY VOICED THEIR COMMITMENT AND PUT RESOURCES FORWARD TO COUNTER THE NARCOTICS TRADE. THE U.S. HAS SUPPORTED THE INTERNAL PROGRAMS OF THE THREE NATIONS TO IMPROVE THE OPERATIONAL AND INTELLIGENCE CAPABILITIES OF THEIR LAW ENFORCEMENT AND MILITARY FORCES ENGAGED IN THE DRUG WAR. THESE PROGRAMS HAVE INCREASED PRESSURE ON THE TRAFFICKING ORGANIZATIONS.

IN SUPPORT OF INM, WE HAVE HELPED IMPROVE COUNTERNARCOTICS COOPERATION WITH THE POLICE IN THE ANDEAN COUNTRIES. WE HAVE ASSISTED THE ARMED FORCES OF COLOMBIA AND BOLIVIA TO ASSUME A MORE VIGOROUS ROLE, PRODUCING DRAMATIC SEIZURES IN RECENT YEARS. THIS COMBINED LAW ENFORCEMENT AND MILITARY EFFORT REDUCES DUPLICATION OF LOGISTICS, MAINTENANCE AND OTHER KEY SUPPORT ELEMENTS ESSENTIAL FOR EFFECTIVE COUNTERNARCOTICS OPERATIONS.

THE INTENT OF THIS COOPERATIVE EFFORT, BASED ON A CONTINUING ASSESSMENT, IS TO CONTINUE PROGRESS WHILE ADDRESSING SHORTCOMINGS. KNOWING THAT THE U.S. MUST SUSTAIN A VIGOROUS PROGRAM, THE ADMINISTRATION IS DETERMINED TO PURSUE THOSE EFFORTS THAT HAVE PRODUCED RESULTS, REASSESS THOSE THAT HAVE NOT, AND SEEK NEW APPROACHES THAT WILL ENHANCE OUR CHANCES FOR SUCCESS.

#### COUNTERINSURGENCY VS. COUNTERNARCOTICS

THE QUESTION HAS BEEN RAISED AS TO WHETHER THE U.S. SHOULD SUPPORT ANDEAN MILITARIES, SOME WITH POOR HUMAN RIGHTS RECORDS, IN CONFRONTING INSURGENT GROUPS CLEARLY INVOLVED IN NARCOTICS TRAFFICKING. WE CANNOT GLOSS OVER PAST ABUSES. THE U.S. OPPOSES THESE ABUSES AND ALWAYS WILL. BUT WE SHOULD NOT SUBSCRIBE TO THE NOTION THAT ORGANIZATIONS LIKE THE SENDERO LUMINOSO OF PERU OR THE FARC IN COLOMBIA ARE CHAMPIONS OF HUMAN RIGHTS. THESE GROUPS ARE PROFITING FROM THE NARCOTICS INDUSTRY, AND ARE CONTINUING THEIR TERRORIST TACTICS.

ALTHOUGH THE FOCUS OF THE U.S. EFFORT IS COUNTERNARCOTICS, NOT COUNTERINSURGENCY, COLOMBIAN AND PERUVIAN INSURGENTS ARE INVOLVED IN NARCOTICS AND, ALONG WITH THE TRAFFICKERS, HAVE CREATED A MILITARIZED SITUATION. IT IS A MISTAKE TO ASSUME THAT ECONOMIC DEVELOPMENT IN COCA GROWING REGIONS IS POSSIBLE WITHOUT PROVISION OF A SECURE ENVIRONMENT IN WHICH TO WORK. NO SOCIAL OR ECONOMIC APPROACH TO THE DRUG DILEMMA CAN SURVIVE IN THE ENVIRONMENT OF INTIMIDATION AND VIOLENCE THAT NOW PREVAILS.

#### HELPING TO RESOLVE CONFLICTS

THE CHANCES OF FOREIGN MILITARY INTERVENTION IN LATIN AMERICA OR THE CARIBBEAN HAVE GREATLY DIMINISHED WITH THE END OF THE COLD WAR. HOWEVER, INSURGENCIES STILL CONTINUE IN LATIN AMERICA, AND ARE LIKELY UNTIL THE MAJOR SOCIO-ECONOMIC PROBLEMS OF THE REGION ARE SETTLED. WE WILL CONTINUE TO SUPPORT EFFORTS TO NEGOTIATE SATISFACTORY AND JUST SOLUTIONS TO CONFLICTS IN THE HEMISPHERE. AT THE SAME TIME, WE WILL MAINTAIN OUR SUPPORT FOR CIVILIAN, DEMOCRATICALLY-ELECTED GOVERNMENTS CONFRONTING INSURGENCIES. LET ME NOW TURN TO SPECIFIC CASES:

EL SALVADOR CONTINUES TO BE THE MOST PROMINENT CONFLICT IN THE REGION, AND STABILITY IN CENTRAL AMERICA AS A WHOLE REMAINS THREATENED SO LONG AS IT CONTINUES. THE CONFLICT HAS BEEN LONG AND BLOODY, AND RECENT NEGOTIATIONS TO MOVE TOWARD A CEASE-FIRE AND FINAL AGREEMENT BETWEEN THE GOVERNMENT AND THE FMLN REMAIN STALLED. WE HAVE SUPPORTED THE EFFORTS OF THE UN, ESPECIALLY THOSE OF SPECIAL ENVOY DE SOTO. WE HAVE ALSO CONTINUED OUR MILITARY ASSISTANCE PROGRAM TO THE DEMOCRATICALLY-ELECTED

GOVERNMENT OF EL SALVADOR. AS A RESULT OF THIS SUPPORT, THE GOVERNMENT OF EL SALVADOR CAN MOVE TO NEGOTIATE CONFIDENTLY WITH THE FMLN TO ENSURE AN EQUITABLE RESOLUTION.

OUR CONTINUED INTERACTION WITH THE SALVADORAN ARMED FORCES OVER THE 11 YEARS OF THE CONFLICT HAS RESULTED IN CONSIDERABLY FEWER HUMAN RIGHTS VIOLATIONS BY THE MILITARY. NONETHELESS, WE ABHOR ANY AND ALL HUMAN RIGHTS VIOLATIONS AND WILL CONTINUE TO PRESS THE MILITARY TO BETTER RESPECT HUMAN RIGHTS. WE ALSO CONTINUE TO PRESS FOR JUDICIAL REFORM AND TO BRING TO JUSTICE THE MURDERERS OF THE SIX JESUIT PRIESTS, THE THREE U.S. SERVICEMEN WHO RECENTLY DIED AS A RESULT OF FMLN AGGRESSION, AND OTHER UNRESOLVED CASES.

GUATEMALA: THE OUTLOOK IS MORE PROMISING. PRESIDENT SERRANO HAS EMPHASIZED ENFORCEMENT OF HUMAN RIGHTS STANDARDS REPEATEDLY, AND HAS STATED HIS INTENTION TO PRESS FOR PROSECUTION OF THE DEVINE MURDER CASE. HE HAS ALSO ASSERTED HIS AUTHORITY OVER THE ARMED FORCES BY MAKING SEVERAL SIGNIFICANT CHANGES IN THE MILITARY LEADERSHIP. THE PRESIDENT HAS EXPRESSED HIS HOPE THAT THE GOVERNMENT AND THE INSURGENTS CAN SETTLE THEIR DIFFERENCES. THE URNG HAS INDICATED THAT IT IS READY TO NEGOTIATE, AND EFFORTS ARE UNDERWAY TO BRING THE TWO SIDES TOGETHER, PERHAPS AS EARLY AS THIS SPRING.

COLOMBIA: THE OUTLOOK IS MIXED. THE M-19 GUERRILLA MOVEMENT WAS RECENTLY BROUGHT INTO THE LEGITIMATE POLITICAL PROCESS AND IS

PARTICIPATING IN THE ONGOING CONSTITUTIONAL ASSEMBLY. PRESIDENT GAVIRIA HAS DECLARED HIMSELF OPEN TO DIALOGUE WITH OTHER INSURGENT GROUPS, BUT THE FARC AND THE ELN REMAIN IN ARMED OPPOSITION. THE INSURGENTS HAVE RECENTLY INCREASED THEIR ATTACKS AGAINST ECONOMIC INFRASTRUCTURE TARGETS, PARTICULARLY PETROLEUM PRODUCTION AND TRANSPORTATION ASSETS.

PERU: THE CURRENT OUTLOOK IS NOT ENCOURAGING. TWO MAJOR INSURGENT GROUPS, THE NOTORIOUS SENDERO LUMINOSO AND THE MRTA, ARE ACTIVE AND HAVE DE FACTO CONTROL OF SOME RURAL AREAS. THESE TERRORIST GROUPS HAVE DRIVEN MANY PEOPLE FROM OUTLYING RURAL AREAS INTO THE GHETTOS OF LIMA, COMPOUNDING PERU'S SERIOUS SOCIAL AND ECONOMIC PROBLEMS. THE RECENT OUTBREAK OF CHOLERA STRAINS AN ALREADY DESPERATE SITUATION. INSURGENT GROUPS ARE ACTIVE IN COCA GROWING AREAS, AND THEIR LINKS WITH THE ILLICIT DRUG TRADE ARE EXPANDING.

#### NATIONAL AND REGIONAL SECURITY

OUR PROVISION OF DEFENSE ARTICLES AND SERVICES THROUGH BOTH MILITARY ASSISTANCE AND FOREIGN MILITARY SALES PROVIDES OUR FRIENDS AND ALLIES IN THE REGION WITH ADDITIONAL RESOURCES TO ASSIST IN THE COMMON DEFENSE OF REGIONAL INTERESTS. MILITARY ASSISTANCE HELPS THE SOVEREIGN GOVERNMENTS IN THE REGION SECURE NATIONAL BORDERS, KEEP OPEN SEA LANES AND OTHER LINES OF TRADE AND COMMUNICATION, PROTECT NATIONAL AND INTERNATIONAL AIRSPACE, AND SAFEGUARD LAND TRANSPORTATION NETWORKS. IN FACT, IMPROVED CONTROL OF THE SEA LANES, RIVERINE AREAS, AND NATIONAL AND

INTERNATIONAL AIRSPACE WOULD GREATLY ASSIST OUR NARCOTICS INTERDICTION EFFORTS. MILITARY ASSISTANCE TO OUR ALLIES IS A COST-EFFECTIVE PART OF THE NECESSARY DEFENSE OF OUR MUTUAL INTERESTS.

WITH THE IMPROVEMENT OF U.S. RELATIONS WITH THE SOVIET UNION, AND WITH CUBA RECEIVING LESS SOVIET AID AND ATTENTION, WE ARE REVIEWING OUR LEVELS OF MILITARY PRESENCE IN THE AREA. REDUCTIONS WILL BE IN ACCORDANCE WITH THE BEST INTERESTS OF BOTH THE U.S. AND OUR LATIN NEIGHBORS. OF COURSE, WE WILL MAINTAIN OUR KEY CAPABILITIES TO PROTECT LAND, SEA, AND AIR ROUTES, AND ACTUALLY ENHANCE OUR FLEXIBILITY TO RESPOND TO SMALL AND FAST MOVING REGIONAL CRISES, SUCH AS THE ONE IN PANAMA.

MILITARY ASSISTANCE ALSO SUPPORTS OUR REGIONAL SECURITY ARRANGEMENTS, WHICH PROMOTE COLLECTIVE SECURITY AND STABILITY IN RELATIONS AMONG COUNTRIES. FOR EXAMPLE, WE SUPPORT THE CENTRAL AMERICAN REGIONAL SECURITY COMMISSION (CASC), WHICH ADDRESSES REGIONAL ARMS REDUCTION AND CONFIDENCE BUILDING MEASURES, AND THE REGIONAL SECURITY SYSTEM (RSS), WHICH FUNCTIONS IN THE CARIBBEAN.

AS I MENTIONED BEFORE, MULTILATERAL ORGANIZATIONS ARE LIKELY TO BECOME INCREASINGLY INFLUENTIAL. THE U.S. WELCOMES THIS DEVELOPMENT, AND BELIEVES SUCH ORGANIZATIONS WILL COMPLEMENT THE STRONG BILATERAL RELATIONS IN THE REGION.

PROMOTE ECONOMIC PROSPERITY

OUR INTEGRATED STRATEGY FOR LATIN AMERICA AND THE CARIBBEAN RECOGNIZES THE IMPORTANCE OF ECONOMIC STABILITY FOR THE CONSOLIDATION OF DEMOCRACY IN THE REGION. THE PRESIDENT'S ENTERPRISE FOR THE AMERICAS INITIATIVE (EAI), PROVIDES A FRAMEWORK FOR STABILIZATION IN LATIN AMERICA BY EXPANDING FREE TRADE AND INVESTMENT, EASING DEBT BURDENS AND FACILITATING ENVIRONMENTAL PROJECTS. THE EAI IS A FLEXIBLE VEHICLE FOR ENHANCED REGIONAL COOPERATION--AN INVITATION TO OUR LATIN PARTNERS TO WORK TOGETHER TO ACHIEVE SUSTAINABLE ECONOMIC GROWTH IN THE HEMISPHERE.

WE ARE PREPARED TO WORK WITH OUR LATIN PARTNERS ON CIVIC ACTION PROJECTS IN KEEPING WITH OUR "PEACETIME ENGAGEMENT" APPROACH, WHICH SECRETARY CHENEY OUTLINED TO THE HOUSE ARMED SERVICES COMMITTEE LAST MONTH. PEACETIME ENGAGEMENT IS A COORDINATED COMBINATION OF POLITICAL, ECONOMIC AND MILITARY ACTIONS AIMED PRIMARILY AT COUNTERACTING LOCAL VIOLENCE AND PROMOTING NATION-BUILDING. HOWEVER, CONSISTENT WITH THE EAI, WE BELIEVE THESE PROJECTS SHOULD ONLY BE PERFORMED BY THE MILITARY WHEN THE PRIVATE SECTOR IS UNWILLING OR UNABLE TO PERFORM THE SERVICES. FURTHERMORE, U.S. PARTICIPATION IN SUCH PROJECTS SHOULD BE TIED TO STEPS TO IMPROVE RELATIONS BETWEEN CIVILIAN AUTHORITY AND THE MILITARY.

AN ECONOMICALLY HEALTHY LATIN AMERICA IS IN THE STRATEGIC INTEREST OF THE UNITED STATES. I BELIEVE RELATIVELY SMALL

INVESTMENTS IN THE REGION TODAY COULD HAVE SIGNIFICANT PAYOFFS IN THE FUTURE, INCLUDING DECREASES IN ILLEGAL IMMIGRANTS AND DRUGS ACROSS OUR BORDERS.

MAJOR CONCERNS IN THE INTER-AMERICAN REGION

I HAVE OUTLINED FOR THE COMMITTEE THE PURPOSES OF THE SECURITY ASSISTANCE PROGRAM, ASSESSED OUR PERFORMANCE, AND IDENTIFIED AREAS WHICH WE NEED TO ADDRESS. I WOULD NOW LIKE TO DISCUSS FOUR COUNTRIES THAT WE BELIEVE MAY POSE SPECIAL CHALLENGES FOR THE UNITED STATES:

**NICARAGUA:** A HIGHLIGHT OF LAST DECADE'S WORLDWIDE MARCH TO DEMOCRACY WAS VIOLETA CHAMORRO'S STUNNING UPSET OF THE SANDINISTAS. THE NICARAGUAN PEOPLE, IN FREE ELECTIONS, OVERWHELMINGLY REJECTED THE SANDINISTA EXPERIMENT AND VOTED FOR A RECOGNIZED OPPONENT OF SANDINISTA POLICIES AND IDEALS. THE SANDINISTA THREAT TO CENTRAL AMERICAN HAS DIMINISHED CONSIDERABLY AS A RESULT, BUT HAS NOT DISAPPEARED. THE SANDINISTAS STILL RETAIN CONSIDERABLE INFLUENCE IN THE ARMED FORCES AND TRADE UNIONS, AND THE RECENT ASSASSINATION OF ENRIQUE BURMUDEZ, THE FORMER NICARAGUAN RESISTANCE MILITARY COMMANDER, IS SYMPTOMATIC OF THE INTERNAL INSTABILITY THAT PLAGUES THAT NATION.

**PANAMA:** ALTHOUGH NOT A MILITARY ASSISTANCE RECIPIENT, PANAMA IS OF CONCERN. DESPITE SIGNIFICANT PROGRESS, THE NEW PANAMA PUBLIC FORCE (PPF) IS EXPERIENCING GROWING PAINS ASSOCIATED WITH

EQUIPMENT, CAPABILITY, AND MORALE. IN THE MEANTIME, NARCOTRAFFICKING, ARMS TRADING, AND OTHER CRIMINAL ACTIVITIES CONTINUE.

HAITI: IN FREE ELECTIONS, JEAN BERTRAND ARISTIDE WAS ELECTED WITH OVER 70% OF THE VOTE. WHILE THE TIME BETWEEN THE DECEMBER ELECTION AND THE FEBRUARY INAUGURATION WAS MARKED BY A COUP ATTEMPT AND SPORADIC MOB VIOLENCE, THE SITUATION APPEARS TO HAVE COOLED. WE NOW AWAIT SIGNALS FROM PRESIDENT ARISTIDE AS TO THE COURSE HE INTENDS TO PLOT FOR HAITI'S FUTURE. THE MILITARY SEEMS WILLING TO RESPECT CIVILIAN AUTHORITY, BUT WE WILL CLOSELY MONITOR EVENTS.

CUBA: ALTHOUGH THE SOVIETS ARE DECREASING THEIR ASSISTANCE TO CUBA, THIS REDUCTION HAS NOT CAUSED CASTRO TO CHANGE COURSE. WHILE CASTRO WILL LIKELY FACE MOUNTING ECONOMIC AND POLITICAL PROBLEMS WITHIN CUBA, HE REMAINS VIRULENTLY ANTI-U.S. AND MAY ATTEMPT TO COUNTER HIS WANING INFLUENCE THROUGH A MORE AGGRESSIVE POLICY OF DESTABILIZATION OF DEMOCRATIC GOVERNMENTS. CASTRO'S CUBA WARRANTS CLOSE MONITORING AND WE MUST BE PREPARED TO THWART POSSIBLE "LAST GASP" ATTEMPTS TO CREATE TURMOIL IN THE REGION.

#### CONCLUSION

MANY OF THE PROBLEMS FACING LATIN AMERICANS HAVE A DIRECT IMPACT ON THE EVERYDAY LIVES OF MANY AMERICANS. FOR EXAMPLE, 1,046,420 PEOPLE WERE APPREHENDED ALONG OUR SOUTHERN BORDER IN FY 1990.

THE VAST MAJORITY OF THESE PEOPLE CAME TO FIND ECONOMIC OPPORTUNITIES IN THE U.S. THAT DO NOT EXIST IN THEIR OWN COUNTRIES. IN DECEMBER 1990, THE NATIONAL INSTITUTE ON DRUG ABUSE CLAIMED THAT THERE WERE 662,000 WEEKLY COCAINE USERS IN THE U.S. THE COCAINE FEEDING THIS DEBILITATING HABIT PRIMARILY COMES FROM LATIN AMERICA. HOW MUCH MONEY IS WASTED ON THIS INSIDIOUS NARCOTIC, AND HOW MANY LIVES DOES IT CLAIM? HOW DO WE MEASURE THE INDIRECT COSTS OF LOST PRODUCTIVITY AND HUMAN POTENTIAL? NO ONE KNOWS FOR CERTAIN, BUT IT IS SAFE TO ASSUME THAT THE COSTS ARE ENORMOUS.

OUR FMF AND IMET REQUESTS FOR LATIN AMERICA FOR FY 1992 TOTAL ABOUT \$280 MILLION, ABOUT 5 PERCENT OF THE WORLDWIDE TOTAL FOR THESE PROGRAMS AS I MENTIONED EARLIER. WHEN WE CONSIDER THE POTENTIAL MUTUAL BENEFITS OF UNFETTERED TRADE, SECURE INVESTMENT CLIMATES, AND FRIENDLY POLITICAL RELATIONS, WE REALIZE THAT A RELATIVELY SMALL INVESTMENT NOW IN LATIN AMERICA AND THE CARIBBEAN MAY REAP GREAT BENEFITS LATER.

LATIN AMERICA WILL REMAIN STRATEGICALLY IMPORTANT TO THE UNITED STATES--AS OUR HISTORIES ARE INTERTWINED, SO ARE OUR FUTURES. SECURITY ASSISTANCE WILL BE A CRUCIAL ELEMENT OF A NEW, INTEGRATED STRATEGY TO ACHIEVE AN HISTORICAL OBJECTIVE--THRIVING DEMOCRACIES THROUGHOUT THE WESTERN HEMISPHERE AND GROWING ECONOMIES BASED ON FREE-MARKET PRINCIPLES. SECURITY ASSISTANCE HELPS TO PROMOTE THE STABILITY NECESSARY FOR DEMOCRACY AND ECONOMIC GROWTH TO FLOURISH. MILITARY ASSISTANCE WILL CONTINUE

TO BE ESSENTIAL IN RESOLVING EQUITABLY THE CONFLICTS THAT STILL INFLICT THE REGION.

WE AND THE REGIONAL GOVERNMENTS HAVE MADE GREAT STRIDES IN LATIN AMERICA AND THE CARIBBEAN OVER THE PAST DECADE, BUT MUCH WORK REMAINS TO BE DONE. WE HOPE TO CONTINUE THE POSITIVE CHANGES THROUGH CONTINUED SECURITY ASSISTANCE THAT WORKS HAND-IN-HAND WITH OVERALL U.S. STRATEGY, ESPECIALLY THE PRESIDENT'S ENTERPRISE FOR THE AMERICAS INITIATIVE. IT IS MY SINCERE HOPE THAT YOU WILL SUPPORT OUR REQUEST, AND THAT WE CAN WORK TOGETHER TO ADVANCE THESE WORTHY GOALS. THANK YOU.

Mr. OBEY. Thank you. As I have explained, I have a time problem. So, what I am going to do this morning is simply skip my questioning for the moment. I will ask each member to proceed with their questions for 5 minutes instead of the usual 10 minutes this morning. Then I will ask the questions I need to ask, and then members will be allowed a second round of questions after I leave, if anybody so desires.

Before I do that, however, I simply want to observe that it is my understanding that this is the last hearing that Mr. Lewis will be participating in as a member of this subcommittee. He has been a member for quite some time, and he is leaving us to move over to the Defense Subcommittee.

And I would simply like to observe that I think the relationship that the Chairman has with the gentleman from California is an example of how Congress worked as an institution. Because there are many, many issues on which the gentleman from California and the Chairman disagree.

But nonetheless we have been able to work together cooperatively, we have, I think, developed considerable professional respect for each other, as well as personal affection, I might add, even though he does get a bit crazy once in a while. [Laughter.]

Mr. LEWIS. You have been talking to my wife.

Mr. OBEY. But I really think that it has been a pleasure to have you on this committee, Jerry, and I wish you well on the Defense Subcommittee. I know that you will continue to be attentive to what we do, but I think it is—I think your questioning and your participation has been very useful, and we are going to miss you.

Mr. LEWIS. Thank you, Mr. Chairman. I find it a bit of a strain to come to my last hearing when this hemisphere is the subject for discussion. For, as has been indicated, our resources, whether they involve defense concerns or military interest, are very small in comparison with other parts of the world. And our aid reflects a similar pattern.

I must say, Mr. Chairman, that I am not certain that those levels at all reflect the significance of this region to our interest. During the time that David Obey and I have had a chance to work together on this subcommittee, I must say that while we have disagreed sometimes on specifics, the objectives of promoting democracy throughout the world and using our resources to impact opportunity for individual citizens, starting at the lowest level, expanding economies through sensible economic policies, have always been a piece of the force around here.

And I really do think we have seen and shared a celebration of really phenomenal change in the world. That portion of the world has received the least in terms of average people's opportunity, and from my perspective, are a part of this hearing today. We have seen a fantastic spread in terms of democratic opportunity, but the depth of that opportunity is yet to be, to reach maturity.

I would hope, Mr. Chairman, that as you allow me to continue with my interest particularly in Latin America, that this committee would see fit to increase those levels of support. For as democracy expands and controversy recedes, often our public's interest recedes rapidly. And it is going to be very, very important that we

see these AID, ESF, other kinds of levels of support, expand and reflect our hope for lasting opportunity in the region.

I do have some specific questions, Mr. Chairman, relative to a specific country. If you would allow me, I would not take but just a few minutes. But I do appreciate, very much appreciate our friendship and the time I have had to work here.

I know the other members of the subcommittee have these interests, but I specifically am concerned about the fact that, that because crime and drugs is one of the most prominent domestic issues that is of concern to the public, that indeed the potential for negative relations as drugs might be available from the region, could dramatically impact our ability to help with other economic concerns that are most important.

#### COCA ERADICATION IN BOLIVIA

In 1989 and 1990, ESF disbursements to the country of Bolivia were conditioned on coca eradication targets. I would like to have any of you respond, Secretary Aronson, and otherwise, Mr. Miller. Has the Bolivian Government been fully cooperating in the fight against illicit production and trafficking? And did we meet those targets connected with the 1989 and 1990 ESF limitations?

Mr. ARONSON. Congressman, let me first respond and then if Ambassador Michel or Secretary Rowen wants to add, I will turn the microphone over to them.

As you know, the administration recently certified Bolivia, as required by the Congress, as a cooperating country. But that was not merely a formal certification. I think our cooperation has greatly improved as far as meeting the targets established for disbursing our ESF in crop eradication.

The first time in their history, there has been a net decrease in acreage planted for coca leaf production—modest, but that is the first time that has ever happened.

The second area we have seen improved cooperation and performance is in counter-narcotics activity. In September of 1990, there was a major police operation that essentially took down one of the largest narcotics trafficking organizations in Bolivia, headed by a gentleman named Nico Dominguez. But it not only took down him in particular, but his front companies, his airplanes, his lieutenants, his hired assassins. That was a major step forward.

I know you say recently that there was a controversy within Bolivia over the appointment of a new counter-narcotics director. We are very pleased that that decision was rescinded and that gentleman will not assume that post. So this is a constant struggle. But in terms of cooperation, I think it has been very good, and their record is getting better.

#### ECONOMIC ALTERNATIVES TO COCA

Mr. LEWIS. Thank you. Let me ask a second question, and Jim, maybe you could chime in at that point. It relates to the same point, if you will, the—I am curious about this problem. If the U.S. is giving adequate support for some of these efforts, if we are extending the kind of assistance that allows progress to be made, that is very important to us.

And I am concerned personally about a problem that, at least I have read about it in the media, whereby as we raise this issue and indeed put pressure on, some of our actions could tend to impact an effort on the private sector and the government to transfer their economy and direction on other kinds of economic opportunity, a place where people can make a living so they do not depend on production of coca, for example. That could, indeed our force, if it is not handled very carefully, could be a negative impact rather than a positive impact.

So let me ask: Are we providing enough financial assistance in connection with that kind of transition? And are current ESF disbursements linked to eradication targets? And if not, should they be?

Mr. ARONSON. Let me respond first, and then Jim might want to. We fundamentally share the goal that you just described, which is to cooperate with these governments to assist them in converting their economies to economies that can export nontraditional products, as opposed to cocaine base to the U.S. and Europe. That is a goal they seek; it is a goal we seek.

And all of our policies across the board, from ESF and DA and FMF to trade policies, are geared to support that effort. For instance, the President reviewed our products under the GSP and added 67 new products last year under the Andean trade initiative, number one, to expand trading opportunities for Colombia, Bolivia, Ecuador, and Peru, so they could export nontraditional products to the U.S.

The administration has proposed legislation that is before the Congress to provide the equivalent of duty-free access to what is available to the Caribbean Basin countries under the CBI and the expanded CBI to the four Andean countries. That is a direct response to the desire to create an alternative economic opportunity.

The economic reform policies that AID and ESF directly support are a fundamental part of creating an investment regime and a trading regime that will allow the private sector to develop, that will encourage private enterprise. In fact, Bolivia is one of the great success stories. This is a country that 5 years ago had 25,000 percent inflation rate. This past year, their inflation rate was lower than ours and they had real growth, even though it is barely enough to keep up with their population growth.

So we are trying to do that. And on a micro level, if you go to the Chapare Valley, where a lot of the Bolivians who grow coca leaf when they are unemployed live and work, we are funding a new irrigation program. We are funding alternative crop development. And this past year, where there used to be about 75 percent of the able-bodied work force unemployed, leaving the Chapare, and going off into the coca-producing areas, we have not seen any of that exit of workers.

So across the board, we are trying to do what you are saying is the right goal.

Mr. MICHEL. If I may add a couple of other indications.

Mr. OBEY. If I could ask you to keep it short, because we do have a time problem.

Mr. MICHEL. The Bolivian Government cooperation and some of the things that they do, like incentives for farmers who get out of

coca, requires them to develop an administrative machinery to make the payments and so on.

I was impressed when I visited last year these policies that are becoming increasingly efficient and they are staying increasingly current, so that the incentives are real for the farmers and they are not getting big backlogs. The government just enacted a new investment law which is going to make Bolivia a more attractive place for diversified growth. It will create new jobs, and again, alternatives for people who were in coca.

As far as our activities, I wanted to mention the mission that was led by Ambassador Corr that went to look at the potential for agricultural production and export increases. Some recommendations on specific products that looked promising were made, and specific kinds of assistance that we could give, such as improved phytosanitary capabilities in the Andean countries were suggested, as well. We are working with the Department of Agriculture and USTR to implement the recommendations of that report. So it is a comprehensive report.

Mr. LEWIS. Thank you, Mr. Chairman, for your courtesy.

Mr. OBEY. Sure, thank you, Jerry.

Mr. McHugh.

Mr. McHUGH. Thank you, Mr. Chairman. First, I would like to reinforce and second what you indicated about our friend, Mr. Lewis. I did not realize that Jerry was leaving us. But I have enjoyed working with you and you have made many contributions to our work, certainly, and I am sure that as you go on to defense, we will continue to have the chance to work with you.

Mr. LEWIS. Thank you.

#### EL SALVADOR

Mr. McHUGH. My apologies, Mr. Secretary and gentlemen, for coming in a little bit late. I got hung up elsewhere, and so I missed your opening statement, Mr. Secretary, I am sorry. I would like to talk, in my brief few minutes, at the beginning about El Salvador. Because it seems to me that unless there is progress in political negotiations which offers some hope that this war can be brought to a conclusion, that there will be a battle in this committee and on the floor over continuing assistance to the government of El Salvador.

And I want to be sure I give you the opportunity to give us a current assessment of, first of all, where the political negotiations now stand. Secondly, an update on the status of the Jesuit case, which clearly is something which will be used as a litmus test for the issue of aid, and specifically whether the government in El Salvador has effectively responded to the challenge that case poses.

As you know, I served with others on the Moakley Task Force, and our task force has been on a rather consistent basis critical of the government in certain areas, and specifically the military for not coming forward expeditiously with evidence, with not moving this case along.

But I think it is important for us to hear from you as to your assessment of that, and what you see in the immediate future in that case, which, for some of us, is symptomatic. It is not a case

which is onerous on its own terms only, but rather is symptomatic of what has been a problem in that society for a long time.

And finally, I would be interested in your assessment of the recent elections, the turnout, which, I understand, was perhaps less than 50 percent. And what does that indicate, if anything, about the status of democracy in El Salvador? There is also an article which my staff gave me today which indicates that there are allegations of fraud. I am not in a position to make a judgment about all of that, but if you could touch upon each of these things—

Mr. ARONSON. Okay, Mr. Congressman.

Mr. McHUGH [continuing]. And if we run out of time, I will come back to it a little later.

#### PEACE SETTLEMENT

Mr. ARONSON. All right. First question was about the prospects for a peace settlement. As I said in my opening statement, I think there is the best chance ever in the history of that country to end the war through political negotiations.

And contrary to some of the impressions you may get from following these negotiations only in the press, there has been an enormous amount of progress made in the actual direct talks between the government and the FMLN. They reached agreement on the issue of human rights last year, and jointly signed an agreement that allows the United Nations to come in and play a direct role in monitoring human rights performance and establishing new standards.

#### ELECTORAL REFORM

On the toughest issue, well, on the issue of electoral reform, an inter-party commission was created, which fundamentally reformed the electoral process in El Salvador. And 2 months before a crucial election, all of the parties, from the right to the left, agreed to add 24 new seats to the national assembly to be elected at-large, and to weight the way in which the votes are counted in a way that actually advantages third parties.

And so one of the reasons why the left has now won a respectable number of seats is that the parties throughout the society have agreed to try to broaden the political process. I think that is a very important step forward.

This war can end quickly if the FMLN is serious about negotiations. I have followed these negotiations very, very closely. I have met with the U.N. mediator dozens of times. We have met with the government side dozens of times. And I will have to say honestly that every move to accelerate the pace of negotiations, to strengthen the role of the U.N. mediator, to have private working sessions as opposed to sessions in which the press is briefed, has come from the government side.

And the proposals that the government has put on the table include reducing the size of the military, which they have pledged to do back to pre-war levels, a reduction of 400 percent, separate the security forces from the Ministry of Defense, abolish the civil defense units, abolish the rapid reaction battalions. Those are radical proposals, and they are important proposals.

And I think the FMLN have to make a fundamental decision whether they are going to continue the war or use these negotiations as a chance to consolidate needed reforms in that society. I am actually optimistic, though I must say yesterday the FMLN broke their election truce and shot down a helicopter with a surface-to-air missile. That does not strike me as a constructive contribution to the atmosphere for negotiations.

#### JESUIT CASE

On the Jesuit case, the Congress and the administration have been, I think, fundamentally trying to achieve the same result, a complete, thorough investigation and prosecution. And we have not stopped pressing for this. I know there were some concerns by the chairman and others, when the President determined that the FMLN had violated the criteria and the law, that somehow that would mean a slackening. It did not.

And in fact, as you may have read in the Post today, there has been a breakthrough, which I think is important. The High Command has written a letter to the Minister of Justice that calls for an expanded investigation into two fundamental areas. One is the meeting at the military academy on November 15, and the letter lists 11 officers who should be talked to by the judge, and the role of the DNI, the intelligence unit. Those are the two areas that, as you know, the Moakley committee focused on as the key areas that have not been investigated thoroughly, which we agree with.

Plus, the Minister of Defense has now pledged to appear before the judge. So are we satisfied up to now? No. We have tried to say in our response to your reports that, though we do not agree with every detail, we think the Moakley reports have been tough but fair, and we have pressed for results. This latest action by the High Command is a serious and important step forward, but we will continue to follow it up.

#### ELECTORAL TURN-OUT

The election turn-out, it is hard for El Salvador to get credit for anything. This is their sixth election. It was held under international supervision; the OAS oversaw it. There were dozens of election observers. Aside from a few minor incidents, none of the observers have suggested that there were either irregularities or improper behavior by the armed forces.

The left won a substantial number of seats; even the party that is formerly allied with the guerrillas who are violently trying to overthrow the government ran, and may have won a seat. You say that 50 percent turned out. And what does that say for democracy? This is a congressional election, not a presidential election.

In our own congressional elections, we do not turn out 50 percent. We do not even turn out 50 percent sometimes in our presidential election. So I do not know what it says about El Salvador, except that maybe they are becoming more like us, and people vote when they are unhappy and they do not when they are not. And they do not take as much interest in assembly elections as they do in presidential elections.

Mr. OBEY. Their presidential elections are closer, though. [Laughter.]

Mr. ARONSON. Well, that is a matter that we could rectify with a new vision of foreign policy, perhaps. But it will take us a long time to talk about. [Laughter.]

#### AID TO EL SALVADOR

Let me make one last point. You said that you began your remarks by saying unless there is progress in negotiations, there will be a battle here over aid. I would like to suggest that, if the FMLN believes there will be a battle over aid, if they believe that the Congress is likely to cut off El Salvador, that more than anything else will make it less likely that there will be an end to the war in the next several months. I honestly believe that.

So I hope whatever your view is, that whatever we can do together, Congress and the executive, and in a bipartisan way, we try to press both sides to go to the bargaining table, to stay there until there are political agreements in a cease-fire. I think that is possible. There is enormous international support for that, from a number of countries—Venezuela, Colombia, Mexico, and Spain—which had been enlisted by the UN Secretary General. And I hope that is where we can focus our efforts.

Mr. McHUGH. Thank you.

Mr. OBEY. Mr. Smith.

#### JUDICIAL REFORM

Mr. SMITH of Florida. Thank you, Mr. Chairman. Mr. Secretary, let me follow up on the question that Mr. McHugh asked you with reference to El Salvador. In addition to the problem that we have had for so long with the FMLN and the negotiations, going back to Mr. Duarte and the problems that he had, family members being kidnaped and the like and the attitude of the FMLN not to be cooperative under any circumstances but, by the same token, us withholding any kind of punitive action because of the inability of the elected governments to enter into serious negotiations.

We have, in addition, asked them to change some of their laws with reference to how they prosecute people who are captured or charged with particular crimes.

In the case of the six Jesuit priests, we have the same situation that we have had for years. It does not seem to get any better, whether it is Christiani or Duarte or anyone. One of the problems is that there are no conspiracy laws; you cannot prosecute anybody, and if you do not have a direct eyewitness you have no case. Zero. There is no such thing as circumstantial evidence.

The reality of the situation is that we are stuck, that even when we want to see action, they hide behind their antiquated, broken judicial system, and they refuse to fix it. The bottom line is that we cannot get any prosecutions even when people come to the fore and are arrested and there are people willing to testify.

What are we doing about that? I mean, we are making this anguished attempt at trying to make the situation better. Mr. McHugh talks about withholding aid, or you do and you say, well, you know, we have to do this together, this would be a form of pu-

nitive punishment and so on. But the reality is, until we bring some force to bear, they will continue hiding behind the existing inability to deal effectively with anybody that even is suspected of having an involvement in this crime.

What are we going to do about it? It certainly undermines our capability to be credible in this instance, when we finally push for all of the things to happen. And they do happen and then these people just dance out of jail.

Mr. ARONSON. Congressman, I agree with you that judicial reform is one of the fundamental unmet challenges of establishing democracy in El Salvador. And more importantly, I think most Salvadorans believe that as well.

We have been working, in fact, with the judiciary and the government to try to support some penal reforms, some of which in fact have been enacted. But they made a fundamental error when they changed the conspiracy laws and they omitted capital murder. And there is legislation to fix that. But you are right, there has always been that problem of co-conspirator testimony.

In the Jesuit case, I met with Judge Zamora a week or so ago, and I asked him about that. He said he did not think that would be an impediment in the prosecution of the current officers who are indicted. But that remains to be seen.

But the fundamental issue has to be addressed. We are trying to support that through ICITAP, and I think Ambassador Michel can give you the details. In addition, that is a subject being discussed in the negotiations in the Caracas agreement that the FMLN and the government signed. They identified several areas of reform that should be negotiated: human rights, reform of the armed forces, electoral reform, and judicial reform, so there are two opportunities to fix it. One is through the normal legislative process in El Salvador, which we are trying to do, and secondly, in the negotiations. And maybe Jim would give you some detail.

Mr. SMITH of Florida. Well, do we have a judicial reform program on line in El Salvador at the moment? What is the funding level?

Mr. MICHEL. It is \$13.7 million and began in FY 1994. I think we put \$3 million this year, and we will put \$3 million in next year.

Mr. SMITH of Florida. What is the level of Foreign Aid we are giving?

Mr. MICHEL. Mr. Smith, I really do not think it is a lack of funding that has inhibited the Salvadoran judiciary from modernizing the conspiracy laws or from dealing more effectively with these human rights cases. We have seen some reservations on the part of people high up in the judiciary who have been reluctant to be advocates of reform. And I think some of them, you know, are afraid to be advocates of reform.

This is occurring within a part of the democratization process, which has a lot of unevenness in it and will not be solved overnight. There have been reforms adopted, as Secretary Aronson says. There is judicial training that did not exist before. There are facilities now in the rural courts, such as access to the laws of the country, that the judges did not have before. There is progress being made.

We are working now, in addition to working directly with the judiciary, with bar associations regarding legal education as a popular education of the citizenry on rights and obligations under the

law. We think it is important in the sense of the need for reform, as well as giving it priority on the political agenda.

Mr. SMITH of Florida. Took us 9 years.

Mr. MICHEL. Yes.

Mr. SMITH of Florida. I have been here 9 years, Mr. Michel, and in those 9 years there has been hardly any progress at all. I mean, how much of a stand do we take on this in terms of our overall aid package?

You will reform your judicial administration, or we are just going to stop at one point. Not only the situation regarding military aid, not only all the other situations, but you know, if the citizens cannot even get a fair shake in their own country, what are we doing there?

Mr. ARONSON. I think it is a legitimate point. We have pressed very hard on this. In fact, they made a reform in the selection of judges in the last year under Christiani. It used to be almost purely a political exercise. The national assembly was endowed under the—

#### BRAZILIAN ARMS SALES TO IRAQ

Mr. SMITH of Florida. I tell you what, Mr. Aronson, I do not want to get into it. We can have a vote, and let me just ask one more question so that we will all be able to go and vote.

We have begun to focus precisely on what countries over the long haul have been helping Iraq arm itself. We have known for quite some time that Brazil has been one of the countries on the leading edge of providing to Iraq significant technology. They have major contracts with Iraq to provide them with military equipment and with technological advice.

Companies like Embraer and others which are quasi-governmental have been involved. They sent to Iraq, \$800 million to \$3 billion over the last 20 years, missile launchers, 36 Astro II trucks, reconnaissance vehicles, armored personnel carriers, and the like, I do not want to go down the list.

On January 26 of this year, officials at Avibras, which is a Brazilian arms manufacturer, sold Saddam Hussein \$500 million worth of battlefield rockets, and announced that it would continue to supply Iraq with technical information, despite the embargo. Now, I want to know what our position is on these arm sales by Brazil to Iraq.

In fact, just a few weeks before we actually engaged in the air war, this Government authorized the sale of missile technology to Brazil by UBM, a software package, which allowed a computer to be upgraded to track and to simulate the flight path and trajectory of missile launchers. And that was to a company that had links to group upgrading Iraq's missile capabilities.

I fought that. I thought it was absolutely stupid and counterproductive of us. Now, I would like to know what position we take with the Brazilian Government on this issue. Have we communicated that position? And frankly, I would like to know whether or not the Brazilians made any contribution to Desert Storm, besides sending weapons to our opponent.

Mr. ARONSON. Congressman, I think we need to be fair about the timing of the events that you just described. Prior to the invasion

of Kuwait by Iraq, some Brazilian arms producers, including some, as you mentioned, are parastatals, supplied weapons to Iraq. That is true for dozens of countries around the world, including our own. And I do not think it is fair to suggest, and I know you did not mean to, that this was a policy that they continued after the sanctions.

Let me tell you what I know about the subject, because I spent a fair amount of time—

Mr. SMITH of Florida. Oh, they did after the sanctions, Mr. Aronson. They did after the sanctions. They even had a lot of technicians in there right up until the end, even after the sanctions were imposed.

Mr. ARONSON. Can I respond to your question?

Mr. OBEY. Sure.

Mr. ARONSON. Brazil supported the embargo against Iraq at some cost to its economy, because Iraq had been a significant market to them. Iraq had also been their principal oil supplier, and that ended upon the vote by the Security Council for the sanctions.

The activity that you talk about, including the Astro II, which is an air-to-air missile with about a 30-mile range and is largely a defensive weapon, went on prior to the Gulf activity and prior to the invasion of Kuwait. Most of the Brazilian arms companies that supplied Iraq prior to the invasion of Kuwait had stopped doing so for several years, because Iraq had stopped paying its bills and was in debt to them.

The Brazilian Government's policy was to abide by the sanctions. And I would like to see the information that you just cited, because it is our belief that they were not violated. But if you have evidence to the contrary, we would like to see it. President Collor assured President Bush that he supported the sanctions.

In the instance of General Piva, who is the gentleman that you are referring to, this was a retired Brazilian general who was not a government employee, who on his own went to Iraq and had been involved in some of these prior arms arrangements. The Brazilian Government on its own exerted considerable pressure to bring him back and did so successfully, as it did the other Brazilian citizens, and got them back well before Desert Storm.

And in addition, President Collor has proposed legislation to prevent a repetition of that, to make it a criminal offense for a Brazilian Government employee who worked on an arms export effort to then, in civilian life, provide sophisticated technology, as General Piva did.

And I would add, as I said in my opening statement, that the Brazilian Government under President Collor has also voluntarily called on the International Atomic Energy Agency to negotiate full-scope safeguards to control their nuclear program, to ensure that it is only used for peaceful purposes, which is one of our goals under the nonproliferation treaty.

I think there was one—oh, regarding the Embraer computer, that was a decision made after a very, very thorough interagency review. It is a supercomputer, but not one of the highest grades. It is an IBM computer, and it was provided under a very, very strict regime that requires regular supervision of its use to prevent just the kind of diversion that you referred to.

In doing so, we also made it clear to the Brazilian Government that our ability to export such high technology in the future will depend on their taking serious action in terms of missile non-proliferation and export controls. And we have established a technology working group between the two governments, which had its first meeting.

If your bottom line question is are we vigorously opposed to seeing the export of ballistic missile or other kinds of technology from this hemisphere, the answer is yes. We shut down the Condor project in Argentina, which you know was a real threat in the Middle East, funded by the Libyans and the Iraqis. The Argentine Government took that step at our request.

The Brazilians have been cooperative, but we are very serious about this subject and we are going to be watching it.

Mr. OBEY. Thank you very much.

Mr. ARONSON. Thank you, Mr. Chairman.

#### DEMOCRATIC VALUES

Mr. OBEY. Mr. Aronson, before I begin my questioning, I want to make a few observations in light of your testimony. You indicated that you thought that we had erred more in the past in this hemisphere by lack of involvement than by involvement. I would agree in part and strongly disagree in part. I would assess it in a different way.

It seems to me that what we have done is to have sporadic and very limited involvement in terms of attacking the basic problems of economic injustice, political injustice, and the like. We have been involved when there appeared to be a short-term threat to our influence in the region. But then, as that threat receded, our interest in the region seemed to have receded as well.

And as a consequence, we have given the impression for well over 80 years, in my view, that the only time we really care about the region is when left-wing governments appear to be about to take control. Then we get activated, then we talk about economic renewal, then we talk about such things. But when they recede, so does our interest.

I would suggest that, overall, because of that sporadic activity, we have probably done more harm than good in the region by allowing our conduct to be painted by the most radical elements in the region as one that is based only on security arrangements, rather than our concern about basic democratic values. I do not think that is a fair description of our concern, but I think that we have set ourselves up by the way we have handled the region for a long, long time, and because of the nature of some of the regimes which we have, in the past, imposed on the region.

You also indicated that the history of the region shows that when we sustain a commitment, and when certain values are respected, that good things can then result. I think that can be true, but I would emphasize that the strongest commitment for us to sustain is the commitment to ourselves and our own values. To the extent that we depart from those values in supporting regimes which might suit our needs for reasons of temporary convenience, but which do not suit our needs in terms of promoting the values of

democracy and economic decency, we really do not maintain the commitment that counts the most. And I think therein also lies one of the roots of our failures in the region over the past two generations. I hope that we are now moving into a mature understanding of how we have to conduct ourselves in the region.

#### FAST-TRACK AUTHORITY

I would also respond with respect to your request on fast-track authority. I will be blunt about it. I do not intend to vote for fast-track authority for a very simple reason. You can defend trade arrangements which have the short-term impact of hurting our own domestic workers because they have the long-term impact of stabilizing the region. You can defend that if we have policies in place here at home that take into account the needs and interests of domestic workers.

And this is something over which you have no control, so I am not blaming you; I am simply making an observation in light of your comment. I could not help but be struck by the irony last week when the Secretary of the Treasury was testifying on behalf of their new initiatives, which would, among other things, have us provide assistance to countries to: help deal with job loss, provide training, worker retraining, help people who had suffered job losses as a result of changes in economic policy, and so forth.

Yet, the Administration is asking us to cut our own trade adjustment assistance program, which provides retraining help to workers in this country who lose their jobs because of the impact of trade. So, it seems to me that the kind of trade policy we can support under one set of circumstances is quite different than the kind of trade policy we can support under a different set of circumstances here at home.

I think if the administration wants to unlock the key to support for fast-track authority, they should go ahead and take a look at what they are doing to our own workers in this country. We have cut our own job training programs by 16 percent over the last decade at a time when, in my view, the quality of our domestic work force is the number one issue which is going to determine our ability to compete economically in the world.

Intellectual capital is increasingly going to become at least as important, if not more important, than physical capital and financial capital. And, until we learn that lesson here at home, I think the administration has no right to expect us to vote for fast-track authority which would give the administration an opportunity, without amendment, to push their trade proposals through, proposals which could have very significant, long-term negative effects on domestic workers.

Mr. ARONSON. Can I respond to that, Mr. Chairman?

Mr. OBEY. Sure.

Mr. ARONSON. The idea that the trade arrangements that we propose in this hemisphere in particular, with Mexico or the Uruguay Round, will have a net negative effect on American workers is just untrue. In the last four years, where we have had significant trade liberalization between the two countries in steel, in textiles, a net benefit for us. We have doubled our exports to Mexico to—

**Mr. OBEY.** That has had nothing whatsoever to do with trade. It has had a whole lot to do with what has happened to the economic recovery of both countries.

**Mr. ARONSON.** Correct. But that has been in part, or significant part, an opening of the Mexican economy to investment and trade liberalization. They joined the GATT in 1986, they reduced their effective tariff from 200 percent to an average of 10 percent. They have opened up their banking sector, they have sold off their telephones.

And the jobs that we will create through fostering a prosperous Mexico are the high-wage, skilled jobs in the U.S. The jobs that we will lose, that will be lost over time will be the low-wage jobs that we are going to lose anyway. And the difference is that it is a lot better for a plant to relocate to Mexico and have a complementary relationship with our auto industry, for instance—

**Mr. OBEY.** I agree with that if we have the policies in place here at home to mitigate the effects on those low-wage workers.

**Mr. ARONSON.** Well, I do not disagree with that—

**Mr. OBEY.** But we do not. And until we do, there is no way I am going to vote for that kind of policy.

**Mr. ARONSON.** That is a legitimate issue; though, I would note that, as I understand it, and this is not the field I spend all my time in, under the Job Training Partnership Act, a new worker retraining program was created that in many ways is better than trade adjustment assistance.

Trade adjustment assistance requires you have to show that you lost your job due to imports. That will not help you under a free trade regime. The worker retraining under Jobs Training Partnership Act is a more expanded version of retraining. I am not going to argue funding levels, because I do not even know what they are.

But I would think, just as in Canada, in the agreement you both had transition rules to phase in the impact, and some kind of mitigating effect. But—

**Mr. OBEY.** All I am telling you is that at home, we are trying to get by on the cheap. College-educated workers have done just fine in this society. They have, since 1980, more than kept pace with inflation.

High school graduates have lost about eight percent in terms of their real income. They are making eight percent less. High school dropouts are making 25 percent less than they were 10 years ago. And the fact is that this administration does not have one plug in that budget to deal with the negative impact on the workers in the low end of the scale. They are not doing a thing with respect to job training. They have cut our support for education. Property taxes are \$11 billion higher in this country today because the Federal Government has pulled the plug on education. And so, I do not want to waste my time on this issue, but—

**Mr. ARONSON.** All I am suggesting, Congressman, is that legitimate concerns in those areas—

**Mr. OBEY.** I know what you are suggesting.

**Mr. ARONSON** [continuing]. Do not lead you to kill the chances for a free trade agreement that is going to give—we have a trade surplus in steel with Mexico and in textiles. Those are jobs.

Mr. OBEY. If the free trade agreement is killed, it is the administration's domestic policies which will have killed it, because the administration is not responding to legitimate problems that will be faced by American workers, at least in the short-term, if those policies go into effect.

And until they do, it would be irresponsible of us to vote for it, especially when you are asking us to set up a system under which we cannot even vote to amend it, if we do not happen to like your dairy policy, for instance.

Mr. ARONSON. Congressman, the executive branch has had authority to negotiate trade agreements without amendment starting in 1934. And Congress seeded that authority after the Smoot-Hawley tariffs—

Mr. OBEY. I understand.

Mr. ARONSON [continuing]. When they learned the consequences of trying to do that through this process. And it is not a *carte blanche*; it is a very slow process in which congressional input will be sought and listened to and paid attention to. But there is no way you can have a trade negotiation with multilateral or bilateral or trilateral parties, in the case of Mexico, and somehow negotiate with every different subcommittee. They will not put their bottom line on the table, and they will demand that items that we do not want be put on the table as well, such as labor mobility.

Mr. OBEY. Well, Mr. Secretary, you have got your position and I have got mine. I have simply told you what it is. If you want my vote, the administration needs to change its indifference to domestic workers. You cannot get by playing Winston Churchill abroad and Scrooge at home. You just cannot do that.

Mr. ARONSON. Well, I think that the workers in the steel industry who are exporting steel to Mexico, and the auto industry, and then the farm belt who are exporting soybeans are going to miss their jobs if they lose them because Mexico shuts down its trade liberalization. So, if you care about workers, they are the ones that we ought to look out for.

#### FUNDS FOR EL SALVADOR

Mr. OBEY. Well, I think our workers know pretty well who is looking out for them and who is not. Let me ask you this with respect to Salvador. What are your specific plans with respect to the release of the money?

Mr. ARONSON. As you know, the President determined on January 15 that the FMLN had violated the criteria that the Congress established, specifically targeting civilians and shipping in significant weapons from the outside. He then put a voluntary hold on that, and said that he would wait 60 days before obligating any of those funds in the hopes that the FMLN would return to the bargaining table and reach a cease-fire.

Those 60 days expire March 15, and we are going to weigh three factors in deciding how quickly to obligate those funds. One and foremost will be the security of the country. The firing of a surface-to-air missile by the FMLN does not reassure us. But the FMLN has always been the prime agent in supporting increased flows to the Salvadoran high command.

The second issue will be progress in the negotiations. The President said November, excuse me, when he made the determination, which was January 15, that this administration would much prefer to spend those funds not for military purposes, but to support a U.N. peacekeeping force, to demobilize combatants on both sides, to help in national reconciliation. That continues to be our view. And if there is a cease-fire in place, the funds will go for those purposes, and we hope to create an incentive.

And the third issue that we will weigh, as we have continued to weigh as progress on the Jesuit case, if you are asking are we going to try to move every dollar down as quickly as possible regardless of the security threat simply to skirt the will of the Congress, the answer is no. But we hope that the FMLN will take seriously our view on security. We are not going to walk away from the defense of this country.

Mr. OBEY. Well, let me say, as you know, the Secretary talked to me and asked me to give you some room to see how effectively you can try to, along with others, get real negotiations moving. I am willing to do that, but I think in return, if you want to, if you want the Congress to be cooperative, I think it is fair to tell you that we will in turn gauge our willingness to negotiate with you by how you handle the release of those funds in the coming months.

Mr. ROWEN. Mr. Chairman, let me just add, expand on a point—

Mr. OBEY. Mr. Rowen.

Mr. ROWEN [continuing]. Very briefly, that has to do with—

Mr. OBEY. If you keep it very brief, because—

Mr. ROWEN. I will be very brief. It has to do with keeping the armed forces sustained. This was the money for the armed forces we are talking about here. The second half of the funds.

Our estimate is about half of the extra amount that is in escrow about \$21.9 million, is required just for sustainment. I am not talking about new capital. A helicopter was shot down in the last 24 hours. We are not talking about the replacement of anything major.

But at the current expenditure rates, that is, assuming the FMLN activities continue, and we hope obviously that they will not. But assuming that that continues, and therefore the armed forces activities continue, it looks as though decisions are going to need to be made within this fiscal year because of the problem of the pipeline, and the lead time required.

This includes ammunition, rations, fuel, helicopter repair parts and training. Ammunitions and rations require funding, we believe, within the next 2 to 3 months in order to prevent shortages later on. Helicopter repair parts, similarly, and so on. So this will get to be an operational matter fairly soon.

#### U.N. PEACEKEEPING FORCE

Mr. OBEY. We will watch. What is the U.S. position on the concept of creating the U.N. peacekeeping force to deal with Salvador? My understanding is that Spain and Mexico and Venezuela and Colombia have all indicated their willingness to sign on. What is our position?

Mr. ARONSON. We strongly support that, Mr. Chairman, as we did for Nicaragua. In fact, there have been negotiations already between the government and the U.N. and the FMLN and the U.N. on this issue. They have begun to discuss the outlines of a cease-fire security zones, the role of U.N. forces.

We not only support it politically, but if we can reach a cease-fire quickly, some of those military funds that we were just describing, under the legislation could be used to help support the presence of a U.N. peacekeeping force.

#### JESUIT KILLINGS CASE

Mr. OBEY. One other question on Salvador. Again, I understand your desire to send the correct signals to the FMLN and I agree with that. But in the final analysis, we do not provide aid to the FMLN; and we do provide aid to the government. And so, while I am interested in sending the correct signals to the FMLN, I am even more interested in sending the correct signals and getting the right signals back from the people who we give the money to.

The two principal investigators of the Jesuit killings resigned because of a lack of cooperation from the armed forces, and they indicated they were blocking the broad investigation, and that the attorney general's office had stopped them from pursuing military officers who committed perjury.

My question is, what specifics can you point to to demonstrate that the government is going to be effective in pursuing that case, and that the military is going to be cooperative in pursuing that case? What specific actions can you point to?

Mr. ARONSON. I actually spoke to this in response to a question Congressman McHugh asked when you were out of the room. But let me bring to your attention what is the latest development which we think is a positive development. The high command has written a letter to the Minister of Justice which acknowledges some things that the Moakley committee has noted in its reports.

And they have called for an expanded investigation beyond the nine officers and enlisted men who are accused of planning and committing the murders, and the five officers and enlisted men, who are in fact accused of perjury and destruction of evidence. They have called for expanding the investigation into two important, unresolved issues.

One is a meeting at the military academy November 15. They provided a list of 11 officers who attended that. And secondly, the role of the intelligence division of the armed forces in ordering an investigation of the UCA campus on November 13. I cite those particular points because, if you read the last staff report of the Moakley committee, those are the two issues that they feel are the most important. So I think that that is a concrete step forward.

#### MILITARY AND JUDICIARY REFORM

Mr. OBEY. But what do we have by way of indication that the government is in fact going to be able to pursue military reform and court reform?

Mr. ARONSON. Well—

**Mr. OBEY.** The reason I mentioned court reform is because for two years under Mr. Duarte, we were told we could not expect Duarte to be able to perform with respect to court reform because Arena controlled the legislature. Arena now controls the whole government, not just the legislature. So, while we have got a right to expect that the party running the show is going to be able to deliver with respect to court reform, so far as I read it, they have not.

**Mr. ARONSON.** Let me speak to military reform first and then judiciary reform. Military reform, that has been, and is by the FMLN's definition the key issue in the peace talks. And there I think that the government deserves real credit. They have put out the table proposals, and they have made them public, to restructure the Salvadoran military, reduce its size and change the way it does business. Four years ago you would have had your head blown off for advocating this in El Salvador.

I will go through some of the items. President Christiani has said that he will reduce the size of the Salvadoran armed forces back to pre-war levels. That is about 13,000. They are currently about 56,000.

**Mr. ARONSON.** They have agreed to abolish the civil defense units at the start of a cease-fire. They have agreed to abolish the rapid reaction battalions during the cease-fire as the FMLN demobilized. They have agreed to eliminate some of the security forces outright and transfer all the others under a new civilian ministry of interior and take them out of the military command.

There are some items in the negotiations which they have not publicized yet, but they have also made some far-reaching commitments to review the conduct and the record of officers in the Salvadoran army in determining whether they will continue in the reduced army after the peace talks, and human rights will be one of the fundamental issues. So on that score, frankly, I think they have gone further than anybody would have imagined. And I think it is very serious what the government has put on the table.

Judicial reform continues to be a disappointment, and we keep pushing and pushing and we see modest but not tremendously impressive changes. That is also an item in the peace talks, and so that is another avenue for improvement. There was a modest improvement in the selection of judges when they took away the exclusive power of the National Assembly simply to name judges and they created something equivalent to what we have where the ABA recommends judges. That is a step forward.

I recently met with the head of the Supreme Court and talked about some of our concerns, including the Zona Rosa case which I know is of a concern to you. And I just saw a cable a few days ago saying that that case is finally coming to trial. Now, it is precious late, but it is better than not coming to trial.

**Mr. OBEY.** I have five questions on that which I want to submit for the record. I also have a number of other questions on Salvador I will submit for the record. Let me ask you to respond very quickly to two other questions I need to cover with you before I leave.

[The questions and answers submitted for the record are inserted at the end of the hearing.]

The first concerns Nicaragua. The GAO has indicated that the OAS is currently feeding 90,000 to 95,000 people, whereas the most that we ever provided for in the AID-funded program was 55,000. Why?

Mr. ARONSON. I think for several reasons. One, the numbers of family members who returned and who appeared, and refugees were larger than were estimated. And we were not in touch with all of the resistance groups at the time when we were feeding them during the election. Some were simply not reachable. There were several fronts.

But the OAS has done a very good job. I think we ought to pay tribute to them for taking on this assignment, that the mobilization has been successful. And my understanding is that that will be completed by about July 1st when land is available for the remaining resistance members who have not received land.

The other reason, Mr. Chairman, why that is taking a little bit longer is that there was a hope that more resistance members and ordinary Nicaraguans could return to farming in the previous season, and some of that was disrupted by the Sandinista strikes of the previous year and land seizures and the like. And so what was hoped to be about a 30 percent increase in cotton planting turned out to be about a 10 to 15 percent.

#### PANAMA

Mr. OBEY. Mr. Secretary, I have a number of questions I want to submit to you with respect to Panama, and I will not ask you to comment now because I am out of time. But I simply want to observe prior to putting the questions in the record that we were put under a great deal of pressure a year ago to provide early money to Panama. We provided it.

An awful lot of that money is still sitting there, not moving. I have got a number of questions which relate to that which I would like you to respond to for the record. Mr. McHugh may want to follow up specifically with them after I leave.

[The questions and answers submitted for the record are found at the end of the hearing.]

Mr. OBEY. The other problem that troubles—

Mr. ARONSON. Can I say one thing about that?

Mr. OBEY. I would prefer not, because I am 15 minutes late to a meeting that is, frankly, a whole lot more important to me than this discussion this morning.

Mr. ARONSON. Thanks for the compliment. [Laughter.]

Mr. OBEY. But my point is simply that we have also been told that Colombian drug traffickers have continued to use Panamanian banks as a conduit for laundering drug funds. If that is true, it would appear to me that what has changed since Mr. Noriega left Panama is that Colombia drug money is not parked in Panamanian banks, it is simply moving through. I would like to have you respond to some of the questions we have with respect to that.

Why does the Catholic Church estimate that 655 civilians were killed in the U.S. invasion of Panama, whereas the U.S. indicates

only 202 civilians? Why have we not been able to resolve those numbers?

Mr. ARONSON. That issue has been looked at by four different independent human rights groups, it has been looked at by the Panamanian government, it has been looked at by the defense department, and they all agree on the numbers. And it is somewhere between, I think, 207 and 320, and there is no substance to those higher numbers.

I cannot speak to the report that you cited because I have not seen it, but there has been a lot of myth making and exaggeration about that. There is nothing to it. 60 Minutes did an atrocious story that was completely unfounded, and it is not true. That is the answer.

Mr. OBEY. I am not concerned about 60 Minutes, but I do know that the Catholic Church in Panama is not the left wing church that it is described to be in many other countries.

Mr. ARONSON. This is true, but it has the theological right to be wrong, and in this instance it is wrong. [Laughter.]

Mr. OBEY. Well, I would like you to respond for the record to demonstrate why it is wrong.

Mr. ARONSON. Okay. But there is some progress there.

[The information follows:]

*Question.* Why does the Catholic Church estimate that 655 civilians were killed in the U.S. invasion of Panama, whereas the U.S. indicates only 202 civilians? Why have we not been able to resolve those numbers?

*Answer.* The Panamanian Catholic Church has told us that its estimate of 655 civilian deaths was based on press reports. As far as we know, the Church did not attempt to verify this estimate by independent investigation.

The figures on fatalities that U.S. officials released to the public on January 11, 1990, represented the operational commander's best estimate at that time. The U.S. Southern Command's figure for military deaths (314) was a "battlefield estimate" based on data reported by units involved in combat operations. The estimate of 202 civilian deaths was based on bodies counted (but not positively identified as Panamanian military or members of the paramilitary "dignity battalions") during visits to Panamanian and U.S. hospitals, clinics, and morgues by U.S. military physicians, who worked in conjunction with Panama's Institute of Legal Medicine (coroner's office). These figures represented the last estimate provided by U.S. officials, but were never intended or expected to be the final accounting.

Since January 11, all queries regarding death figures have been referred to the Institute of Legal Medicine in Panama, which provides information regarding Panamanian deaths associated with Operation Just Cause. The accounts are based on recovered remains. The Institute's figures suggest a range of between 270 confirmed dead and a maximum of 345 possible deaths (military and civilian).

Credible estimates by nongovernment groups in Panama are close to the Institute's figures. In December 1990, the Panamanian Committee for Human Rights published a new list of 184 civilian dead, 57 military dead, 18 bodies burned beyond recognition, and 80 unaccounted for, making a total of 339 Panamanians killed or missing. According to a report issued by the Commission on Human Rights of the Association of Doctors, Odontologists, and Professionals of the Social Security System in late 1990, 321 Panamanians were killed as a result of Operation Just Cause and approximately 500 were wounded.

#### BOLIVIA

Mr. OBEY. Good. The impression was left, when Mr. Lewis questioned you, that somehow things are going quite sweetly in Bolivia and, it seems to me that that really is not the case. More than 40 police officers fired in the mid-1980's for narcotics violations have apparently been rehired by the police and placed in key positions.

Allegations of corruption persist in the interior ministry. You indicate that there has been a slight turnaround in the total number of hectares under production for coca. But the reduction is still very small indeed. That appears to be at least partially true simply because of the success we have had in controlling traffickers in Colombia, resulting in an increase in cocaine production in Bolivia. And it makes the potential for corruption even greater.

I would like to know what your intentions are on disbursement of the request for \$72 million in ESF. The justification documents indicate that three equal disbursements of \$22 million each are planned based on face targeting of reaching 7,000 hectares for eradication of coca. I would like to know why the goal of 7,000 is lower than last year's goal of 8,000. Oh, I am sorry. I misstated that. The goal is 5,000, and you hit 8,000.

Mr. ARONSON. Right.

Mr. OBEY. I guess my question is, Why are you not asking them to hit the same target for next year?

Mr. ARONSON. Well, the same target would be 5,000, and we are asking them to hit 7,000.

Mr. OBEY. No, I mean the target that they hit. Why are we asking that the performance level be less than last year?

Mr. ARONSON. Well, I will have to get back to you on that. I think, you know, we increase our own target by 20 percent, and we hope if they did it once—

Mr. OBEY. Well, my point is, that we are supposed to be pressing them to the maximum. If they have achieved the figure 8,000, why is it that we appear to be easing off? If it is possible for them to do more, why are we not pressing hard?

Mr. ARONSON. I will have to get back to you on the specifics. We have increased our target, obviously.

[The information follows:]

*Question.* The justification documents indicate that three equal disbursements of \$22 million each are planned based on phased targets of reaching 7,000 hectares of eradication of coca. First, explain why this goal of 7,000 hectares is lower than last year's 8,000 hectare eradication level.

*Answer.* Article 10 of Bolivian Law 1008, dated July 19, 1988, stipulates that zones where illicit coca is grown will be subject to annual eradication, substitution and development, beginning with the eradication of 5,000 hectares per year in CY89, 6,000 in CY90 and 7,000 in CY91, until "reaching the goal of 8,000 hectares per year." While we are very pleased with last year's accomplishments, we want to set our mutually agreed goals incrementally to ensure full compliance.

Mr. OBEY. I am sorry that I do not have more time to stay, but Mr. Gunnerson and I have a meeting affecting the jobs of about 3,000 people, and I have to take that up with him now.

Mr. ARONSON. Thank you, Mr. Chairman.

#### ELECTED GOVERNMENTS AND HUMAN RIGHTS

Mr. OBEY. Oh, I do have one other question. Your chart here shows the number of counties that have moved from autocracies to democracies.

Mr. MICHEL. Civilian-elected governments.

Mr. OBEY. I would like you to also put in the record how many people in that same region have been killed during that same period by governments, or agencies of the government.

Mr. ARONSON. You mean human rights abuses that are attributed to security—

Mr. OBEY. I mean we may have a number of countries that have moved in a formalistic sense from the bad-guy category to the good-guy category. Over the same period cited in your chart, how many people have actually been killed by agencies, including the military, in countries with governments that are democratically elected.

Mr. MICHEL. I just would want to say, Mr. Chairman, that the point was not that everything is perfect when you have an election, but that it creates a new opportunity for cooperation and progress.

Mr. OBEY. I understand that. To balance that chart, I want to see what your numbers are with respect to that.

Mr. MICHEL. It is all in human rights reports.

Mr. OBEY. Well, I want it in the same place in the record. Thank you.

[The information follows:]

#### POLITICAL KILLINGS

The Country Reports on Human Rights Practices prepared by the Department of State currently include, in each country report, a section on politically motivated killings. However, this was not the case ten years ago. In a few cases where data has been maintained over an extended time (e.g., El Salvador) the available information indicates that political violence has declined as civilian governments have replaced military and other authoritarian regimes in Latin America.

Because complete data is not available, we are unable to provide a country-by-country historical comparison which might be used to examine the correlation between progress in the transition to democracy and levels of political violence. However, accepting that diminished political violence should be a measure of democratization, we have compiled the following data from the Country Reports for 1990. A.I.D. will use these data as a benchmark in evaluating future progress and will advise the committee on trends observed.

Country Reports on Human Rights  
Practices for 1990

Political and other Extrajudicial Killing

- ARGENTINA:** There were no credible reports of politically motivated killings carried out by government forces.
- BAHAMAS:** Politically motivated killings are not known to occur, but there are occasional instances of killings of detainees in official custody.
- BARBADOS:** There were no reports of such killings
- BELIZE:** There were no reports of politically motivated or other extrajudicial killings.
- BOLIVIA:** 8 killings.
- BRAZIL:** Extrajudicial killings are Brazil's most serious human rights problem. Several hundred Brazilians (squatters, labor organizers, Indians, common criminals, and street children) were killed by landowners, hired thugs, and police.
- CHILE:** 27 killings.
- COLOMBIA:** 313 killings - most narcotrafficker related.
- COSTA RICA:** Zero.
- CUBA:** 3 killings.
- DOMINICAN REPUBLIC:** There were no known cases of political killings.
- ECUADOR:** There were no known cases of political killings.
- EL SALVADOR:** Credible sources cite 9 killings by the FMLN, 5 civilian killings for political reasons by the military and security forces, and at least 45 people killed by rightwing death squads.
- GRENADA:** There were no reports of politically motivated or other extrajudicial killings.

- GUATEMALA:** The Human Rights Ombudsman calculated there were 304 politically motivated murders in 1990, and that most of the victims were killed by the armed forces or persons associated with or protected by the army, such as civil defense patrols.
- GUYANA:** No politically motivated or governmentally-sanctioned extrajudicial killings are known to have occurred.
- HAITI:** Ten political killings and murders that appeared to have political motives took place.
- HONDURAS:** There were cases of extrajudicial killing committed by members of the police and security forces.
- JAMAICA:** While officially sanctioned murder of political opponents does not occur in Jamaica, unjustified use of lethal force and fatal abuse of detainees by police are serious problems. According to police statistics, officers killed 89 persons.
- MEXICO:** There were 21 killings of political and human rights activists during the year.
- NICARAGUA:** Throughout 1990 there were sporadic incidents of political and extrajudicial killing.
- PANAMA:** There were no cases of political killings reported.
- PARAGUAY:** There were no substantiated cases of politically motivated deaths.
- PERU:** The chief causes of human rights violations remain the terrorist activities of the Sendero Luminoso responsible for 1,512 deaths, security forces for 1,218, the Tupac Amaru Revolutionary Movement (MRTA) for 68, the paramilitary Rodrigo Franco Command (CRF) for 5, Campesino Organizations (rondas campesinas) for 259 deaths, and narcotics traffickers for 106.
- SURINAME:** The military was responsible for several politically motivated killings.
- TRINIDAD and TABAGO:** 34 people were killed when the Jamaat Al Muslimeen (JAM) initiated a coup attempt.
- URUGUAY:** No cases of politically motivated killing were reported.
- VENEZUELA:** There were no reports of such killings.

**Mr. McHUGH.** Gentlemen, I am very curious about that meeting myself. It must be very interesting.

**Mr. ARONSON.** All politics are local, as Tip O'Neill once said.

#### HELICOPTER SALES—EL SALVADOR

**Mr. McHUGH.** We have spent a lot of time on El Salvador, and there are other areas, but let me just ask you one or two more things about that. There has been a report that we would be selling, or we might be selling Cobra helicopters to the military in El Salvador. This would be of some concern to some people in town, if so. Can you tell us what the current plan is for that?

**Mr. ARONSON.** We will both speak to that. There is a fundamental problem in that the helicopters they are using which are no longer in our own stocks are simply wearing out by attrition. And there is a lack of spare parts, so they have to be replaced not because of some military strategy, but because of normal wear and tear.

And the helicopter that you are referring to is the likely and the best replacement model. It is not, in terms of offensive capability as configured, something that would be a qualitative increase. I think the one thing it might do is provide a little bit more protection against surface-to-air missiles because of its armor, but not because of its war-fighting capability. If we do not have peace in El Salvador, we are going to have to face that issue.

**Mr. ROWEN.** I have very little to add to that, Congressman, but just to observe again that one of these got shot down in the last day, and if that continues we could be out of helicopters. There will have to be some replacements.

**Mr. McHUGH.** Well, I think the question here with respect to the military capability of the Cobra helicopter as a replacement is a very important question, because if, in fact, the political negotiations still are viable and it is perceived that the United States is providing additional military capability to the Salvadoran government in that context, it can erode the confidence of the other side in terms of these political negotiations.

So I think the perception here is important. And from what you said, Mr. Secretary, it sounds to me as though we would not proceed with this sale, in the short-term at least, if the political negotiations are still in progress and seem to be making headway.

**Mr. ARONSON.** Well, I am not going to make that formal commitment, because the time frame will be driven primarily by the condition of the helicopters, and there is a certain lead time required to prepare the way. You have to have retraining of crews, and that takes a considerable amount of time. You are talking about 6 months to a year.

So you might have to move forward to make the preparations even if you hoped that the peace negotiations would make the ultimate provision of these helicopters unnecessary. And I think that has to be taken into account. It would not—this is not a matter of writing an order and you send helicopters down there. There is a long lead time to train and prepare and to do the ordering.

The second point I would make, and I think it also needs to be taken into account, is that the war-fighting capability of the FMLN

has increased dramatically in the last year, unfortunately, by their provision of surface-to-air missiles from Cuba and Nicaragua. They have SA-14's and SA-7's, and they may have some surface-to-air missiles beyond that.

The worst signal to send to the FMLN is that they can continue to escalate their capability to make war on the elected government of El Salvador, and the government of El Salvador cannot defend itself. So if we want to have peace down there, the FMLN has to be convinced firmly that peace is their only alternative.

#### REFORM IN EL SALVADOR

Mr. McHUGH. Yes. We made a real effort in last year's bill to have a balanced set of signals. And you have talked appropriately about the importance of sending the right signals to the FMLN. And we attempted to do that, even though we are not providing the FMLN with any assistance. As the Chairman pointed out, we provide assistance to the government. I have been here more than 9 years, Mr. Smith has been here, and every year we provide assistance to El Salvador. And every year we get assurances of one degree or another that progress is being made on things that we consistently express concern about.

So at some point, because we are providing aid to the Salvadoran government, we are more sensitive about the signals we send there, because that is where our money is going. And to some extent, we share in some responsibility for how that money is used. So I agree with everything you have said about signals to the FMLN. And if they are improving their military capability at a time when political negotiations are under way, I am concerned about it too, and I do not want to send a bad signal.

On the other hand, we raise these questions because we are concerned about the signals we are sending to the people that get our money. And it is in that context that I, and I think the Chairman, raise these concerns. I cannot think of a case where a military officer has been convicted of any crime in El Salvador.

Now, you agree that the judicial process is ineffective. But we have heard about and talked about this for a long time. At some point, the government has to believe we are serious. Now, if they get their money despite this tortuous, balanced piece of legislation, if their perception in the military is that they get their money if one missile is fired by somebody in the FMLN, then they are going to believe we are not serious about these conditions and standards that we try to set up, one of which related to, and I quote here—this was a condition on withholding aid from the Salvadoran government—that the President had to find that there was “a thorough and professional investigation into the prosecution of those responsible for the eight murders, the six Jesuits, their housekeeper, and their daughter at the university.”

I think it is fair to say that up until now many of us in the task force and elsewhere, and apparently you, are not satisfied that that condition has been adequately met. We are hopeful, based upon the report we had today, that the military will be more forthcoming. But certainly, up until now, in all respects, they have not been.

Yet, they are going to get their money, or at least there is a possibility they will now get their money.

I agree that the FMLN firing a missile at a helicopter is not helpful. It is not constructive. One of the problems I think that we have on both sides is that the extremes in both camps can veto political progress by the FMLN, for example, shooting down a helicopter, or on the government's side, somebody perpetrating some human rights outrage which we all then get concerned about.

I guess what I am saying about that one missile is that I share your concern, but we have to remember that some recalcitrant element of the FMLN can bring political negotiations to a halt if we overreact too much to that particular act. By the same token, if some individual on the government's side perpetrates some outrage, that has the potential of vetoing the whole political process as well if we overreact.

Mr. ARONSON. Congressman, let me just say—and I think Secretary Rowen wants to say something. I welcome the committee's concern about judiciary form, the Jesuit case, human rights, and other issues that need to be addressed. And the pressure that the Congress exerts, I think, can be a healthy pressure, so I am not complaining about that. I am not saying it is inappropriate. I was making a different point.

I think if we are interested in peace, and I know we both are, then I hope that we will send a signal to the FMLN that peace is their only chance for change in that country and that they are not going to be able to escalate the war and hope that the Salvadoran government will be somehow left defenseless.

The other point I think is worth remembering is that the concerns that have been raised over the last 10 years have not simply been listened to and dropped down a hole. This society has changed in important ways. El Salvador's economy is growing now with about a 2.9 percent real rate of growth for the first time in 10 years, despite the fact that this guerrilla insurgency regularly blows up their electrical system, their buses, their transportation system, their farming economy.

That is an achievement that this committee can feel proud of, because the economic support funds that you have voted in fact have helped support fundamental reforms that have allowed that economy to grow. The judicial issue remains a hole in the fabric of democracy that has to be filled, and we are going to keep pressing on that.

On the electoral front, we just went through an election in which the allies of the guerrillas won seats and were protected by the same armed forces that we are funding. And even though there were some incidents that we deplore, by and large it was a fair process. That is something that we can feel is an achievement.

And we are close to peace in El Salvador precisely because we have sustained this government and defended it and pressed for reform. And that is not always an easy combination, and we can disagree about which areas to press. And this latest breakthrough in the Jesuit case I hope is a signal that we share this committee's feelings about the case. We are not going to sweep it under the rug.

We do not want it swept under the rug, and we are not going to stand by and let any element in El Salvador do so. And the fact

that the high command took this initiative I think is a sign that they know that the U.S. Government, Congress and executive, Democrat and Republican have one view about this case—that the prosecution and the investigation have to go forward.

Mr. McHUGH. Well, I agree with much of what you have said. I think we need to be clear that we are serious about this kind of reform. I mean, when we are talking about judicial reform, when we are talking about the inability, even in the most notorious case, to bring military offices to justice finally, you know that there are other less notorious cases in large numbers which we are not able to devote as much attention to. And there is no justice.

And so this is so fundamental after 9, 10, 11 years, that at some point, in order to demonstrate our seriousness, we have to take steps with regard to aid. Now, I have been a supporter of levels of aid in El Salvador on the premise that you have described, namely that it has had some beneficial effects in terms of promoting reform. But on something as fundamental as judicial reform, whether there is immunity on the part of the military to the most egregious kinds of criminal behavior, we must see change.

My only point is that if we are talking about signals, if we continue to let the aid flow, the aid which to them is the most important thing, then in the end that is all that counts.

And so it is in that context that we threaten, push, and condition this aid. And I assume you do not agree with much of that except when we get to the bottom line in terms of the money and conditioning the money.

Mr. ARONSON. I think if we did not share your view and if the Salvadoran Government did not know we shared your view, I am not sure we would have seen these new developments in the Jesuit case. So I think they have gotten that message from us and from you. Sometimes we deliver the message more privately than the Congress does.

Mr. McHUGH. Yes, I am sure you do.

Mr. ROWEN. Congressman, you properly focus on the outrageous killing of the Jesuits. I am really disappointed that you did not mention another outrage that occurred fairly recently, which is the shooting and the execution of our soldiers, which occurred several months ago. This was a deliberate execution, as the facts are well-known in this case. These people have not been brought to justice. It is an unresolved issue. So atrocities occur on both sides.

Mr. McHUGH. Yes, they do. And I certainly do not want to leave the impression with you or anybody else that I am not concerned or outraged by Americans being killed in cold blood, apparently. But this is a foreign operations subcommittee and we make decisions about aid here.

And we are not providing any aid to the FMLN. We are providing aid to the government of El Salvador, and it is in that context that these questions are raised. So if it is necessary, we will express at least as much outrage, if not more, at the killing of American soldiers. But that is not the point in terms of our assistance decisions.

The point is we are providing and sustaining military force in El Salvador and have been for some time, and we expect certain

standards to be met where we share in the responsibility of the outrages that are committed by those forces. And that is the point.

Mr. ROWEN. Well, I would simply say that the nature of the movement, the opposition, the FMLN, should have something to do with whether we are doing the right and proper thing in providing aid to the government.

Mr. McHUGH. Well, it has.

Mr. ROWEN. And I cite this recent murder as being relevant to that. It is not irrelevant.

Mr. McHUGH. No one said it was irrelevant.

Mr. ROWEN. Well, you said—I understood you to suggest that our concern is with the behavior only of the government.

Mr. McHUGH. No. But we have a somewhat higher responsibility to insist upon the standards that the government follows when we are funding the government.

Mr. ROWEN. You said we—

Mr. McHUGH. There are outrages committed all over the world, and we do not fund governments all over the world to the extent that we have consistently funded the government of El Salvador. And I have personally supported some of the assistance to El Salvador, including military assistance on the premise that we have interests there and that the government, in some measure, has been trying to make progress on reform.

But the point is that if we are not satisfied with that progress in some fundamental way, such as the judicial process, then we have a responsibility, at least it seems to me, to raise questions about that failure of progress, because we are funding that government. Does that mean that we approve of everything the FMLN does? No. Does it mean the FMLN does not engage in acts on its own which we find offensive? No.

But we are not funding the FMLN when it comes down to it, and what we have to vote on here is aid to the government. And so raising that question is relevant, as you did, but it is not central to whether we provide aid to the government year after year after year.

#### AID TO GUATEMALA

What can you tell me about aid to Guatemala? I am a little unclear at this point as to where our military assistance program is. If I understand correctly, at one point we suspended military assistance.

Mr. ARONSON. That is correct.

Mr. McHUGH. Does that continue to be the case, and if so, how does that relate to your current request which, if I understand it, is \$2 million? That is certainly a modest amount, but how does it relate to the suspension?

Mr. ARONSON. Congressman, as you know, both the Congress and the administration voiced increasing concerns about human rights abuses in Guatemala last year when the level of political violence rose considerably. And I think we were all disappointed by the failure of the previous government to act decisively to try to contain it or to investigate such cases.

Our ambassador, Tom Stroock, spoke out very vigorously about this. Secretary Baker recalled him publicly over human rights abuses not too long after Hector Oqueli was murdered. And finally, after this series of escalating problems, we suspended our military assistance following the murder of an American citizen, Michael Devine, and the failure of the previous government to take serious action to investigate those responsible whom we believe to include members of the security forces.

I think it is worth noting that we do not provide lethal aid to Guatemala, and have not for many years. We have had a very, very modest assistance package. And if you look at its contents, it is in areas that relate much more to civic action functions of the Guatemalan military. They do a lot of work in the remotest regions of the country where in some cases they are the only government present. They do road building, they do civic action.

If you look at some of the items that we suspended, you will see it is prefabricated buildings and the like. So we are not talking about lethal aid. Nevertheless, we thought it was very important to draw a line over the killing of this American citizen and the failure to investigate it in the context of these escalating abuses. That was under the previous administration.

As you know, Guatemala held an internationally supervised election last December. The new president, President Serrano, fired the minister of defense and the chief of staff the day before he took office, which was a very courageous act. The day he took office, I watched him stand in front of the entire armed forces of Guatemala and say publicly that "the security forces of this country have committed human rights abuses in the past and have never been punished and that is going to end under my presidency."

He then took the minister of defense and went to visit, in a very public fashion, the human rights ombudsman who has a respected record in Guatemala. They recently created an office of professional responsibility in the police forces which will allow citizens to call and report abuses. So this president has taken some important steps forward, and I think his commitment on human rights is very strong. In addition, he has reinvigorated the investigation of the killing of Michael Devine.

Our suspension continues, but we are trying to cooperate with President Serrano's Government to support the steps he has taken and to work with him. I think it is important to offer incentives as well as punishment, and this very modest assistance for fiscal 1992 is an incentive. Because there are elements in every military and in every police force that are committed to professionalizing and modernizing their ranks and eliminating their troglodytes and killers.

And if you want to support the elements that are trying to move in the right direction and a new civilian president who has been tougher and bolder on human rights than anybody would have imagined, you need to find ways to strengthen them. So holding out the prospect of some modest renewal of our security relationship I think would do that. And that is the purpose of our request.

Mr. McHUGH. That is reasonable. Is it fair to say that the suspension will continue unless we see further progress and concrete steps taken? What you have described of his public statements is

very encouraging, but the suspension continues, I assume, for the moment, and that will continue to be the case unless we see some concrete efforts to carry forward on—I am looking for some indication as to what concrete kinds of steps are—

Mr. ARONSON. Well, we believe that they have taken some concrete steps that are important. We certainly expect to see a thorough investigation in this case of a murdered American citizen, and I do not believe we would feel that it would be warranted to resume assistance if that had not taken place. But we are, as I said, working with the government in a very cooperative way to try to strengthen steps they are taking. And if they continue in this path and they want our military assistance, I think we would consider resuming it. But we have not done so at this time.

Mr. McHUGH. Is there a \$2 million allocation for Guatemala in 1991?

Mr. ARONSON. I think that is correct, maybe \$2.1 million.

Mr. McHUGH. So is that available to them at this point?

Mr. ARONSON. That has been suspended as well, I believe, though some of that may have gone forward. There is a modest amount in the pipeline. Again, I would stress though, Congressman, none of this aid is lethal aid.

Mr. McHUGH. I understand that.

Mr. ARONSON. The real question is, how do you best promote human rights in Guatemala, and when do you act to engage to strengthen a new president who I think is very much committed to doing the right things? We are going to watch that carefully and we will be happy to consult with the committee. But I think there is a history in Guatemala that suggests that simply disengaging is not the way to promote human rights.

Mr. McHUGH. No. And it is on that basis, again, that many of us have tried with modest assistance to encourage positive change. And I do not question your commitment to that as well. I had much higher hopes for the last administration in Guatemala.

And this is not the place to get into a lengthy discussion as to what happened and why, but we had a democratic election when Mr. Cerezo who himself had been rather brave in promoting democracy in very difficult days earlier took office. I frankly had a lot of hope for progress. And now here we are again with problems that we did not anticipate after 5 years of his rule.

I recognize that it takes a long time to change deeply-imbedded, systematic habits and problems in the military or any other institution, but given this history, there is a certain skepticism about proceeding again. So I do not disagree with what you have said. I simply think we need to be committed on a continuing basis to looking for concrete steps which represent progress, recognizing you cannot change a society overnight.

Mr. ARONSON. We agree with that.

Mr. McHUGH. Okay. If you would, keep us posted. I would appreciate it.

Mr. ARONSON. Okay. I would just note one thing in defense of President Cerezo. I share your disappointment, but I have watched now the first democratically elected government transfer power to another elected president in several Central American countries. There was nobody who cared more about human rights than Napo-

leon Duarte. But I think he was frustrated in his ability to gain control of that issue.

But what he did and what Cerezo did was preserve a democratic government and hand it over to a successor, which is no small achievement, particularly since it came from the opposition. In Guatemala this was the first time it has happened in 40 years. And ironically, President Cristiani has been able to do far more in terms of human rights and weeding out officers with bad human rights records than President Duarte was able to do under different circumstances.

And I am hopeful and somewhat encouraged that President Serrano will be able to continue in that path. What I have no doubt about is that he is very strongly committed and he would not have stood in front of that high command in the armed forces as he did and made that proclamation if he was not serious because there were political risks in taking that step.

#### NICARAGUA

Mr. McHUGH. I agree. Nicaragua. I wonder if you could briefly give us a status report on Nicaragua, and specifically where our economic aid is going, how it is being used. If I understand the numbers, and correct me if I am wrong, our request for economic assistance to the Chamorro Government is less in 1992 than it has been, and I would be interested in knowing what that reflects in terms of your assessment.

And secondly, I would like to ask if Nicaragua has been successful yet in clearing up its arrearages in the World Bank and the Inter-American Development Bank.

Mr. ARONSON. In the first part of your question, the size of our fiscal 1992 ESF request is a reflection more of the type of budget constraints that we are all operating under as a result of the budget agreement that the Congress and administration reached than a foreign policy decision. We would, in the best of all worlds, welcome a larger number, frankly. Though I would note that as we move forward we are able to do more with development assistance than we were able to do in previous years, and the total actually is a little bit more than the request would have been for pure ESF. Maybe Ambassador Michel wants to go through how the money has been spent.

On the question of the arrearages, we have earmarked \$50 million of the fiscal 1990 supplemental to support an international effort—a multilateral effort to help Nicaragua clear its arrears with the IDB and the Bank. I do not think they owe any money to the IMF. Their current arrearage is about \$350 million. I am going to Tokyo next week, and one of the subjects I will be discussing with my Japanese counterpart is our hope that Japan will make a contribution.

That process, however, is awaiting progress is Nicaragua's economic reforms and agreement with the IMF and some record of having met the targets. They have taken some very tough steps in the past week. We hope the Sandinistas will not obstruct that effort, and if and when that goes forward we hope that there will

be strong multilateral support for Nicaragua to help them clear their arrears, because they need to begin new flows from the IFI's.

I would note that they had a very successful rescheduling of some of their bilateral debt with Mexico and Venezuela on generous terms, so they are beginning to reorder their financial house, and I think that was encouraging.

Mr. McHUGH. The staff reminds me that the response, apparently, of the government workers to this austerity effort by the government has been to go on strike. Is that—can you tell us about that?

Mr. ARONSON. Well, there is a union that is left over from the Sandinista dictatorship. For the 10 years of the Sandinista dictatorship they proclaimed that a strike was counterrevolutionary and that they cut off the hands of the workers. But since democracy has come, they now believe in the right to strike, and they have regularly led strikes against this government, some of a very violent nature.

There was a strike by the customs workers last week in which they shut down the airport. There have been some strikes by doctors and other government employees demanding salary hikes. The government of Nicaragua just announced a major devaluation of the currency, and essentially what they are demanding is to be made entirely whole in terms of their wages.

The problem is that Nicaragua, like many governments who inherited a much-inflated and inefficient state sector cannot sustain the cost of that inefficient state sector, and they either have to run deficits and print money, creating hyperinflation or they have to reduce the size of state sectors, the same problem Mexico faced, and Argentina, and Brazil, and Costa Rica, and Guatemala, and they now face it.

The difference is that you have a relatively militant faction of the Sandinistas that control some of these unions and they are making it very difficult for the government. Though I would note that in terms of numbers of union workers, the Sandinista unions have steadily been losing members to the democratic trade unions over the past year.

Mr. McHUGH. Are the democratic trade unions supporting the government plan?

Mr. ARONSON. Well, I cannot speak to that directly. They certainly supported the previous reforms, and whether or not they have signed onto every single aspect, I am not sure. But they are not calling for strikes and they are not waging any strikes in response. You know, like all trade unionists, I suspect they would like higher wages.

Mr. McHUGH. Jim, did you want to add to that?

Mr. MICHEL. Yes, thank you. I would like to submit something for the record so as not to take up a lot of your time, Mr. McHugh. But I have a sheet on the status of the assistance to Nicaragua and one on Panama. I would like to take the opportunity to say that in the case of Panama, about 90 percent of those funds are obligated and \$190 million have been disbursed. And in the case of Nicaragua, 85 percent have been obligated and over half disbursed, \$158 million.

I came into this job as these programs were getting under way, so I cannot claim any contribution that I made enabled them to go. But I just wanted to say on behalf of the people in the A.I.D. missions in Panama and in Nicaragua and the A.I.D. staffs here in Washington, they work very hard and very effectively. I think these programs have gotten off the ground with remarkable effectiveness.

It is not just a matter of the money flow, but the actual things that are done, like the delivery of 7 million school books for the start of the new school year this month in Nicaragua, that were not easy. I think we have accomplished a lot in both programs in a very limited time, and I hope that we will be able to do a lot more with this reform program in place in Nicaragua in the coming year as they begin to stabilize their economy and set the basis for growth.

Mr. ARONSON. I would just like to add one point, Congressman. I think all of us who look at the size of resources available to foreign assistance are hopeful that our allies will do more in regions that we care about, including Central America. And one of the reasons that I think the Congress' full support for our supplemental was important in fiscal 1990 was it sent a very strong signal to other donors that the U.S. was going to do its part.

And subsequent to that decision, the Italian Government hosted a multilateral donors meeting of about 21 countries from Europe, Japan, Canada, and the United States. And Nicaragua was able to exact pledges of other assistance that were much larger than they expected, and I think our commitment played a role. So when some questioned that number, if we were not able to spend every dollar, there is an important political signal if we are going to enlist the support of others, and I think that signal was sent.

#### NEW MILITARY ASSISTANCE PROGRAMS

Mr. McHUGH. Thank you very much. I did have a question on Panama, and it may be that the Chairman's earlier questions for the record will solicit the information from you, and so let me just pass over Panama for the moment.

I understand in the 1992 request there are some new military assistance programs. For example, there is one for Argentina in the amount of \$1 million, and Chile as well. I wonder if, Mr. Rowen, you can indicate to us for the record why these programs are important at a time when we are, as the secretary said, tight on resources, reducing our assistance to Nicaragua, for example. Why do we have to initiate these new programs, as modest as they are?

Mr. ROWEN. They are very small indeed.

Mr. McHUGH. Yes.

Mr. ROWEN. And it is really a matter of reestablishing relations with the military in these countries. In the case of Chile, the basic plan is to have officers attend our schools. And it is really educationally focused.

Mr. McHUGH. So this is not a weapons program, it is a training program?

Mr. ROWEN. It is a training program. For FY 1992 there is also, I should add, a funds plan for maintenance and support of their F5

and C130 aircraft. This plan however, is not the main focus. In fact, the Chilean Defense Minister Rojas was in town, and his interest is really focused very, very substantially on education and training. So that is the focus of our program. But there are some planned funds for maintenance and support of aircraft.

Argentina is also interested in IMET very strongly. There is also some planned amount for maintenance and support of some helicopters, army personnel carriers, and help with logistics. We also have a discussion going with the Argentine ministry of defense. They are very interested in the way in which we operate in the role of civilian control in the military, and that is being explored through bilateral discussions.

Mr. ARONSON. Mr. McHugh, I just want to add a point why we think these are important, as modest as they are. In Argentina you have a civilian president who sent four ships to the Gulf to stand with the United States in Desert Storm, who is trying to reform his economy in fundamental and important ways, and who still faces a minor threat from recalcitrant old guard officers, the most visible expression of which we saw in December when a group tried to stage some kind of a coup, if you can call it that.

President Menem is restructuring his armed forces and he has also, as I said earlier, definitively ended a ballistic missile program that the military had been heavily involved in and that had been funded by the Iraqis, the Libyans, and the Egyptians that would have provided medium-range, if not longer, ballistic missile capability to nations in the Middle East that we do not want to see with that capability.

So the question is, how do you help a new civilian president move his military in these important directions, establish civilian authority. This was a small but I think important sign that we support the direction that President Menem is going and I think it will help him move in these very important ways.

In the case of Chile, the same issue exists. As you know, they just completed transition from authoritarian rule. We are very confident that democracy is irreversible in Chile, but it is important also to strengthen President Aylwyn in his efforts to ensure and consolidate civilian authority over the military.

And as you know, there is a constitutional provision left over from the previous dictatorship that designated General Pinochet as the army chief of staff and determined his tenure to be up through 1996, which is not the normal situation of a new civilian president.

So there are special concerns, and I think, again, the United States is trying to say to all sectors in the Chilean Government that we support this new civilian president and that on the basis of his commitment to democratization and human rights, we would like to build a relationship in a very modest way. And again, I think politically that is an important signal to send.

Mr. McHUGH. Okay. One of the questions that the staff has suggested is, why are we not, for political reasons as well as perhaps some economic reasons, engaging in any kind of an aid program when we are initiating a military program? And I might say parenthetically that I think IMET program is an effective program. I think it makes sense in many of these cases to foster a relationship

to imbue some of these militaries with the kind professionalism that we have in our military and respect for civilian authority.

So I am not raising the question by way of objection. I would have somewhat greater reservations or concerns about a traditional military assistance program if it were to expand and if this were the first step in an expansion of our military assistance program in some of these countries for budgetary reasons, primarily. But I can see the benefits personally in an IMET program, and on a political basis, in particular, it seems to me it makes a lot of sense.

But perhaps for the record, briefly, Jim, you can give us the answer to the question on the economic side.

#### ECONOMIC ASSISTANCE

Mr. MICHEL. Could I just say we have a small assistance program for Argentina, and also a small program for Chile in the budget. These programs are part of the Latin American and Caribbean regional account, because we do not have a big A.I.D. mission there. But in the case of Argentina, it is exactly in support of the kinds of reforms that the Menen administration is seeking to institute.

We are working with other donors in support of the privatization effort, we have initiated a small grant to support the strengthening of the administration of justice, and we are providing help on financial reform in public administration, both on a bilateral basis and through Argentina's participation in broader regional programs. So we are trying to be responsive to that very concern.

In the case of Chile, the principle elements are in civic education, such as the legislative studies center that we have established to support the new Congress. Other areas include administration of justice, microenterprise development, and a substantial housing guarantee program which does not show up in the budget, but it is the biggest one we have in the region.

Mr. ARONSON. I would just add, Mr. Chairman, that as you remember in the 1991 fiscal year aid bill for El Salvador, we jointly agreed to codify that that aid should be channeled through the office of the president to strengthen civilian rule. And that has proved very useful.

We are now trying to do that voluntarily throughout the hemisphere working with the defense department, so if the thrust of your concern is that we are somehow supporting the military at the expense of the civilian authority in the case of Chile and Argentina, the opposite is the case both by the way we discuss and negotiate and allocate these funds, and also their purposes. It is to strengthen civilian authority and help governments move in that direction.

Mr. McHUGH. I was not really even expressing a concern so much as trying to understand fully where the direction of the program was going, and I must say I have no objection to what you described. Well, we are now almost at 12:35. You have been very patient and forthcoming, and I appreciate your being here. We certainly want to work with you as we go through some of these more sensitive issues, particularly with respect to El Salvador, where I think our goals are the same. I think that everybody agrees that this cannot be resolved by military action on either side. And the

question is how can we constructively provide incentives to both sides in order to reach a political settlement.

So I think our goals are the same, and the questions reflect some of our concerns and continuing reservations about progress on both sides.

Thank you very much.

Mr. ARONSON. Thank you.

## Questions for the Record From Chairman Obey

SUBMITTED TO DEPARTMENT OF STATE

### AID TO ANDEAN NATIONS

*Question:* An increase of \$75 million or 43 percent has been sought for the economic aid fund established for Andean countries. It received \$175 million in FY 1991 and 250 million is requested in FY 1992. Explain the rationale for the increase, how you intend to distribute it, and what conditionality would be attached to it?

*Answer:* The increase is part of the five year Andean Strategy that was presented to Congress last year. As part of that Strategy, we said we would assist those countries that made serious efforts to control coca production and trafficking in their countries, despite the economic costs of closing down the illicit production of coca. This year, FY 91, is the first year that we have included economic assistance as part of the plan. The assistance is tied to performance on counternarcotics and sound economic policies. FY 92's increased allocation reflects the acceleration of the balance of payments support and alternative development programs, including an emphasis on export promotion activities. We are proposing \$50 million for Colombia, \$100 million for Peru and \$100 million for Bolivia. The same conditionality would be attached as for previous years, which would include progress on counternarcotics, sound economic policies, and other provisions under the law.

*Question:* Last year the Congress specifically included Ecuador as being eligible for this fund. The Administration zeroed out Ecuador in the FY 1991 allocation despite the Committee's action. The reason, I suspect, is not policy related, but rather is related to the fact that the NSC Andean Strategy document does not include Ecuador. Explain why Ecuador was zeroed out. Do you plan to include Ecuador as being eligible for FY 1992 funding?

*Answer:* The Andean Strategy did not include Ecuador because it is not a major producing or trafficking country. We agree that Ecuador, along with a number of other countries, has a need for ESF funding. However, the severe world-wide shortfalls in the FY-91 ESF account forced us to make some very difficult decisions on who got the limited funds available.

At the same time, the U.S. is carrying out important assistance programs for Ecuador. In FY 1991, A.I.D. is providing Ecuador with almost \$14 million in development assistance. For FY 1992 A.I.D. has requested \$15 million. And of course, the Peace Corps has a very large program in Ecuador.

In addition, Ecuador also will receive 36,000 metric tons of sorghum this year worth about \$2.9 million under the Section 416 Food for Progress program.

We recently signed a Trade and Investment Framework agreement which could serve as a basis for improved trade opportunities for Ecuador and Ecuador is included in the Andean Trade Initiative.

We recognize that Ecuador's geographic location makes it highly vulnerable as a transshipment point for illicit drugs, precursor chemicals and laundered money. Therefore in FY 91, we are providing about \$1.5 million dollars in anti-narcotics assistance and \$0.8 million in IMET, in addition to 506(a) drawdown allocations.

Ecuador will be eligible for FY 92 ESF funding.

### CORRUPTION IN BOLIVIA

*Question:* Explain the reasons for this disturbing trend in Bolivia regarding official corruption. How could a character of Mr. Toro's ilk be appointed in the first place?

*Answer:* Unfortunately, corruption in Bolivia appears to be widespread. Many structural, cultural and economic factors help explain the tenacity of the phenomenon, evident throughout the society. It was a puzzle to us that a man with a past like Rico Toro's would have been appointed in the first place. We did not rule out public reports that elements of the GOB cooperated with narcos who wanted Rico

Toro to head the Special Force for the Fight Against Narcotics Trafficking (SFFAT) so as to control and weaken counternarcotics efforts.

It is important to recognize, however, that Rico Toro is out of office now, as well as others. The new head of SFFAT has publicly vowed that corruption would be rooted out of his organization and has already set up a special internal investigations unit to do so.

*Question.* What has the U.S. done to urge removal of individuals known to be "corrupt?"

*Answer.* Our Embassy in La Paz has discussed many times privately with GOB officials our concerns about corrupt officials and the need to have them removed. We have made a number of suggestions on improvements the Government of Bolivia might consider. In extreme cases, as in Rico Toro's, we can inform the GOB privately that we are suspending various forms of assistance.

*Question.* Given these disturbing trends, why was the US's aid only suspended temporarily, also explain how Bolivia was certified given these realities.

*Answer.* Although we have difficulties with certain individuals, in general we work well with the GOB. Among Bolivia's counternarcotics accomplishments in 1990 that warranted certification were: the eradication of about 8,000 hectares, about 3,000 hectares over the minimum required by Bolivian law, and the dismantling of an entire narcotrafficking organization. We achieved these successes despite some uncooperative GOB officials, and with the cooperation of many dedicated and honest people who believe as we do, that cocaine is hurting Bolivia. We do not want to abandon what we have helped build.

#### ERADICATION OF COCA IN BOLIVIA

*Question.* The justification documents indicate that three equal disbursements of \$22 million each are planned based on phased targets of reaching 7,000 hectares of eradication of coca. First, explain why this goal of 7,000 hectares is lower than last year's 8,000 hectare eradication level.

*Answer.* Article 10 of Bolivian Law 1008, dated July 19, 1988, stipulates that zones where illicit coca is grown will be subject to annual eradication, substitution and development, beginning with the eradication of 5,000 hectares per year in CY89, 6,000 in CY90 and 7,000 in CY91, until "reaching the goal of 8,000 hectares per year." While we are very pleased with last year's accomplishments, we want to set our mutually agreed goals incrementally to ensure full compliance.

*Question.* What will happen to the funds if this eradication goal is not reached?

*Answer.* As the GOB fulfills its eradication (and other counternarcotics) goals, we will request this committee, through informal letters, to release the funds already appropriated for this purpose. If the goals are not met, we could withhold our disbursements.

*Question.* Shouldn't the disbursal of funds be keyed to the reduction of an overall area under cultivation by 7,000 hectares, rather than simply eradicating any 7,000 hectares under cultivation?

*Answer.* The pattern of coca cultivation, a small plot here and another small plot there, does not allow for the eradication of an overall large area. Bolivian Law 1008 identifies the regions in Bolivia where coca is grown legally or illegally and sets minimum amounts that must be eradicated, without specifying a particular area. We do not believe that the minimum requirements of the law should be changed at this time.

Voluntary eradication with Bolivian government compensation is done in the areas where coca is legal, but being phased out, most of which is grown in the Chapare. Net eradication of coca (where total amounts under cultivation drops, despite new plantings) occurred for the first time last year. There was a net drop in coca cultivation in Bolivia (about 3.7 percent). We have encouraged the Bolivians to begin forcible eradication in the illegal zones, in order to continue this progress.

#### ASSISTANCE TO PERU

*Question.* Explain the reasons for the breakdown between Peru and the US last year. Given President Fujimori's domestic political problem, why did the US not put some economic aid on the table during the discussions, rather than insisting on a military aid only program?

*Answer.* The Fujimori government is clearly more serious about drugs than its predecessor. Nonetheless, aid to Peru has been withheld pending an overall agreement and specific agreements on the conditions of law enforcement, military and economic assistance. We must have clear guidelines on progress before we will sign.

Under the Andean Strategy and the Cartagena Declaration, we agreed to provide economic assistance to countries trying to break away from drug dependency. However, we also required clear signs of action before providing the economic assistance, on the grounds that the assistance was to partially compensate for damages suffered in closing down the narcotics trade. We explained to the Peruvians that if they took firm actions, economic aid would follow.

*Question.* Explain your plan for the FY 1991 funds for Peru. When do you expect to come to some agreement with the Peruvians?

*Answer.* We have every reason to believe that we will have a solid umbrella agreement with Peru very soon. We will also be negotiating annexes to cover law enforcement, military, and economic assistance in greater detail. All of this is dependent on a positive determination on Peru under the International Narcotics Control Act of 1990, without which FMF and economic assistance cannot be spent. Peruvian efforts in counternarcotics, human rights and control of the military are included under the INCA determination.

FY 1991 economic assistance funds would go for ESF balance of payments support, with some additional development assistance funding dedicated to economic planning efforts, and alternative development including emphasis on export promotion activities. Counterpart funds from the ESF money would also be expended on alternative development activities in coca producing areas.

#### CORRUPTION IN PERU

*Question.* What specifically has been done to address the corruption problems cited in the narcotics report?

Our embassy has been in close touch with Peruvian officials on the issue of corruption. Officers involved in the Ramal de Aspuzamas case (where soldiers protecting traffickers fired at an INM helicopter) have been discharged and are awaiting trial.

The Peruvian government cooperates on investigations of corruption in the field, and the US and Peru have been negotiating a new counternarcotics agreement that includes a number of anti-corruption clauses.

#### MILITARY ASSISTANCE TO PERU

*Question.* Explain the basis and rationale for the military assistance program. How much aid will go to the military versus the police?

*Answer.* The police remain the primary instrument in narcotics control in all three countries and no one has ever suggested that the host country military actually replace police in the performance of primary operations, such as destroying cocaine labs and arresting traffickers.

We support the use of the military where the police face criminal forces too large and well armed to handle alone, or too remote to reach.

For Peru, military aid is necessary because of the Sendero Luminoso threat in the Upper Huallaga Valley. The military will receive about 60-70 percent of the total law enforcement and military aid, largely for equipment and air transport (used jointly with the police), combined with training of military strike forces.

*Question.* Given the involvement of the Shining Path guerrilla movement in the drug trade, how do you intend to structure our military aid program?

*Answer.* Drug traffickers are becoming more and more tied to the Sendero Luminoso (Shining Path) insurgents, and insurgents are becoming more and more tied to the funds they can get from growing, processing and selling drugs.

We believe the threat is growing. Millions of dollars are flowing to insurgents. Peruvian estimates range from 10 to 40 million dollars a year going to the Sendero Luminoso.

We are willing to provide assistance to governments to reestablish security in those areas where insurgents cooperate with drug traffickers. That sort of assistance is as far as we will go using drug interdiction assistance. Without security, police operations cannot succeed, and alternative development programs cannot be put into place.

#### HUMAN RIGHTS VIOLATIONS

*Question.* Specifically what has been done to address human rights violations by the Peruvian military?

*Answer.* In an earlier question, regarding the level of human rights abuses in Peru, I outlined our efforts to halt the abuses, both by the police and the military. I would ask you to note that we do not currently give any assistance to the Peruvian

army. If we were to provide them with aid, however, we are confident that with careful planning, it could effectively reduce the level of abuses which occur at the present.

In countries which do receive military assistance, such as Colombia and Bolivia, military trainers are required to teach respect for human rights. The instruction is presented in both formal classroom and practical hands-on situations. Items including the Geneva convention, chain of command and violation reporting responsibilities make up the course of study.

*Question.* Seventeen thousand people have died in political violence in the last decade in Peru. Since 1983, Amnesty International has documented 6,000 "disappearances" and extra-legal executions in Peru. One recent case is that of Edwin Ramirez Moreno who "disappeared" in mid-January of this year. The detention of Edwin Ramirez has not been acknowledged by the authorities and a writ of habeas corpus presented on his behalf has been rejected. What actions has the Embassy taken on this case?

*Answer.* We have forwarded information on this case to our Embassy which as begun inquiries, but we have no further information at this time. Thank you for bringing this matter to our attention.

*Question.* Given the staggering levels of political violence in Peru, the Administration has been notably silent regarding human rights abuses. Where does human rights fit into the Administration's foreign policy towards Peru, specifically in relation to the drug issue? Why is the Administration willing to speak out on Guatemala and El Salvador, but not on Peru? Can you cite specific examples of initiatives taken by Embassy personnel on human rights? Given the level of these abuses in Peru, why has there not been a high level Administrative visit to Peru?

*Answer.* Human rights is at the forefront of our policy towards Peru. The 1990 State Department Country Report on Peru gives a thorough and candid presentation of abuses committed by terrorist groups and government security forces. We raise the issue at every opportunity in our conversations with all levels of the Peruvian government, from President Fujimori to the Foreign Minister to the military Chief of Staff, to name just a few. Our Ambassador has made personal presentations on specific cases that have come to our attention, most recently the case of the letter-bombing of a human rights attorney, and also in more general, policy terms. In addition the Department strongly condemned this bombing in the latest of our public statements on concern for human rights in Peru. In Washington, we continue to work directly with the Peruvian Ambassador or human initiatives such as judicial reform. We have encouraged the new government to take steps that will demonstrate its stated commitment to respecting human rights. During the past year, there have been several high-level administration visits to Peru including visits by the Vice President, Secretary Cavazos, and Assistant Secretary Levitsky. All have stressed the importance of eliminating human rights abuses.

#### HUMAN RIGHTS IN BRAZIL

*Question.* On February 2, 1991, Expedito Ribeiro de Souza, president of the Rural Workers Union of Rio Maria, Para State, was killed after having received death threats for over a year. In April of last year, four other rural workers were abducted and killed. The Para state security sent one soldier to protect Expedito Ribeiro de Souza, but the soldier left after a few days. Despite evidence that the large landowners are behind these killings, no landowner to date has been prosecuted in connection with any of these murders.

What specific action has the U.S. Embassy taken regarding these death threats and subsequent assassinations of rural workers? What action has the administration taken to press the Brazilian authorities to ensure a full and impartial investigation into these murders?

*Answer.* U.S. Embassy officials, including the Ambassador, often discuss human rights issues—including the case of Expedito Ribeiro de Souza—with Brazilian federal authorities and have impressed upon them the importance of human rights to our government.

As in the U.S., the Brazilian federal government's authority to intervene in local criminal cases is limited by the Brazilian constitution. It is also limited by resources. However, the Brazilian government is demonstrating an increased willingness to use the tools it has.

For example, in the Ribeiro de Souza Case the Brazilian Ministry of Justice sent a special delegation, including senior federal police officials, to Rio Maria to assist with the Ribeiro de Souza case. The gunman has been arrested and authorities have

identified and are seeking a local landowner now in hiding, who allegedly ordered the murder.

The 1988 constitution permits federal intervention in what would normally be a state matter, provided the federal authorities obtain a decree from the Supreme Court and a legislative approval. The Brazilian Government has already begun that process: On March 8, the Brazilian Attorney General petitioned the Supreme Court for federal intervention in the Para region. On March 5, the Brazilian Congress initiated a measure calling for federal intervention in the Rio Maria area which could lead to a mandate for federal police involvement.

#### NARCOTICS TRAFFICKING IN COLOMBIA

*Question.* What is the status of U.S. efforts to cooperate with Colombian authorities on developing cases against the traffickers who have given up?

*Answer.* The governments of the United States and Colombia recently signed a declaration of intent to share evidence in cases where a narcotrafficker has surrendered/confessed under the "plea bargaining" decrees in Colombia. A process has been developed consistent with the Declaration of Intent to identify and exchange information that can be used against the individual who has confessed.

*Question.* Given the fact that the U.S. is unlikely to forgo its right to prosecute these individuals, what is the realistic assessment of the cases that will be brought against these individuals in Colombia, and of the incentive of other traffickers to give up? (In other words, if these traffickers can only get amnesty in Colombia by giving up now, what real motivation do they have to do it?)

*Answer.* The narcotraffickers' motivation for surrendering is not solely fear of extradition, but fear of dying as Colombian authorities attempt to capture them. This year the Colombian authorities have dramatically increased their number of raids and seizures of cocaine, resulting in the deaths of various Medellin cartel terrorist cell leaders including the notorious Prisco brothers.

The Colombian Constitution is undergoing reform, a major component of which is judicial reform. In addition, the Gaviria administration has created special public order courts in which anonymous judges will handle narcotics and terrorist cases. Coupled with judicial protection, for which the U.S. provides security assistance, and our recent evidence sharing agreement, although still early, indications are that the narcotraffickers who have surrendered will be tried and brought to justice.

We believe that extradition is a valuable tool and hope that Colombia will continue to extradite criminals to the United States. However, we also believe it essential to support Colombia efforts to strengthen the judicial sector, so that Colombian criminals are effectively tried in Colombia courts and, if convicted, sent to Colombia prisons.

*Question.* What do you make of press reports that the Medellin Cartel has been the subject of intense scrutiny by Colombian law enforcement efforts, while the Cali Cartel has continued to operate largely unscathed by the recent offensive?

*Answer.* While a good deal of the media attention has been focused on the hunt for Pablo Escobar, and his violent attempts to intimidate the government through car bombs, assassinations, and other threats, the Cali Cartel has not escaped attention by the Colombian police. Most recently, almost two tons of Cali cartel cocaine were seized in a series of raids against their laboratories in southwest Colombia.

Colombian government forces continue to gather intelligence on the Cali cartel and continue to stage operations, although without the high profile of Medellin operations. We have received assurances from the government of Colombia that as the Medellin cartel weakens, the government will devote more resources to fighting the Cali cartel.

#### INDIAN COMMUNITIES IN COLOMBIA

*Question.* The militarization of Indian Communities in the Department of Caldas, one of central Colombia's biggest coffee growing regions, has resulted in over 15 "disappearances and 150 cases of detentions and torture between August 1988 and January 1989. No information has been provided as to the whereabouts of the 15 "Disappeared" community members despite pressure on civilian and military authorities. What is the status of the investigation into these cases? What steps has the U.S. Ambassador to Colombia taken to urge the Colombian government to protect the rights of the Indian communities in Caldas?

*Answer.* Regarding the status of the investigation, the history of the situation is as follows: in the second half of 1988 there were widespread detentions by the military in the Rio Sucio area and reports of disappearances and torture. The military activity was in reaction to the kidnapping and execution of coffee plantation owners

Hernan Londono by Peoples Liberation Army (EPL) guerrillas then active in the region. Londono's body was found on Indian land. The military alleged that the Indian community supported the guerrillas.

A commission of government investigators went to Rio Sucio shortly after the incident to investigate reports of disappearances and other abuses. All individuals reported on Amnesty International's (AI) list of fifteen "disappeared" were believed accounted for—several had been detained by the security forces to face criminal charges. Most of those detained appear to have been released, although some may still be in acknowledged government custody.

In April 1990 Colombia's Procuraduria, an independent government watchdog agency, ordered the suspension of Major Jose Vicente Urbina for 30 days and the dismissal of Lieutenant Gustavo Adolfo Duque for complicity in the extra-judicial execution of Rey Maria Salazar Tapasco, also on AI list. Although the military is legally obligated to implement the punishments imposed by the Procuraduria, it is not clear if it has yet done so. According to the Colombian Presidential Human Rights Office, and Salazar killing is also under investigation by a civilian judge.

As noted in the Colombia section of the Department of State's 1990 Human Rights report, both the military and civilian judicial system generally have failed to convict official human rights violators. The EPL has recently disarmed and become a legal political party. Its members have received amnesty for most crimes, making it unlikely that anyone will ever be brought to justice for Hernan Londono's murder.

In answer to your second question, the Ambassador and other Embassy officials have consistently emphasized to senior GOC officials the need to respect human rights and the link between the GOC's human rights record and continued U.S. economic and security assistance. A key objective of the Embassy has been to assist GOC criminal justice reform efforts. Such reform is essential if human rights violators are to be consistently brought to justice. To the best of our knowledge, over the past year and a half there have been no reports of significant official human rights abuses against the Indian community in the Rio Sucio area.

#### EL SALVADOR

*Question.* What is your assessment of the recent elections?

*Answer.* This election, in particular the good showing of leftist parties formerly affiliated with the FMLN's political front, demonstrates the openness and growing maturity of El Salvador's political process. All the political parties agreed to reforms that resulted in greater representation for the opposition and particularly for the smaller parties. The U.S. observer delegation praised a "free and fair election" in which Salvadorans "expressed their fervent hope for an end to the violence of war" in a "major contribution to national reconciliation and peace." Unfortunately, voting in two municipalities was delayed because of guerrilla activity.

Some international observers reported a number of technical problems, especially with provision of identification cards to voters and with vote counting. The observers also reported that the problems were successfully resolved. An agreement among the political parties just before the elections led to a law easing the requirements for identification necessary to vote. We have no information that would suggest that identification had been withheld on a partisan basis or that the problems seriously affected the vote. Allegations of localized attempts at fraud were addressed by a procedure agreed upon by the parties whereby if sample re-counts revealed discrepancies, then total re-counts were undertaken in those municipalities where fraud was alleged to have been attempted.

Ruben Zamora, leader of the MPSC party of the Democratic Convergence coalition, made highly publicized allegations of fraud. Silvia Barrientos of the MNR broke ranks with CD coalition partner Zamora and turned over to the Central Elections Council (CCE) the ballots Zamora claimed had been thrown into a garbage can in Soyapango. Zamora had publicly refused to turn the ballots over the CCE or the Organization of American States (OAS), which was observing the elections. In the presence of OAS observers and representatives from all political parties, the CCE reviewed the tally sheets from the appropriate voting table and determined that the 53 ballots had been removed only after they had been properly counted and recorded.

The vote count was slow because El Salvador does not have computerized vote counting. The ballots are counted by hand three times—at the polling place, at the departmental election board, and at the CEE—in the presence of international observers and representatives of all the political parties.

While there were some irregularities in the conduct of the balloting, all observer groups, including the OAS, said that the elections were free and fair. We are studying ways of expanding assistance to help alleviate technical problems.

*Question.* Clarify the reports of irregularities in the conflictive areas, particularly in Usulután province.

*Answer.* Allegations of electoral irregularities were not confined to conflictive areas. The U.S. Embassy in San Salvador is not aware of any incidents or reports of irregularities occurring in the Department of Usulután. In the department of Morazan, parts of which are conflictive, an ARENA party deputy is rumored to have voted more than once. At one time that incident was incorrectly reported as having taken place in Usulután. The Central Elections Council is investigating the incident.

Electoral irregularities and bureaucratic problems took place in many locations, mostly outside the conflictive areas. To the extent that such irregularities and problems were reported in conflictive areas, they were generally similar to those in non-conflictive locations. Bureaucratic problems included last minute changes of polling sites, lengthy lines at some polling places due to poorly-trained poll workers or delayed poll openings, and the absence of some voters' names from the appropriate voting lists. Charges of irregularities included apparent changes in the vote tallies, and in the most highly publicized incident, charges by the Democratic Convergence (CD) that 53 ballots marked for the CD in the San Salvador suburb of Soyapango were thrown away.

From all available evidence, the bureaucratic problems were due, primarily, to lack of administrative planning on the part of the Central Elections Council (CCE). Ironically, much of this problem can be attributed to the time and attention the CCE had to give to the massive voter registration drive it conducted from September through March 1 (ten days before the election). The drive expanded the voter roll by about 25 percent (from 1.7 to 2.2 million registered voters). The issue was further complicated by the cumbersome registration and electoral procedures which are designed to prevent electoral fraud.

The CCE carefully looked into the allegations of electoral irregularities. When necessary, it reopened ballot boxes and recounted the actual votes. In every case, it found that either there was no fraud committed or, in those cases where the tallies did not match, the differences were too small to affect the electoral result. In the Soyapango incident, the CCE matched the CD ballots against the table from which they had originated, and determined that all ballots had been properly counted and recorded. The Organization of American States observed both the elections and the verification process and reported that despite the many problems that plagued the system, the elections were fair and valid.

*Question.* Explain the circumstances surrounding the apparent changes in polling place in 22 municipalities to Army controlled areas. Why was it necessary?

*Answer.* The location of voting urns on election day was determined by the Central Elections Council (CCE) and the electoral commissions of the various departments.

The decision to relocate the polling places in 22 municipalities to other nearby areas was based on security conditions. The polling places that were moved were in conflictive areas where the FMLN had announced it would not permit balloting to take place. To have attempted to place voting tables in those municipalities would have endangered voting officials and the local citizenry.

For example, the FMLN's stated policy regarding the area north of the Torola river in the department of Morazan was that they would not allow voting in FMLN-controlled areas, but would not interfere with voting in Government-controlled areas. As a result, the CCE decided to allow residents of towns north of the Torola to vote in San Francisco De Gotera, the departmental seat of Morazan department.

*Question.* What has the OAS said about the elections?

*Answer.* On election day, Mario Gonzalez Vargas, General Coordinator of the Group of Observers of the OAS Secretary General made the following statement:

At the conclusion of the voting that took place today, the Group of Observers of the Secretary General of the Organization of American States performed a preliminary evaluation of the electoral contest, which contains the following findings:

1. With the exception of several problems reported in the Departments of Usulután and La Unión, voting took place in a calm environment.
2. According to the information available so far, we are able to state that no blatant acts of intimidation or coercion occurred against citizens exercising their right to vote.
3. The irregularities noted, and those reported to the Group of Observers by various political parties, cannot be regarded as sufficiently serious to affect the voting.

4. Logistical problems had a limited impact, preventing mayoral and town council elections in the municipality of Santa Tecla and delaying the opening of the polls in the municipality of Mejicanos.

5. Problems associated with the voter registration lists did surface in the evaluation, but as yet they do not appear to have been on a scale sufficient to affect the expression of the political will of the electorate.

6. The Group of Observers is carefully monitoring the vote count at the various agencies provided by law.

7. The Secretary General, in his second report on the observation of the elections in El Salvador, will conduct a more detailed survey and a more comprehensive evaluation of the electoral process.

On March 27, 1991 the OAS released the following statement:

The Secretary General of the Organization of American States (OAS), Ambassador Joao Clemente Baena Soares, presented today to the regional organization's Permanent Council an oral report on the observation carried out by its mission of the electoral process in El Salvador.

Ambassador Baena Soares underlined that the electoral process related to the general elections of last March 10 'were accepted by all Salvadoran political parties.'

The report made by the OAS Secretary General was followed by a response from the Permanent Representative of El Salvador, Ambassador Mauricio Granillo Barrera, who, after emphasizing that elections in his country 'became a civic celebration, where even the handicapped could cast a vote' and that 'the number of complaints of political parties was relatively low', underlined 'the high intellectual level, the ability, and the civility with which the OAS observers conducted themselves.'

Ambassador Baena Soares began the presentation of his report by stressing that the OAS observer group was present at 368 political meetings all over El Salvador, 'that in general developed satisfactorily', and that in the few cases where complaints were made to the observers and transmitted to the competent authorities, 'they were solved satisfactorily.'

Also during his report the Secretary General noted that OAS observers were present on election day in 76.2 percent of the 6,637 polling councils, and that they noted 'minor anomalies that did not threaten the electoral process.'

ORAL REPORT OF OAS SECRETARY GENERAL JOAO CLEMENTE BAENA SOARES GIVEN TO THE OAS PERMANENT COUNCIL MARCH 27, 1991

The SECRETARY GENERAL: Thank you Madame Chairwoman. In the first place, I bring information to the Council about the El Salvador electoral process, that ended, as we all know, just a few days ago.

This information complements that which I already had the opportunity to bring to the Council and which will be duly amplified in a written document that I will deliver for distribution to the missions represented at the Council.

The OAS Observer Group was present, as you know, from the beginning of the process and, during its final phase, and attended 368 political meetings throughout El Salvador. In general terms these public meetings developed satisfactorily and the problems or incidents that did occur—only a few cases—and which were brought to the observers' attention or were seen by them, were taken care of by local authorities and were solved satisfactorily.

Political parties had access to the media according to the resources available to them. There were some complaint regarding a broken "gentlemen's agreement" among the parties, that recommended outlays of no more than 80 percent of contributions for this kind of activity, but this aspect in no way prejudiced the electoral process.

The climate of the campaign, which I had the opportunity to refer to before, continued to be very tense, with very bitter verbal manifestations. I had already expressed concern about this matter. This concern became greater during this period, and the Observer Group, worried about a possible increase in violence or fear during the electoral period with negative repercussions, sponsored the installation and functioning of interparty commissions in Observer Group offices in each Salvadoran department, functioning in the same way as the Interparty Commission, where the electoral reform law was discussed.

The reproduction of a mechanism that had already borne fruit at the national level was possible in 12 of the 14 departments, with very good results as to the tranquility and normalization of the climate of the electoral campaign.

Learning of and trying to resolve through common agreement problems that the parties faced during the campaign not only had the positive consequence of reducing notably the number and gravity of complaints received, but also to diminish the level of mutual mistrust among party leaders. Thus, a more propitious environment was being credited for the peaceful development of the elections, during which the parties tried, and many times managed, to regulate better their partisan activities and electoral propaganda.

All complaints received by the Observer Group were handled through channels established beforehand with the competent authorities. Ninety-two complaints were made directly to the General Coordinator, which in every case contacted the authorities to ensure investigations or that necessary decisions were made, according to the particulars of each complaint. Electoral authorities received directly 48 complaints; the military authorities 24, and the civil authorities, 22 complaints.

The number of complaints we received seems small to us, keeping in mind the political polarization in the country and the electoral environment, which was very tense. The reasons for the low number of complaints can perhaps be found in the short time that the political parties had to get used to the presence of the observers, and also, principally, in the fact that the functioning of the interparty commissions in the 12 departments, which I referred to before, permitted the resolution, in this case, of a good number of problems that occurred.

I would like to refer to a question that was the object of great attention the time—the first time—I had the opportunity to inform the Council about the El Salvador election process. It is the process of "carnetization", using the local expression. I pointed out in my first report the difficulties that the "carnetization" process ran into in making sure that all citizens registered on electoral lists were in possession of this document.

On March 1st, the deadline for delivery of the carnets, it was verified that more than 15,000 persons would be without a chance to vote, even though they had registered after August 1, 1990, because none of them had received their respective electoral carnet. In light of this situation, the Observer Group expressed its concern to the political parties, and invited them to consider the possibility of creating a mechanism to allow the vote to those who had registered and that, for reasons beyond their control, had not received their corresponding electoral document.

On March 7, the President of the Republic, in a message to the country, reported that he had called the National assembly into extraordinary session with the objective of deciding on a draft transitory reform of the electoral law applicable to the March 10 elections. These reforms were central to resolving the "carnetization" problem.

This was done by stipulating that those persons who had in their possession the document called the "Voter Registration Application" could vote by presenting this document together with a personal identity document. In this way, a problem—which could have taken on threatening dimensions to the election process—was resolved.

On Election Day the Observer Group visited 5,060 polling places, which represented 76.2% of the 6,637 polls that functioned around the country. Observers were also present for the opening of 343 polling places and at the closing of voting, counting of votes, and tallying of the votes in 99 polling places.

Minor irregularities and anomalies were observed, but at no time did the political parties or observers consider that these anomalies put the electoral process at risk. In addition to being present during the actual voting, the Observer Group accompanied, with our counting system, vote tallying done by the electoral authorities.

In the case of El Salvador, we did not do what we have done in other settings due to the nature of the elections. Rather, we went with our own adapted systems in such a way that we could follow the work done by election authorities.

At the end of the voting, on March 10, the Observer Group issued, with my authorization, a statement in which it stated its conclusions on what it had observed that day, that irregularities could not be considered sufficiently serious to affect the voting, logistical problems that had limited impact—very limited in some areas in voting for prefects—or the delay in beginning the voting in one town.

Afterward, we continued to receive observations and comments from political parties about the electoral process. But none of the political forces questioned the legitimacy of the electoral process. The leader of Democratic Convergence, Mr. Ruben Zamora, brought up some serious irregularities, that is, that some ballots marked for his group were thrown into the garbage in the town of Apopa.

It is also necessary to point out that a report issued late on March 11 by election authorities, where partial election results were given, caused some surprise and concern. This was the only information given by election authorities before the begin-

ning of the official vote count, and thus, before official results were announced on March 22.

The Christian Democrat leader, Mr. Fidel Chaves Mena, also expressed himself in similar form to that which is set out previously, and he also referred to the discovery of some ballots marked in his party's favor which had not been put in the proper urns.

I now turn to our scrutiny of the vote tally and what we call the informational audit. The details about this audit will be annexed to my written report—I won't take the time of the Ambassadors and Permanent Representatives in analysis of this task—but it seems to me to be very interesting, not only because it has information about what we did in El Salvador, but also as general information on the existing mechanism for this kind of verification.

All of our activity during the vote counting phase, the observation we did through the audit, led us to conclude that it would have been difficult to commit fraud, since any evidence thereof would have been clearly confirmed during this process. There was, perhaps, a little negligence in the execution, referring to the electoral poll registration lists in the subsystem of "carnetization," in connection with computerization of its results, but this had no effect on the overall election picture.

Yes, there was some concern with the delay in the official tally. The law permits access of the political parties to the records of proceedings and the urns to verify the already computerized results. This process, which is the final inspection process, took some time to complete because it was very slow, and because of communications difficulties among all parties involved.

Thus, it seemed to us like a good idea to make the March 15 statement in El Salvador in which we said, with regard to the inspection being carried out, the following: that from election day we were receiving information from the 14 departments in which the Observer Group was present for around two months. Based on the information received, it is evident that some problems were observed. The delay, then, in the process of examination—as I have mentioned—designed to detect and correct to the extent possible any irregularities, and which was causing growing concern generally among the political parties, observers, and the public.

But the methods that were foreseen in an instruction for the operation of the departmental electoral councils published by elections authorities with the support of all political parties, and which permitted, among other things, inspection of the urns, could give a new dynamic to the observations in such a way that the elections authorities could report the final result to the political parties and the public quickly.

In this way another problem was overcome, that could have had negative consequences for the final result of the elections.

On March 10, 1,051,000 people voted, that is, 43 percent of the registered voters. The process was accepted by all parties. The Observer Group Coordinator spoke personally with all political party leaders and from them we received no indications that would impugn, definitively, partially, or in any way, the results of the elections. But there were indications of a sense that it is necessary to improve the system itself. In this vein we took to the Government of El Salvador some ideas geared toward improving the execution of the electoral process.

The faults observed in these elections are attributable in large part to deficiencies in the system itself. Thus, the changes that could be made should cover at least the following items:

A change in the organic and functional structure of the Central Electoral Council;

A study of the new electoral code that defines better the methodology to apply in each case and that is more in line with the administrative realities of the country;

An integral study of problems with the electors list—to determine in advance whether it should serve as the basis for a new electoral system or whether a new list should be considered;

The creation of a civil registry institute, with centralized files of decentralized administrative processes that permit issuance of a single ID card that would also permit the exercise of the right to vote;

An integral study of a computerized national communications network that would serve to manage vote counts in the Central Electoral Council;

A wide campaign of training in elections and qualifications to vote, that would bring to all citizens necessary information about electoral procedures, location of voting places, and about their rights and duties.

I believe that these suggestions will be received in the same spirit in which they have been presented, in a spirit of cooperation and a quest to perfect the electoral process. Thank you very much, Madame Chairwoman.

*Question.* Assuming preliminary results hold up ARENA will retain a majority seats (43 estimate) the Democratic Convergence will win 10-12, and the Christian Democrats will win 10-12 seats. What does this portend for the future peace negotiations?

*Answer.* Of the 84-member National Assembly: the National Republican Alliance (ARENA) won 39 seats, the Christian Democratic Party (PDC) 26, The Party of National Conciliation (PCN) 9, the Democratic Convergence (CD) 8, the National Democratic Union (UDN) 1 and the Authentic Christian Movement (MAC) 1. The Democratic Action (AD) party finished under the one percent of the vote required under the electoral code to retain party registration. In municipal elections: ARENA won 177 towns, the PDC 69, the PCN 14, the CD 1, and the MAC 1.

It is difficult to predict what effect the election results will have on the peace negotiations. ARENA's being narrowly edged out of its majority position in the National Assembly may encourage greater efforts toward building coalitions and seeking consensus, which could help the talks. Those in the FMLN who favor an early negotiated end to the war should be encouraged by the results to abandon the armed struggle and enter the political process.

#### COBRA HELICOPTER SALES

*Question.* Rumors abound that the U.S. is planning to upgrade Salvador's military arsenal by selling them Cobra attack helicopters. Are we planning to offer El Salvador new Cobra helicopters and why?

*Answer.* No decision has yet been made on this matter, and we will continue to closely consult Congress. We hope that there will soon be a negotiated settlement to the war so that such assistance would not be necessary.

Without peace, however, the UH-1M helicopters that the Salvadorans are now flying will need to be replaced. The UH-1M is an obsolete platform for which 72 of 279 model-specific parts are no longer being manufactured and are also at zero balance in the US Army logistics system. All UH-1M aircraft in the Salvadoran inventory are far beyond their rated life expectancy.

Replacement of UH-1M with used AH-1S helicopters, with anti-tank weapons removed, is a possibility that is under consideration. The AH-1S replaced the UH-1M helicopter in the US Army inventory. As such, in terms of performance and capabilities it represents equivalence with the UH-1M. One of the reasons that this model is under consideration is that its firepower very nearly approximates that of the UH-1M. The AH-1S is also slightly more survivable against the vastly increased guerrilla anti-aircraft threat, which now includes the SA-16 missile.

#### SALVADORAN MILITARY

*Question.* What specifically is the U.S. doing in its current military aid program to promote the concept of downsizing the Salvadoran military, and civilianizing certain police-like functions?

*Answer.* The Salvadoran Government has been working independently on a plan to reduce and reconfigure its armed forces once a permanent cease-fire has been achieved, and is also actively involved in the Central American Security Council's effort to plan for the demilitarization of the region. While the U.S. Government supports both these efforts, security assistance funds are not involved.

Because of prohibitions against using U.S. security assistance in programs involving civil police, none of these monies are being used to support current efforts to civilianize the Salvadoran police. The United States Embassy does operate a grant program on behalf of the Special Investigative Unit (SIU) under a congressional waiver. The waiver for FY91 funds for this program is conditioned on the creation of a plan for civilianizing the SIU.

The Salvadoran Government already has taken some concrete steps to separate the police forces from the military, including the reassignment of units and individuals. Although the "civilianization" of the police is a prominent issue in the negotiations between the Government and the FMLN, we understand that the Salvadoran Government is committed to this reform regardless of the outcome of the negotiations.

*Question.* Civilianizing the Special Investigative Unit (SIU) has long been seen as the logical first step in this process. What is the status of the situation? Is the Senate in fact still holding up release of their funding until a specific timetable is established?

*Answer.* Our goals with SIU are that it should become a civilian criminal investigative agency with guarantees for its autonomy and appropriate civilian oversight. CORELESAL, an A.I.D.-funded judicial reform think tank, has drafted a proposal

that would civilianize the SIU by placing it directly under the Supreme Court. We oppose this effort because we believe that placing the unit under the Supreme Court, or any other agency of government, would jeopardize the very autonomy that we desire. We are helping to organize a seminar on the future of the SIU to develop recommendations for consideration by the Government of El Salvador.

The Senate released its "hold" on the Fiscal Year 1990 funds for the SIU in December.

#### U.S. PEACEKEEPING FORCE

**Question.** What is the U.S. position on the concept of creating a UN peacekeeping force to intervene in El Salvador? I understand that Spain, Mexico, Venezuela and Colombia have all signaled a willingness to participate.

**Answer.** The Government of El Salvador and the FMLN have been conducting discussions mediated by United Nations Undersecretary General Marrack Goulding on the mechanisms for implementation of a possible cease-fire agreement. These discussions complement the political reform negotiations mediated by United Nations Undersecretary General Alvaro de Soto. The negotiations include the topic of verification of the provisions of a possible cease-fire agreement. The Government of the United States fully supports the efforts of the parties and the United Nations to negotiate a settlement and would carefully study any invitation that might be made to participate in supporting such a settlement. At the request of the Secretary General, the Governments of Spain, Mexico, Venezuela and Colombia have agreed to serve as "Friends of the Secretary General" to support the peace negotiations, indicating their willingness to take a more active role if called upon to do so.

United Nations official Iqbal Riza led a mission to El Salvador in February to formulate recommendations regarding the establishment of an operation to monitor compliance with the agreement on human rights reached between the Government and the FMLN in San Jose in July 1990. On April 4, 1991, the Secretary General advised the Security Council that "I am about to submit a formal proposal to the Security Council for the establishment of the verification mission as the initial component of an operation which I intend to call ONUSAL, which will undertake the responsibilities which will fall upon the United Nations as agreements emerge from the negotiations, and which are expected to include, in due course, a separation of forces and a cease-fire."

The United States is prepared to join with others in the context of the Security Council in providing guarantees for the full implementation of agreements reached by the parties.

#### JESUIT CASE

**Question.** Specifically what has the U.S. done to ensure that this incident is thoroughly and professionally investigated?

**Answer.** From the outset the U.S. Government has offered to support the Government of El Salvador's efforts in every appropriate way. The FBI conducted early polygraph exams on key witnesses and performed forensic tests on the clothes of the deceased and on a Military Academy logbook at the request of Judge Zamora. The Embassy also provided technical assistance in the interviewing of witnesses in the weeks immediately following the murders.

Since the January 1990 indictments of the original suspects, the Embassy has maintained constant pressure on the SIU to produce more evidence. The Embassy has an inter-agency task force which has conducted an exhaustive review and critique of the investigation and has made numerous suggestions to both Judge Zamora and the SIU on possible ways to press the investigation. On one occasion, Judge Zamora sought the expertise of the U.S. Defense Attaché to study the radio network used by the murder suspects on the evening of the murder. He has also requested that the Embassy translate documents from English to Spanish. In September 1990, the Embassy made the Deputy Chief of Mission's residence available for the testimony of U.S. Army Major Eric Buckland, in order to provide a secure and low-profile site.

Through high- and mid-level diplomatic efforts, the Embassy has also encouraged Salvadoran Armed Forces and Christian Administration officials to cooperate with the investigation. No Salvadoran military officer or administration official doubts that the U.S. Government's highest priority in our bilateral relations is the complete and thorough investigation of the Jesuit case.

**Question.** What elements of leverage is the U.S. willing to use to achieve the objective of a complete investigation? In August of 1990, we were apparently willing to slow down delivery of U.S. aid to leverage action. What are you willing to do today?

**Answer.** Our military aid continues to be tied to the degree of Salvadoran military cooperation with the judge in this case. We have made it known that lack of cooperation will endanger the assistance. The letter sent by Minister of Defense Ponce and the Salvadoran High Command to the Minister of Justice requesting further investigation into the possible roles of thirteen more officers and offering to give personal testimony in addition to the written depositions already submitted is encouraging. We will continue to closely monitor events regarding the judicial investigation to determine whether the Armed Forces cooperate in good faith.

**Question.** What other forms of leverage could be used to leverage action?

**Answer.** The Fiscal Year 1991 Foreign Operations, Export Financing, and Related Programs Appropriations Act (Public Law 101-513) enacted on November 5, 1990 states that U.S. military assistance to El Salvador is prohibited if the President determines that the Government of El Salvador has failed to conduct a thorough and professional investigation into, and prosecution of those responsible for the eight murders at the University of Central America on November 16, 1989.

The President determined on January 15, 1991 that military assistance withheld under the Act could be released because:

(1) proof exists that the Farabundo Marti liberation Front ("FMLN") is continuing to acquire or receive significant shipments of lethal outside military assistance from outside El Salvador, and this proof has been shared with Congress; and

(2) the FMLN is engaging in acts of violence directed at civilian targets, and is failing to control such activities by elements subject to FMLN control.

The provision of the Act regarding the Jesuit case remain in effect notwithstanding the President's January 15, 1991 determination, and the Administration continues to closely review that provision of the law in the administration of military assistance. At every opportunity we remind the Government of El Salvador that American military assistance continues to depend on progress in the Jesuit case. We will continue to closely monitor compliance with the promises of Armed Forces cooperation contained in the letter sent by Minister of Defense Ponce and the Salvadoran High Command to the Minister of Justice requesting further investigation into the possible roles of thirteen more officers and offering to give personal testimony in addition to the written depositions already submitted.

**Question.** A controversy has arisen recently between the State Department and the FBI about the deposition of an American military officer that he had prior knowledge of plan to kill the Jesuits. The officer, apparently recanted his testimony shortly afterwards, but the fact is that this potential evidence was not turned over to the Salvadoran judge investigating the case until Joe Moakley became aware of it which was 10 months after the FBI had taken the deposition. What is the reason for the failure of the U.S. embassy to turn over this potentially useful evidence?

**Answer.** U.S. Army Major Eric Buckland was a trainer assigned to the Salvadoran military at the time of the murders. Major Buckland has stated that on December 20, 1989 he had a conversation with Salvadoran Colonel Carlos Aviles, during which Aviles told Buckland of another conversation in which Col. Benavides allegedly admitted his involvement in the murders to Lt. Col. Manuel Rivas, the Director of the Salvadoran Special Investigative Unit.

On December 25, Buckland wrote a letter to his sister describing his conversation with Col. Aviles. The letter made no mention of any prior knowledge on his part of the murders. On January 2, 1990 Major Buckland informed his superiors at the American Embassy of the conversation with Col. Aviles, making no mention of prior knowledge. Embassy officers informed the Salvadoran Chief of Staff of Major Buckland's statements. On January 3-6 both Major Buckland and Col. Aviles took lie detector tests whose results were inconclusive.

On January 11, 1990, Major Buckland told FBI agents in the United States that he had known of information about 10 days before the murders that should have allowed him to deduce that they were going to take place. According to Major Buckland's statement of January 11, 1990, around the end of October, 1989, he accompanied Col. Aviles to the military school where Col. Benavides was assigned. While Major Buckland waited outside, Col. Aviles met with Col. Benavides. Buckland stated that Aviles then told him that Benavides was very concerned with subversive activities at the University of Central America (UCA) and planned to deal with them "in the old-fashioned way." This was the first mention by Major Buckland of any prior knowledge of the murders.

On January 18, 1990, Major Buckland stated that he had been confused on January 11 and that his statements on that day were incorrect. He then retracted the portions of the earlier statement regarding prior knowledge about the murders. Major Buckland stated that he did not recall any specific information regarding any proposed threat to, or attack on, the UCA or the Jesuit priests prior to November

16, 1989. Major Buckland indicated that his memory has been triggered after seeing a photo of Col. Benavides and he decided that he had not seen the individual on the steps of the military school. Regarding prior knowledge, Major Buckland stated that he felt under pressure that he must have known something, but after reading press accounts of the killings he was sure that previous statements made by him concerning his possible knowledge of the planning of this crime were inaccurate.

On September 27, 1990, Major Buckland testified in person before the Fourth Penal Court Judge in San Salvador. In this testimony, Major Buckland stated that he did not hear about the murders until November 16, 1990—the day of the murders. In addition, Major Buckland was re-interviewed by Defense Department and FBI officials on November 29, 1990 for several hours and reaffirmed that he had no prior knowledge of the murders.

While reviewing the files in preparation for Major Buckland's September 27 testimony to the Salvadoran judge, an Embassy officer came across the documents relating to the retracted claims of prior knowledge and asked his superiors why the information had not been provided to the judge. No satisfactory answer to the question has been found. The Embassy was under the understanding that the FBI considered the statements regarding prior knowledge not to be credible and that the FBI had recommended that the statements not be disseminated. The FBI, on the other hand, says that it had recommended that further investigation be conducted about the issue of prior knowledge and had assumed that the information already gathered would be shared with the Salvadoran judge. The Embassy and the Department of State have no record of having received such a communication from the FBI. Congressman Moakley became aware of these issues after the Department of State had ordered that the information on possible prior knowledge be given to the Government of El Salvador.

The staff report to Congressman Moakley dated January 7, 1991 criticized the Executive branch for this confusion, but specifically discounted the theory put forward by a news magazine that the Administration had sought to suppress Major Buckland's statements regarding prior knowledge. The staff report stated: "The officer's statement only became known to the Task Force after the issue of its possible release to the Salvadoran government had been resurrected by Embassy officials."

In summary, Major Buckland continues to maintain that he possessed no prior knowledge about the murders of the Jesuit priests or any specific plans or threats against them.

**Question.** The legislation enacted for FY 1991 requires that 100 percent of El Salvador's military assistance be cut off if (among other things) the Government of El Salvador has failed to conduct a thorough and professional investigation into the Jesuit murders. What in your mind would constitute such a failure?

**Answer.** We have made it very clear to the Government of El Salvador and all other interested parties that we expect all those persons involved in the actual murders or in the planning of the murders to face justice. We expect a full accounting of all Salvadoran Armed Forces personnel with any knowledge of the murders and complete cooperation by the Salvadoran Armed Forces with the investigation.

#### MURDER OF U.S. MILITARY PERSONNEL

**Question.** The FMLN apparently has in custody those responsible for the recent killings of three U.S. servicemen. They plan to try them in their own court rather than turn them over to the Salvadoran authorities. What is the status of this situation and what is the status of U.S. efforts to formally charge the individuals under the Anti-Terrorism Act?

**Answer.** The FMLN's last communique's on this subject says that they have released one of the three guerrillas that they were holding for this crime and that the other two would be "tried" by the guerrillas. The rebels have provided no further information.

The FBI sent an investigation team to El Salvador to help develop and evaluate evidence pertaining to the crime and has reviewed the case with U.S. Department of Justice prosecutors. The Department of Justice is actively reviewing the matter of whether charges can be brought in the United States. The question of whether charges for conspiracy to murder can be filed against the FMLN leadership will also be addressed by the Department of Justice.

The Committee may also wish to contact the Department of Justice for information on this matter.

**Question.** The statement made by the FMLN perpetrators of this crime that the killings were performed as an act of mercy to put a dying man out of his misery

have been dismissed by the U.S. Provide the details of dismissal. How do we know this is not true?

Answer. Both the U.S. and Salvadoran forensic teams which performed the autopsies on Lieutenant Colonel Pickett and Private First Class Dawson have concluded that the two U.S. military men had survived the crash and could have recuperated from their injuries. Both men were talking after the crash and were able to ask for water. LTC Pickett was probably ambulatory. According to eyewitness testimony the murderer slapped PFC Dawson violently and threatened him before shooting him in the back of the head.

Even if the circumstances of the murder had been indicative of a mercy killing none of the elements of a mercy killing as prescribed by the Salvadoran penal code were present in the murders of LTC Pickett and PFC Dawson. Under Salvadoran law, per ART. 156 of the Penal Code, a mercy motive does not excuse the homicide but does mitigate the sentence, if all of the following elements are present: (A) a competent physician verifies that the victim is in a state of desperation and severe suffering; (B) there is a family-member or close friend present; and (C) the victim demonstrates a desire to die. LTC Pickett and PFC Dawson could rely on neither family nor physician and there is no evidence to suggest that they wished to die.

#### NICARAGUA

Much has been made of the significance of the recent murder of Enrique Bermudez, as it relates to the overall security situation inside Nicaragua. Recent press articles have indicated that the preliminary investigation of this incident is inconclusive. Public speculation by the State department has attempted to implicate the Sandinistas, while other press articles have implicated former Resistance members in this incident.

*Question* First, address what is known about the perpetrators of this crime. Is there any credible evidence implicating anyone at this point?

We strongly deplore the killing of Enrique Bermudez, as well as other murders of demobilized Resistance members—38 since the Chamorro inauguration, according to the OAS. It is critical that the Nicaraguan government resolve these crimes, for the sake of justice and national reconciliation.

As for the Nicaraguan government's investigation of the Bermudez assassination, we welcome the naming of an independent oversight commission and have expressed to the government our strong support for a rigorous and impartial probe. We have responded positively to a request for FBI assistance in several aspects of the investigation, and will convey whatever information the FBI can produce as quickly as possible. Since the investigation is still in progress, it would be inappropriate for us to comment on possible perpetrators.

*Question*. Second, what is your assessment of the overall security situation in Nicaragua? Has there been "a profound deterioration in public order" as Jeane Kirkpatrick asserts.

Answer. The security situation in some rural areas remains tense because of the animosities built up over ten years of civil war, as well as uncertainty about land tenure and continued Sandinista control of the police force. The government hopes to complete land titling for former contras soon, and has begun to integrate former Resistance combatants with Sandinista police units in some rural areas. The latter effort has already met with some success: in the recent Sandinista police shooting of ex-Resistance fighter "Chapulin," a second ex-contras death was averted by the arrival of the ex-RN rural police.

While we are concerned about rural unrest, we would not characterize the situation as a "profound deterioration in public order." We support the government's request for an extension of the mandate of OAS/CIAV, which has done an excellent job monitoring the resettlement of former Resistance members. We call upon all sectors to refrain from violence in addressing disputes.

*Question*. What specifically has been done to reign in the Sandinista Army on the shipping of arms to third world countries, i.e. El Salvador and Honduras?

Answer. Last November, the Nicaraguan National Assembly passed a law making it illegal for Nicaraguans and foreigners to provide aid to insurgent groups from Nicaraguan territory. In February, the Nicaraguan government obtained the return of 17 of the 28 Soviet surface-to-air missiles supplied by the Sandinista army to the FMLN in October 1990, and prosecuted four officers allegedly involved in the transfer. However, we continue to discover instances of Sandinista support for the FMLN and other groups. This remains a major issue between the Nicaraguan government and the United States.

*Question.* What is the status of the reduction in size of the Sandinista army? What is the specific timetable and goal for a reduced army?

*Answer.* The army has been reduced from about 80,000 to 28,000 since President Chamorro took office. The government plans to reduce the army to 25,000 this year. The army budget has been reduced from \$170 million per year to \$70 million per year.

#### PANAMA

*Question.* What was the significance of the recent coup attempt, and what has happened to its leader?

*Answer.* On December 4-5, a group of disgruntled retired and active duty police personnel seized the National Police headquarters. After a few hours, members of the group were taken into custody with the assistance of U.S. forces. Former police director Eduardo Herrera Hassan is being held on charges of conspiracy against the Government and intent to violate the order of the state.

Ostensibly, the participants in the incident wanted to call attention to grievances regarding police management, pay, and benefits. We do not believe that they had sufficient organization or support to present a threat to the Government of Panama. However, prompt action on the part of the Government and U.S. forces made clear that U.S. support for the democratic process is unconditional and, we hope, will deter other police or ex-military personnel from making similar moves against Government authority.

*Question.* Recent popularity polls indicate that approval ratings for Panama's three leaders is around 20 percent. The reports indicate that the image of the Panamanian troops among the people is deteriorating. What do you make of these factors in the overall stability of Panama?

*Answer.* It was probably inevitable that the coalition, forged during the May 1989 elections from disparate parties that opposed the Noriega dictatorship, would not retain the high level of public support it achieved early on, when Panamanians had almost utopian expectations of the immediate benefits to be derived from a restoration of democracy. Compared with those expectations, the realities involved in the difficult task of rebuilding democracy after 21 years of military regimes seem unattractive. Moreover, the dominant political and press forces in the country have prior experience only in the opposition and therefore tend to criticize government actions rather than work toward compromise and understanding.

Public confidence in the police has been low since the Endara Government assumed office, because of the abuses committed by Noriega's Panama Defense Forces (PDF), the retention of many former PDF members in the newly reorganized police, high crime rates, and lingering public anxiety over possible coup attempts. Over time, the Government's objective of creating apolitical, civilian law enforcement institutions supported by U.S.-provided training and equipment, should bolster the effectiveness and public acceptance of the police.

Despite these strains, the Government over the past 15 months reestablished basic civil liberties, facilitated a strong resumption of economic growth, weathered a surge of labor unrest and a brief rebellion by disgruntled policemen in December, held clean legislative and local elections in January that resulted in opposition gains, and carried out the recent cabinet changes in a constitutional manner.

We do not believe that the stability of the country is threatened by any of the factors mentioned above. None is unique to Panama; rather, they track with experience in other countries that have made the transition from dictatorship to democracy. And the major political parties are united on issues such as fair elections, demilitarization, and the strengthening of democratic institutions. Differences on economic and social issues will become more apparent given the recent breakup of the coalition. The key to how well or how badly the Panamanian Government provides for the welfare of its citizens will be the ability of the political parties to reach responsible compromises on issues of national concern.

*Question.* As with Nicaragua, the Congress was hounded by the Administration last spring to provide \$500 million to "jump start" the Panamanian economy. Recent reports to the Committee indicate that as of January 1991 only \$109 million of the \$461 million approved for Panama had actually been disbursed to the government. Although most of the emergency funds have been spent, funds designated for repayment of IFI arrears (\$130 million), public investment (\$14 million), private sector reactivation (\$108 million) and development assistance (\$51 million) remain largely unspent.

What happened to the "jump start"?

**Answer. A.** The primary purpose of the short-term U.S. assistance program was help reactivate economic activity so that Panama could resume primary responsibility for financing its own development. The Panamanian economy has not yet fully recovered from the disaster caused by the Noriega regime, but significant progress is being made through the efforts of the Panamanian government and private sector. Real gross domestic product is estimated to have increased by at least 3.4 percent in 1990, the first positive growth rate for Panama's economy since 1987 and one of the highest in the hemisphere. Gains over 1989 levels have been made in practically all sectors. Unemployment has dropped from a post-Just Cause high of 35 percent to under 20 percent. Since the freeze was lifted on bank deposits, banking system assets have increased by almost \$2 billion.

U.S. actions have supported the Government of Panama's efforts to bring about economic recovery. Last year, the U.S. dismantled economic sanctions and made available to Panama close to \$430 million in escrowed funds withheld from the Noriega regime. CBI and GSP trade benefits, restored last year to Panama, have already saved Panama over \$10 million in duties and will save more this year. Sales of sugar to the U.S. under the restored sugar quota program gave Panama more than \$20 million over the world spot market price in 1990. Following restoration of EXIM Bank credits to Panama, EXIM has provided over \$55 million in insurance transactions, loans and guarantees for trade with Panama. OPIC, which also returned to Panama last year, estimates that its investment missions may lead to as much as \$414 million in new U.S. investments in Panama. These actions are helping the Government of Panama to overcome several years of fiscal mismanagement and reduced investment. They are also bolstering Panama's investment climate.

In addition to these actions, to date the U.S. has disbursed \$110 million of ESF, and we anticipate a substantial increase in disbursements during the next few months. The conclusion of the Mutual Legal Assistance Treaty with Panama (now pending ratification by the Panamanian National Assembly and the U.S. Senate) will satisfy a major condition to the freeing up of the remaining \$84 million from the public sector reactivation budget. Of the \$107.9 million for private sector credits, \$72 million will have been disbursed by April 30. We hope to disburse the \$130 million for IFI's arrears clearing in September once Panama reaches agreement with its international financial institution creditors. Project funds will continue to flow as needed.

**Question.** Are you assured that the Panama Defense Force has been purged of former Noriega cronies?

**Answer.** The dissolution of Noriega's Panama Defense Forces (PDF) during Operation Just Cause forced the new, democratically elected Government of Panama urgently to reestablish law enforcement functions previously performed by the PDF. Lacking any other pool of trained personnel, the government decided to incorporate many—but not all—former PDF members into new police organizations.

Virtually all of the middle and high ranking officers who were among Noriega's close collaborators have been dismissed, forced into retirement, or jailed for Noriega-era abuses. The government has removed or replaced over half of the officers at the rank of captain or above, and all officers at or above the rank of lieutenant colonel. Both the National Police and the Technical Judicial Police (the investigative service) are currently led by civilians.

**Question.** What is your assessment of the relative significance of these past war issues on the domestic political scene in Panama?

**Answer.** Civilian casualties during Operation Just Cause are not a significant political issue in Panama. Thorough investigations by several U.S. and Panamanian human rights groups found no evidence to support past allegations that thousands of Panamanians died. The Panamanian coroner's office, after a careful tabulation of recovered remains, has estimated a range of 270 to 345 dead, including military personnel and civilians. Estimates by several nongovernment groups agree closely with these figures.

As regards claims arising from Operation Just Cause, some Panamanians have expressed interest publicly in obtaining compensation for individual claimants. However, the Government of Panama has never formally requested such compensation from the U.S. Government. Increasing disbursements of U.S. economic assistance during the past few months have helped to defuse earlier Panamanian criticism of the United States for allegedly not doing enough to aid Panama's recovery from damages resulting from the Noriega regime and Just Cause.

**Question.** Has the U.S. ever chosen to address the issue of civilian victim claims in any way other than dismissing it as "Not our responsibility" or not allowed under U.S. law?

**Answer.** The U.S. Army Claims Service office at Fort Clayton, Panama, has been reviewing legitimate cases for possible indemnification of claims arising out of Operation Just Cause.

According to the U.S. Code and the Foreign Claims Act, a claim may not be allowed if it arises as a result of action by an enemy or as a result, direct or indirect of actions by the U.S. Armed Forces in combat. Some Panamanian claims that do not fall under this restriction have already been paid. As of January 1991, a total of 121 claims totaling over \$184,000 had been paid. These payments were made to American citizens and resident aliens under the Military Claims Act and to Panamanians and third country nationals under the Foreign Claims Act.

Our extensive aid program—the third largest worldwide in FY 90—has been designed to reach persons who suffered in connection with Just Cause. For example the Government's U.S.-funded El Chorrillo housing program benefits people who lost their homes regardless of who or what caused the damage. The same is true of the private sector revitalization program, which assists people whose businesses were looted or destroyed during Operation Just Cause.

#### GUATEMALA

**Question.** Clarify the U.S. position on military aid to Guatemala.

**Answer.** At this time, we have no plans to resume military assistance to Guatemala.

We suspended approximately \$12 million in assistance in December, 1990.

At that time, we explained that aid would not be resumed until the GOG investigated the murder of American citizen Michael Devine and demonstrated the new government's firm commitment to the rule of law.

President Serrano has taken a number of steps on human rights. These include replacing the Attorney General and senior commanders of the armed forces—changing all military prosecutors; pressing for a new penal code and the establishment of a new prosecutor to investigate abuses; pledging full support to the Human Rights Ombudsman; moving to set up commissions on refugees and disappeared; and prosecuting police involved in abusing street children; four policemen have just been convicted.

There has also been some movement on the Devine case. 8 new suspects, including two military officers, have been identified and will be questioned.

These steps are encouraging. We will be closely following developments.

#### STREET CHILDREN

**Question.** For the past year there have been continuing reports that street children in Guatemala have been beaten and tortured and in some instances killed by Guatemalan police. In light of charges against the policy and problems with investigations, what steps have you taken to raise U.S. concern over the situation?

**Answer.** We are aware of cases of abuse of street children by members of the police, private security guards, the treasury police and civilians. Our Ambassador has been personally involved in this issue. Significant progress has been made. 116 officers, private security guards and civilians have been identified and accused of abuse. 89 are in jail or awaiting sentencing. 4 were sentenced March 19 to 10-15 years in jail for the death of one child, Nahaman Carmona Lopez. 3 were recently charged with the death of Anstrum Aman Villagran Morales. We will continue to closely monitor developments to see that those who abuse these children are duly punished.

#### HUMAN RIGHTS IN GUATEMALA

**Question.** What other forms of leverage or diplomacy have been or will be brought to bear on Guatemala to improve its human rights record?

**Answer.** We have engaged the new government in a dialogue on human rights and have indicated areas where we believe there could be improvement. On a daily basis our Embassy in Guatemala follows cases of abuse, contacting authorities to ensure that they are being fully investigated. We continue our training program for the national police in the collection and preservation of evidence and investigative techniques. We also provide assistance to the Human Rights Ombudsman, probably the severest internal critical of abuses, to enable his office to track and investigate cases. This past March, at the United Nations Human Rights Committee meeting in Geneva, we voted to upgrade UN Monitoring of Guatemala. During the suspension of military assistance we are also not approving licenses for the export of equipment to the Guatemalan military.

**Question.** The Administration has requested \$2 million in military assistance \$400,000 in military education and training for FY 1991—how can you justify the light of the apparent human rights abuses?

**Answer.** Our military assistance program to Guatemala is quite small and provides non-lethal equipment. The vast bulk of this assistance has been geared to programs which do not provide the Guatemalan Army a direct benefit in terms of combat capability but rather enable it to assist in the infrastructure development in rural Guatemala, e.g., by supporting its capability to build roads, schools, and sanitation projects in difficult and conflictive areas to the benefit of the local population. These development are also important in demonstrating that the Government can address fundamental social and economic problems in a way that the armed guerrilla insurgents cannot. Our equipment also enables the army to conduct humanitarian work including rescue operations for both civilians and army personnel. Recently, for example, the army helped evacuate a wounded American tourist from a remote area of the country where alternative transportation and adequate medical care was not available.

We have engaged the new government of President Serrano in a dialogue on human rights. The Government has taken some important first steps noted in Question XIII 4 above. The linkage of the resumption of deliveries to further concerted action on human rights will help foster the application of the rule of law and greater institutional capacity to combat abuses. We plan to channel any FY91 assistance through the office of President Serrano.

**Question.** Eighteen members of the CERJ, Guatemala's only indigenous human rights organization, have "disappeared" or been summarily executed in recent years. Despite the international attention given these cases, including receiving prestigious Carter-Menil Human Rights award last December, it continues to be subject of harassment and intimidation. What measures has the administration taken to press the Guatemalan government to protect human rights activists?

**Answer.** We are concerned about the high level of violence suffered by the CERJ in recent years. Our Embassy regularly meets with Amilcar Mendez and we are very aware that he and members of his organization have been killed, have disappeared and have received threats. We have brought a number of these incidents to the attention of the highest levels of the Guatemalan Government.

In the context of our very outspoken position on human rights in Guatemala we have repeatedly stressed the need for application of the rule of law. This requires political will and domestic reforms. There are encouraging signs from the new government. Besides the steps noted in question XIII 1 above, the new GOG appears to have embarked on an outreach program with local human rights groups. Recently President Serrano met with the head of the GAM and agreed to establish a committee to investigate cases of the disappeared. We encourage such an initiative.

**Question.** President Serrano has pledged to make human rights a priority during his administration. Despite these pronouncements, little has changed in Guatemala since his government took office in January. The Administration has proposed \$10 million dollars in military aid for FY92 after suspending aid in December on human rights grounds. Such actions would appear to send mixed signals regarding the U.S. position on human rights in Guatemala. Have you spoken with President Serrano about human rights? What specific steps have you asked the Guatemalan government to take on human rights to demonstrate that its pledges are more than empty promises?

**Answer.** When we suspended military assistance last December we indicated that the action would be effective until there was movement on the Devine case and demonstrated commitment by the new government to the rule of law. Should there be such action we would hope to eventually restore a full military relationship. This is why we have requested military aid for FY92. We have engaged President Serrano and his government in a dialogue on human rights and have made some suggestions as to areas for improvement. These are still under discussion. President Serrano has taken some good first steps including: Replacing the Attorney General and senior commanders of the armed forces; changing all military prosecutive pressing for a new penal code and the establishment of a new prosecutor to investigate abuses; pledging full support to the Human Rights Ombudsman; moving to set up commissions on refugees and disappeared; and prosecuting police involved in abusing street children; four policemen have just been convicted.

There has also been some movement on the Devine case. Eight new suspects, including two military officers, have been identified and will be questioned.

We will closely follow developments. The Government of Guatemala is very aware that c

**Question.** In the past two years there have been no meaningful investigations into human rights violations in Guatemala. Among the many notorious cases are the murder and "disappearance" of 18 human rights activists, that abduction and torture of Sister Diana Ortiz, a U.S. nun with the Ursuline order, and the killing of John Divine, an American hotel owner. What is the status of each of these cases? What actions did the embassy take in each of the cases cited above? Given the serious nature of Guatemala's human rights record, why had the administration proposed \$2 million in military aid for FY92?

**Answer.** To respond to your query as to the status of the disappearance of 18 activists, I will need more information as to their names and affiliations. Regarding the case of Sister Diana Ortiz we have been working on this case for a year and a half now with very little information to go on. Sister Ortiz, as you will recall, refused to talk about her ordeal to Embassy officials before departing Guatemala. She has also refused various requests by the Guatemalan Government and the FBI to give more information beyond that contained in her affidavit of January 1990. We are now working to have the new government pursue the case but Sister Ortiz has still not completed a formal request made a year ago by the court in Guatemala to make a sworn statement before appropriate U.S. authorities. Her lawyer has submitted a new affidavit but has not submitted other evidence he said he would provide. We sent two officers to speak to her at her request. We are very aware that the ordeal caused her much trauma and that it is difficult for her to review what happened. However, completion of the formal request is essential to pursue the case in the court of law in Guatemala.

Mr. Devine's first name is Michael, not John. We have vigorously pursued this case since evidence came to light last fall that he was killed by army personnel. Over this case we suspended military assistance in December 1991. President Serrano and the new Minister of Defense has pledged to move on this case. Most important, the Government has decided to become a plaintiff against those who carried out the murder, 8 new suspects, including two military officers, have recently been identified and will be questioned, a representative from the civilian attorney general will be present at the questioning. The human rights ombudsman is also involved.

When we suspended military assistance last December we indicated that the action would be effective until there was movement on the Devine case and a demonstrated commitment by the new government to the rule of law. Should there be such action we would hope to eventually restore a full military relationship. This is why we have requested military aid for FY92.

Our military assistance program to Guatemala is quite small and provides non-lethal equipment. The vast bulk of this assistance has been geared to programs which do not provide the Guatemalan Army a direct benefit in terms of combat capability but rather enable it to assist in the infrastructure development of rural Guatemala, e.g., by supporting its capability to build roads, schools, and sanitation projects in difficult and conflictive areas to the benefit of the local population. These developments are also important in demonstrating that the Government can address fundamental social and economic problems in a way that the armed guerrilla insurgents cannot. Our equipment also enables the army to conduct humanitarian work including rescue operations for both civilians and army personnel. Recently, for example, the army helped evacuate a wounded American tourist from a remote area of the country where alternative transportation and adequate medical care was not available.

We have engaged the new government of President Serrano in a dialogue on human rights. The Government has taken some important first step noted in Question XIII 4 above. The linkage of the resumption of deliveries to further concrete action on human rights will help foster the application of the rule of law and greater institutional capacity to combat abuses. We plan to channel FY91 and FY92 assistance through the office of President Serrano.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

**Question.** Under the Administration's Enterprise for the Americas Initiative (EAI), debt reduction would be tied to economic and investment reforms in the debtor countries. How many Latin American countries would meet the criteria proposed by the Administration in order to be eligible for the official debt reduction program? Under the proposed programs, how much of the region's \$12 billion in U.S. debt could be reduced and over what timeframe? In particular, in the short to medium term, how will the EAI debt reduction program affect the debt service payments of those countries participating in the program? Please provide some specific examples.

**Answer.** We hope all the democracies in Latin America and the Caribbean that have debt to the USG will eventually qualify for debt forgiveness under the EAI. The timing of debt reduction will depend on how quickly each government implements the requisite structural reforms. Of the \$12 billion in official debt owned to the USG, approximately \$7 billion is concessional and the remainder is nonconcessional debt. Although the outcome of the negotiations will depend on many factors, including ability to repay, we expect to forgive at least 40 percent of eligible concessional debt. In addition, interest on the reduced stock of concessional debt may be payable in local currency into environmental trust funds for countries that negotiate Environmental Framework Agreements. The amount of nonconcessional debt likely to be reduced through swaps is harder to gauge. This will depend on both the willingness of the foreign governments to sell assets and the interest of nongovernment investors to participate.

Negotiations have not yet begun on debt forgiveness. Thus we do not have a concrete example quantifying the gain to a particular country from participation in the program. In addition to reducing the stock of debt, however, the relief envisioned under the EAI should also reduce debt service payments well below scheduled levels.

**Question.** In addition to the Administration's \$310 million for debt restructuring under the EAI, the Administration has also requested \$100 million for a Multilateral Investment Fund to be administered by the Inter-American Development Bank. Please explain how this Multilateral Investment Fund would operate, and how it might help stem the region's capital flight problem. What other countries have pledged support for this multilateral effort?

**Answer.** The market economies of the Latin America and Caribbean democracies can only achieve high GDP growth rates by attracting significant levels of new investment from both domestic and foreign sources. This investment will not be forthcoming, however, until these countries undertake major policy reforms that provide a much more competitive investment climate. The Multilateral Investment Fund proposed under the Enterprise for the Americas Initiative is intended to create an incentive to undertake these reforms.

The Fund will channel its resources through one of three facilities: Technical Assistance, Human Resources and Enterprise Development. Under these facilities, the Fund would support projects that focus primarily on the microeconomic variables that ultimately influence investment decisions: human resource development (education, training, health), and the improvements in the financial systems and in business infrastructure needed to stimulate the development of small- and micro-scale enterprises.

Capital flight occurs in part because investors have lost confidence in the soundness of local investments. We believe that the Fund will go a long way in improving the investment climate, which in turn will help restore investor confidence. As a result, entrepreneurs would be more likely to invest capital in their own economy, thereby providing new investment that doesn't increase international debt and inducing the repatriation of capital that has fled the country.

We are now involved in an active exchange of ideas on the Fund with both potential donors and recipients. During the recent annual meeting of the IDB, the government of Japan announced that it will contribute "an appropriate amount" to the Fund. Other donors have not yet committed to the participating in the Fund.

**Question.** Some Latin American governments have complained that the EAI scheme of tying the reduction of U.S. official debt to local environmental programs limits their ability to use the debt reduction program to their countries' best advantage. Some governments may want to utilize the funds for other types of programs. How do you respond to this concern?

**Answer.** The first advantage to the Latin American countries from EAI debt relief measures will be in reducing the debt burden itself. By reducing scheduled hard currency debt payments, EAI debt relief will free up significant amounts of financial resources which can be directed toward the many pressing needs which confront each debtor nation.

The environmental trust fund, which will be created from the local currency interest payments on the remaining, reduced debt levels will in most cases contain rather modest amounts of money (exact amounts will depend on each country's individual debt situation). We are confident that when each government considers the many environmental problems which need attention, each will conclude that these needs are sufficiently compelling that they deserve the measures which can be funded from the environmental funds. It is important to note that the law contains a very broad definition of environmental needs which can qualify for funding under the EAI. I would also like to stress that the authority to approve grants for environ-

mental projects rests with the host-country environmental commissions; they can determine their own priorities.

*Question.* Bilateral debt reduction and reschedulings for debtor countries have traditionally been undertaken through the framework of the Paris Club, a multilateral arrangement bringing together creditor and debtor countries on a case by case basis, but the EAI debt reduction program falls outside of that framework. Did the Administration consult with other creditor or the debtor countries in designing the EAI debt reduction program? Have other creditor countries taken measures to reduce the official bilateral debt owed to them by Latin American nations outside of the traditional framework of the Paris Club? Please give examples.

*Answer.* The debt reduction aspect of the EAI is a USG policy initiative. Exactly how to implement the program will be determined by the USG alone, but the decision to offer debt relief flows from numerous discussions of the Latin American debt problems in many fora with both creditor and debtor countries. Some of the best examples of debt forgiveness outside of the Paris Club involve the countries of Latin America themselves, such as the debt-debt swap in which Bolivia and Argentina mutually forgave debt. In this instance, Argentina swapped \$300 million in debt owed to Bolivia for \$800 million owed to it by Bolivia. Within the "traditional" Paris Club, moreover, some creditors regularly choose the debt forgiveness of the Toronto Term options. Bolivia has already received debt forgiveness under this option.

#### BRADY PLAN

*Question.* Since the Brady Plan debt strategy was announced in March 1989, four Latin American countries—Mexico, Costa Rica, Venezuela and Uruguay—have negotiated debt reduction agreements with commercial banks. Looking ahead, which other Latin American countries are close to negotiating Brady Plan agreements, and which other have expressed interest?

*Answer.* There are several countries in the region, such as Argentina, Brazil and Ecuador that are having difficulty servicing commercial debt and interested in debt relief under the Brady Plan strategy. First, however, these and any other countries interested in being considered for such debt relief will have to have IMF-supported reform programs in place. Provided these countries are successful in their negotiations with the IMF, it may be possible for them to conclude negotiations with the commercial banks sometime this year.

*Question.* The World Bank and the International Monetary Fund have projected that they would support Brady Plan operations with approximately \$20 billion in financing. How much of this financing has already been used for existing Brady Plan operations? Are the remaining multilateral resources adequate to support those Latin American or other countries interested in negotiating a Brady Plan agreement?

*Answer.* The IMF has committed \$2.8 billion and the World Bank \$2.7 billion to support specific debt and debt service reduction instruments in countries that have reached agreements with their commercial banks. In addition, the board of the IDB recently agreed to join the other IFIs in providing support for countries reducing commercial debt through the Brady Plan strategy. With \$20 billion in resources for this purpose from the IMF and World Bank plus the additional funding that the IDB is likely to offer, we believe there will be sufficient funding from these sources to meet the needs of countries qualifying for Brady Plan support.

*Question.* A major economic problem associated with the Latin American debt crisis is that there has been a large net capital transfer out of the region since the crisis began in the early 1980s. Have the Brady Plan operations undertaken in the region helped stem the net transfer of resources?

*Answer.* Under the Brady Plan strategy, countries must first implement sound structural economic reforms before becoming eligible for commercial debt relief. In the Mexican experience, the implementation of these reforms helped restore investor confidence; the reduction in the debt overhang deepened the growing foreign and domestic optimism in the Mexican market. Mexico was able, not only to stem the outflow of resources, but also to recapture several billion in flight capital already outside of the country.

#### EXTERNAL ECONOMIC PRESSURES

*Question.* Latin American export growth is an important factor in the region's ability to meet its debt service obligations. Has the U.S. economic recession lowered the U.S. demand for Latin American exports, thereby reducing the region's ability to meet its debt service obligations? What effect has the Persian Gulf conflict had

on the ability of oil-importing Latin American countries to meet their debt service obligations?

Traditionally over 95 percent of Latin America's total merchandise exports go to the United States. During periods of slow economic growth or decline in the United States, exports from Latin America tend to decline as well. Not only are merchandise exports affected, but receipts from tourism and other important sources of income decline. This certainly affects the ability of Latin countries to meet debt service payments, especially for those countries where a large portion of the debt is relatively short-term.

While it is too early to assess the impact on Latin America of the recent downturn in the U.S. economy, some figures from the past decade illustrate the point. For example, in 1982, when real GNP in the United States declined by 2.5 percent, Latin exports to the U.S. fell to \$34 billion, from \$42 billion in the preceding year.

The increase in oil prices as a result of the Persian Gulf conflict appears to have been a short-lived phenomenon. While some oil-importing countries of Latin America may have experienced temporary difficulties in covering their oil impact bills, the overall import of the crisis on their ability to service debt was limited. The IMF and multilateral development banks have made allowances in their programs and projects for temporary debt service problems arising out of the brief oil shock and in some cases have provided exceptional financing to help oil importers adjust.

The temporary increase in oil prices was also of transitory benefit to the oil-exporters of the region.

#### NORTH AMERICAN FREE TRADE AGREEMENT

**Question.** In your view, what would be the timeframe for the negotiation of a North American Free Trade Agreement? What would be the benefits and costs to the United States of such an agreement, and what would be the benefits and costs to Mexico? What are the obstacles, both in the United States and in Latin America to the formation of a hemisphere-wide free trade zone?

**Answer.** The pace of negotiations is difficult to predict, as this will depend upon the issues encountered during the course of the negotiations. Certainly, every effort will be made to negotiate the NAFTA in as expeditious a manner as possible, in full consultation with Congress.

While a number of research projects are still underway, some early private sector and academic modelling efforts support our conclusions about the gains from free trade. They demonstrate:

Both U.S. and Mexican output will rise as the result of free trade (U.S.: .01 percent; Mexico: 6.6 percent). As expected, the effect would be smaller in U.S. because it is less dependent on trade with Mexico and because Mexico's economy is only 4 percent the size of the U.S. economy.

Higher Mexican growth and domestic and foreign investments will spur U.S. exports, particularly machinery and equipment.

Improved confidence in Mexico's economic policies will stimulate the repatriation of capital for domestic investment, further fueling demand for imports.

Real income will rise in both countries (U.S.: .04 percent; Mexico: 4.64 percent). The average American is likely to gain from expanded business opportunities in Mexico.

Lower trade barriers and increased competition will mean that U.S. consumers will be able to buy a wider variety of goods at lower prices.

Rising Mexican import demand—the result of an expanding economy and growing domestic and foreign investment—will lead to increased U.S. exports to Mexico, which purchases more than 70 percent of its imports from the U.S.—and that in turn means more income for U.S. producers and more jobs for U.S. workers.

The gradual elimination of protective trade barriers in Mexico will also help spur U.S. exports. High tariffs and import licensing requirements inhibit a variety of manufactured products. In addition, import licensing requirements for agricultural products—which cover 40 percent of U.S. food exports to Mexico—often effectively ban food imports.

We are confident that U.S. companies will reap significant rewards from further Mexican trade liberalization because of the track record so far.

Since Mexico began lowering tariffs and import licensing in earnest, U.S. exports have more than doubled, rising from \$12.4 billion in 1986 to \$28.4 billion in 1990.

The surge of U.S. exports to Mexico has contributed to a two-thirds cut in our bilateral trade deficit with Mexico, from \$5 billion to \$1.8 billion.

U.S. exports of machinery and equipment have soared partly because of Mexican efforts to upgrade plants and improve competitiveness.

A NAFTA is not likely to lead to the type of downward pressure on wages that some people fear.

A much higher capital stock and much more productive and skilled laborers support higher wages in the U.S. than in Mexico. These cannot be transferred easily or quickly to Mexico.

Workers in most sectors have little to fear from an NAFTA.

Most U.S. firms already have a competitive edge because of higher productivity, economies of scale, greater efficiency, more advanced technology, and established marketing networks.

Auto and textile workers' fears of job losses are exaggerated. In fact, U.S. textile exports to Mexico have more than doubled from \$202 million in 1986 to \$392 million in 1989 while truck exports nearly tripled from \$23 million in 1986 to \$61 million in 1989. As remaining restrictions on autos and textiles are removed, our sales will grow.

Mexico will not flood the U.S. with imports; the majority of its firms have fewer than 25 employees and its economy is four percent the size of the U.S. economy.

The transition to free trade will be made gradually. Adjustments will occur slowly and will be very small compared to other adjustments occurring in the U.S. economy.

We believe the NAFTA will be of great benefit to Mexico. The accord should result in: greater Mexican exports to the U.S.; job creation in Mexico; increased Mexican attractiveness for foreign investment; and increased overall pace of Mexican development which in turn, should result in environmental progress and improved labor conditions.

As in the U.S., there could be some short-term adjustment problems in Mexico that would be best addressed by the Mexican government.

The EAI trade initiative is aimed at the eventual achievement of a free trade area throughout the hemisphere. We have no illusions that such an ambitious goal can be reached quickly. We will want to be sure that our future negotiating partners have embarked on the structural economic reforms which are necessary to the success of a free trade area: a foreign trade sector open to international competition; sensible and realistic macroeconomic policies; implementation of reforms which permit the functioning of free market forces; and respect for human and international workers rights.

*Question.* What would be the consequences of a North American Free Trade Agreement for the beneficiary nations of the Caribbean Basin Initiative (CBI)? Would free trade with Mexico threaten the U.S. trading relationship with the smaller Caribbean Basin economies? What has been the reaction of CBI countries to the discussion of a North American Free Trade Agreement?

*Answer.* The CBI beneficiary countries fully recognize that a possible North America Free Trade Agreement poses a challenge for them. To the extent that the CBI countries currently enjoy the most preferential trade terms that we offer anyone, whatever we do to reduce trade barriers with respect to the rest of the world reduces the CBI countries' advantage.

Although CBI tariff preferences will erode as we move toward a hemispheric free trade area, other elements of the program, which is now permanent, will be available to strengthen the economies of the CBI countries and help them adjust to new economic realities. Moreover, the formation of the NAFTA will boost economic activity and growth and will present CBI countries with new trade opportunities in an expanding market.

*Question.* If Congress denies the Administration the authority to consider implementing legislation for a free trade agreement with Mexico under fast-track procedures, what would be the reaction of Mexico? What would be the consequences of this on U.S.-Mexican relations?

*Answer.* If Congress denies fast-track authority for the Mexico FTA, we would expect Mexico's reaction to be extremely negative. In a recent conversation with the visiting Competitiveness Caucus, President Salinas cautioned that Mexico would react very negatively if FTA were rejected. The pace and forward direction of Mexico's economic reform effort could be derailed, U.S. investment opportunities lost, and a historic opportunity for much closer, cooperative relations discarded. Inevitably, rejection of the FTA would be perceived as a slap at Mexico and U.S.-Mexico relations would be hurt.

#### DECLINING LEVELS OF ASSISTANCE

*Question.* How have the governments of Costa Rica, Guatemala, and Honduras reacted to declining levels of U.S. assistance in recent years?

**Answer.** The three governments are disappointed that the U.S. is reducing its aid levels at a time when they are facing difficult fiscal situations.

Costa Rica has responded to the new reality by strongly encouraging investment and debt reduction and by taking advantage of the many opportunities offered by EAI. It has realized that liberalized trade and an emphasis on export promotion will in the long term more than compensate for the reduced aid levels.

Guatemala will not feel the effects too severely in FY91 because we have rolled the \$30 million in unexpended FY90 ESF funds into FY91 which, together with the available FY91 funds, will help cushion the impact. The Guatemalans hope that their economic reform policies will bear fruit in the next year, thereby minimizing the effects of reduced aid.

The Honduran Government has noted that the reduction in aid comes at a time when it is taking painful steps to correct economic imbalances, illustrated by its recent agreement with the IMF concerning structural reforms. The reduced aid level also limits our ability to influence the government to take appropriate action on a wide array of issues of importance to us. Deeper cuts might raise the issue of our rent-free use of the Soto Cano air base.

#### COORDINATION OF ASSISTANCE TO LATIN AMERICA

**Question.** In the FY1990 foreign aid appropriations bill (P.L. 101-167), up to \$1 million was provided for the development of the Central American Development Coordination Commission (CADCC), a regional forum designed to coordinate multi-donor and multi-sectoral foreign assistance funds to Central America. What is the current status of the CADCC, and what are its prospects for the future? What is the status of the Administration's discussion with other industrialized democracies regarding the coordination of assistance to Central America?

**Answer.** AID has reserved \$500,000 in FY90 ESF funds to be used specifically for the CADCC. The language in the bill requires the President to provide the funds upon the request of the Governments of Central America. We have informally consulted with regional leaders on this idea. Thus far a request from the governments of Central America for assistance in setting up a CADCC as outlined in the legislation has not been forthcoming. Much of what was envisioned for the CADCC will be carried out under the aegis of the Partnership for Democracy and Development (PDD) and the Esquipulas II process. The PDD is a forum composed of the countries and multilateral institutions with an interest in the region, that will meet on a periodic basis to address the issues facing the region. The Central American Governments may decide on the need for a forum, including public and private sector representation, to consult among themselves prior to the PDD and the Regional Consultative Group meetings. If so, this may lead to a rethinking and possible revision of the earlier CADCC concept.

One of the goals behind Secretary Baker's PDD initiative is to keep world attention focused on Central America and to support economic growth and integration in the region. The Central American Presidents at their Puntarenas Summit last December, requested the Inter-American Development Bank (IDB) to coordinate a Regional Consultative Group involving the major multilateral and bilateral donors. The process is now being formalized. The OECD members as well as Venezuela, Mexico, Colombia and relevant international institutions and organizations have expressed support for the PDD and attended the PDD conference held in Costa Rica on April 9-10.

#### HAITI

**Question.** What changes will there be in U.S. policy toward Haiti now that Haiti has a fairly-elected government?

**Answer.** Because of the repressive character of Haiti's previous governments, we kept them, especially in recent years, at arm's length. The clearest example of this approach was our economic assistance program, most of which was implemented through non-governmental organizations and not through the Haitian government. With the successful democratic transition in Haiti, we are committed to helping the new government consolidate political reforms and ease economic misery. Likewise, there is now no impediment to a full range of bilateral contacts between our nations or to a primary role for the Haitian government in the planning and implementation of U.S. assistance projects.

**Question.** Now that Aristide is President of Haiti, what do you think U.S. relations with Aristide will be? How easy or difficult will it be to initiate U.S. programs under an Aristide government?

**Answer.** Thus far our relations with President Aristide and his government have been friendly and cooperative. We see no reason why relations should not continue in this same spirit. This will obviously facilitate implementation of U.S. assistance programs and other bilateral initiatives.

**Question.** Since becoming a candidate, Aristide has toned down his revolutionary anti-United States rhetoric. How confident are you that Aristide will continue to implement democratic changes in Haiti?

**Answer.** In our discussions with President Aristide and his government we have made clear our belief in the importance to Haiti and to our bilateral relationship of strengthening Haiti's democratic institutions and human rights safeguards. This includes working to ensure that the military and police are professional organizations subordinate to civilian authority, and that the judiciary is independent, honest and committed to enforcing the rule of law as well as protecting the rights of the individual. President Aristide has, in return, stressed his commitment to these same objectives. It remains too early to be certain of the outcome of Haiti's democratic experiment, but I can assure you of our intention to do everything possible, in cooperation with the Aristide government, to ensure its success.

**Question.** How committed do you believe General Abraham, and the Haitian armed forces are to a democratic form of government? Do you believe General Abraham and the Haitian military would continue to support the democratic government if it attempted to prosecute those responsible for past human rights violations?

The Haitian military demonstrated its adherence to the democratic process by providing the security necessary for the successful elections in December and January and the subsequent transfer of power to President Aristide. Moreover, its decisive action thwarted the January 6-7 coup attempt of Roger Lafontant and his Duvalierist supporters. Since the inauguration of President Aristide, there have been a number of arrests of alleged perpetrators of past human rights violations, including former members of the military. We are aware of no significant adverse reaction from the military. Based on the foregoing, we expect that the military will continue to play a positive role in consolidation of Aristidean democracy.

## Questions for the Record From Chairman Obey Submitted to the Agency for International Development

### NICARAGUA DISBURSEMENTS

**Question.** Last April in the wake of the elections in Nicaragua, the Administration presented Congress with an urgent request for funds to aid Mrs. Chamorro in stabilizing and rebuilding her country. Urgent appeals were made to expedite Congressional consideration of the \$300 million request, and not to hamstring it with legislative conditions.

Congress responded to that appeal and the money was provided. Yet as of December 1990 only \$125 million of the \$300 million provided last year has been obligated. Indeed in many cases even funds which have been obligated, are sitting in bank accounts because projects have yet to take shape. The FY 1991 program of \$150 million is also moving slowly.

Describe why it has taken so long to get this program moving.

**Answer.** Mrs. Chamorro's government inherited a country whose resources had been depleted by ten years of Sandinista rule, leaving the state coffers virtually empty and the entire economic structure in the hands of bankrupt state-owned enterprises. Unfortunately, the conditions in the country resulting from that state-dominated economy and poor macroeconomic policies will take years to reverse.

In spite of the constraints, in the ten months since passing of the Dire Supplemental Appropriation, major accomplishments have been made:

Emergency Assistance: (\$35 million) was used: a) to provide 1000 metric tons of wheat and oil which arrived April 25th (the day of President Chamorro's inauguration); b) to finance the costs of the Chamorro government's transition team and to train new legislators; c) to provide hospital care, prosthesis and rehabilitation to civilian victims of the war; d) to begin repatriation of the former Resistance; and e) to finance urgently needed pharmaceuticals and intravenous fluids.

Balance-of-payments assistance: This program supports a series of economic reform measures the Government of Nicaragua (GON) has agreed to implement. To date important reforms have been enacted reducing domestic financing of the fiscal deficit, eliminating state monopolies on exports, authorizing licensing of private sector financial institutions, reducing public sector employment and preparing a framework for privatization of state-owned enterprises. Disbursements conditioned

on these reforms, totaling \$109 million, have been made to finance critically needed petroleum imports as well as agricultural and industrial machinery and spare parts from the United States. This cash transfer program will also defray GON expenses connected with the planned reduction of 10,000 government employees.

**Arrears:** \$50 million has been made available to help clear an estimated \$360 million in arrears to the World Bank and IDB in order to allow those institutions to begin lending again to Nicaragua. These funds will be disbursed as soon as the GON succeeds, with World Bank support, in getting creditor countries to put an arrears-clearing package together.

**Repatriation:** Approximately 30,000 ex-resistance members and their families plus 30,000-35,000 refugees have been repatriated to Nicaragua. Of a total allocation of \$57 million, \$40 million has been disbursed to the International Commission for Verification and Support (CIAV), which is working with the Organization of American States and the United National High Commission for Refugees, for food supplies, clothing needs, tools, housing materials and immunizations.

**Food Assistance:** A FY 91 Food and Progress Agreement was signed with Nicaragua on February 6, 1991, for \$36.1 million. The program will provide wheat, rice, tallow, vegetable oil, and other agricultural commodities. It will also support government efforts to license privately-owned financial institutions, fertilizer importers, agricultural commodities exporters, and to privatize meat-packing facilities.

CARE is using U.S. food assistance to organize a food-for-work program to provide 6,500 temporary public works jobs in Managua in 56 neighborhoods. These projects are expected to benefit a total of 127,000 Managua residents.

The Adventist Development and Relief Agency (ADRA) has been provided with a grant and Title II commodities to provide primary health care and supplementary food to family beneficiaries who were victims of the war. Food commodities have been delivered to 22,577 beneficiaries in 151 communities and emergency food distribution was made to 18,000 on the Atlantic coast. A total of 78 oral rehydration clinics and 151 growth monitoring and nutrition clinics have been established.

**Textbook Program:** At the request of the GON, A.I.D. is providing over 7 million updated, de-politicized textbooks for primary and secondary school students. As of March 4, 1991, a total of 5,589,217 primary and secondary school books have arrived in Managua and over 4 million have been distributed.

**Employment Generation:** Employment projects are underway in 21 cities (Matagalpa, Jinotega, Juigalpa, Boaco, and Rivas) under a \$10 million project for repair and rehabilitation activities. The number employed under the project is now approaching 1,800 unskilled and semi-skilled workers who work for an average period of two to three months in public works projects.

**Technical Assistance and Training:** The Central American Institute of Business Administration (INCAE) through a grant from A.I.D. is providing 12 senior technical advisors for the Ministries of Finance, Education, and Agriculture as well as the Central Bank and other key GON institutions. INCAE has also implemented seven seminars dealing with issues critical to policy consensus-building on economic recovery and democratic transition reaching a total of 389 participants of whom 20-30 percent have been women.

**Public Sector Support:** A \$5 million project to support important government services by providing office equipment, computers, and vehicles was signed on September 25, 1990. Commodities began arriving in early February.

**Democratic Initiatives:** Funds in the amount of \$700,000 have been granted to the American Institute for Free Labor Development to help the independent labor unions in Nicaragua build a strong free trade union structure, enhance their technical labor skills, improve delivery of services to their members, and help communities with self-help social projects. These efforts have helped increase union membership in non-Sandinista unions by over 30,000.

A \$235,000 grant to the National Endowment for Democracy (NED) will cover costs of replacing the damaged transmitter of Radio Corporacion. NED is working with the free media and civic organizations to provide spare parts for radio stations, improve leadership skills and fund a national civic education campaign. The Inter-American Bar Foundation is also assessing the status of legal education in Nicaragua.

Project Hope received \$2.5 million to re-start basic services at four community hospitals located in Esteli, Juigalpa, Matagalpa, and Boaco. On December 6, 1990, a U.S. military transport plane arrived in Managua with 123 pallets of medicines and supplies.

**Other Health Activities:** A shipment of medical supplies, antibiotics, and 97,000 doses of DPT vaccines arrived on February 15, 1991. A.I.D. was also a major contrib-

ctor to a multi-donor sponsored national immunization campaign which took place the first week of February.

**Private Voluntary Organization Programs:** The Salesian Missions were granted \$1.7 million to train over 7,000 Nicaraguans in basic vocational skills. The first class of 240 students taking typing and basic computer classes will graduate in March.

Of the total \$335 million provided for Nicaragua in FY 90 (\$35 million in emergency assistance and \$300 million under the Dire Supplemental), \$293 million (87%) has been obligated and \$187 million (56%) disbursed in ten months (April-February 1991).

#### NICARAGUA ECONOMY

*Question.* Nicaragua has struggled economically since Mrs. Chamorro took office. Political concessions took precedence of economic stabilization in Nicaragua for the first nine months of Mrs. Chamorro's term. However, recently the government has begun a stabilization and structural adjustment program, which hopefully will lead to an IMF agreement. Then, the government will be in a position to collect on the pledges of the U.S. and other donors, and pay back arrears to international financial institutions.

Outline your expectations on Nicaragua's economic program. When specifically do you think Nicaragua will be in a position to pay off its arrears and begin to receive new loans.

*Answer.* Nicaragua's economic plan is technically sound, and if adhered to closely, it should accomplish the overall goals of economic stabilization. A basic assumption of this plan is that public spending will be reduced. These reductions require freezes in wage and salary schedules and timely government implementation of its planned occupational conversion program. It will be imperative that Nicaragua be firm in negotiations with workers and hold to its announced salary levels. It is also essential that voluntary reduction of the public sector work force begin soon.

An informal donors' meeting will be held in Washington March 25-26 to review the government's commitment to an economic reform program. A Consultative Group meeting is also planned for mid-May to finalize an arrears clearing agreement for implementation this summer, thus allowing new flows of resources from the World Bank and Inter-American Development Bank which could begin by the end of the summer.

#### NICARAGUAN ECONOMIC REFORMS

*Question.* What role have State and A.I.D. been playing in urging the Nicaraguan government to embark on an economic reform program?

*Answer.* The present A.I.D. cash transfer program of \$68 million (plus \$50 million for arrears clearing) has conditionality on each tranche of funding which has encouraged Nicaragua (the GON) to adopt its current economic stabilization and structural adjustment program. This conditionality has assisted the GON to make difficult reforms in the areas of (1) reducing domestic financing of the fiscal deficit, (2) eliminating state monopolies on exports, (3) licensing of private financial institutions, (4) reductions in public sector employment, and (5) establishing a regulatory framework for the privatization of state-owned enterprises.

A new cash transfer program for \$135 million is currently being reviewed in Washington. This program will continue to have conditionality aimed at supporting the Nicaraguan economic reforms.

#### NICARAGUA CASH TRANSFER

*Question.* Nicaragua is about to sign up a cash transfer of \$135 million, as I understand it. Can you outline for the Committee the specific purposes to which these funds would be put and the disbursement schedule?

*Answer.* The program has not yet been approved; however, we contemplate that it will be disbursed in four tranches keyed to the financing requirements of Nicaragua's program. Proposed conditions emphasize progress in two key areas: first and foremost, on achievement of macroeconomic targets of the stabilization program and secondly, on progress in important elements of financial system reform. The initial tranche will be \$30 million and the three subsequent tranches will each be \$35 million.

The dollars provided under this program will be available for essential imports from the United States and Central America, including oil, in response to Nicaragua's request for the greatest possible flexibility in the use of program resources. Some dollars may also be used for service of debt to multilateral institutions.

## NICARAGUA CONTRAS FEEDING PROGRAM STATUS

**Question.** Recent GAO briefings on the status of the Nicaragua contras indicate that the OAS is currently feeding 90,000 to 95,000 people. The most that were ever provided or in the AID funded program in Honduras was 55,000. AID has recently provided the OAS with an additional \$10 million to continue this feeding program until the end of July. Even though the initial disarming and demobilization of the Contras went well, it appears that their re-integration into the Nicaraguan society is not.

Explain why an OAS feeding program is still necessary for the former Resistance members, and why that program involves 90,000 people. Where did they all come from?

**Answer.** A feeding program is still considered necessary for some of the former Resistance members because at the time of the January harvest, only about one-fourth of the families had received land in time to plant a crop. Since then approximately two-thirds of the ex-Resistance who want land have received it from Nicaragua which has said it is committed to completing distribution before the end of April. Recent reports from Nicaragua, however, indicate that a small number of ex-Resistance (perhaps 3000-5000), may not be accommodated by the beginning of the next planting season and that some residual support may be necessary. This support might or might not include feeding.

While many former Resistance members do not require full food rations at this time, according to a study the Organization of American States (OAS) commissioned in January, only 5-10% were totally self-sufficient. In the five-month extension the International Committee on Verification (CIAV/OAS) was, therefore, asked to distribute food in accordance with the needs indicated by the Food Assessment study. We also requested a program for reduction in direct feeding, and an appropriate monitoring system, so that CIAV could ensure the distribution of food to populations identified in the study as being at highest risk of undernourishment.

The total number of ex-Resistance being assisted by the OAS is 95,465. OAS records show the following break down:

Ex-Combatants/Heads of Families.....	26, 541
Ex-Resistance .....	21,758
Demob. in Honduras .....	1,700
Heads of repatriated families.....	3,083
Family Members .....	68,924
Family of RN demob. in Nic .....	40,938
Repatriated .....	27,986

Of this total, the OAS estimated that approximately 90,000 will need some additional assistance during the five-month extension.

**Question.** What procedures were used to determine eligibility for this feeding program?

**Answer.** In December and January, the International Committee on Verification/Organization of American States (CIAV/OAS) funded a food needs assessment team to determine the level of feeding that would be needed from March-August.

The study identified four groups with varying needs for food rations: (1) 5-10% were estimated to be at very high dependency. These were mainly people still at resettlement centers who had not yet received land, or some who had received deficient seeds or suffered crop failures; (2) 20-25% were classified as medium-high needs for feeding. This group were either newly settled, had received land too late to plant for the January harvest, or were still unsettled; (3) 60-65% were identified as being only somewhat dependent. This group was considered to have good prognosis for the January harvest, well organized farms, easy access to markets and supplementary work; and (4) 5-10% were considered food self-sufficient. This group was in stable land situations, with crops planted, other sources of work available and some harvests already complete.

The study also identified geographic areas which coincided with these four food-needs groups. In the five-month extension of its grant the OAS agreed to take the findings of this study into account in providing rations.

**Question.** Do you anticipate that the OAS feeding program will end when this \$10 million runs out at the end of July?

**Answer.** We have recently been informed that Nicaragua may not be able to fulfill its pledge to complete land distribution by the end of April. A.I.D. and State are discussing the implications of this and exploring several options to assure that the ex-Resistance receive sufficient assistance. Our mission in Nicaragua has recently contracted with an American personal services contractor to serve as liaison between A.I.D. and the International Commission on Verification/Organization of American States (CIAV/OAS). One of his principal tasks will be to monitor the situation and assist both A.I.D. and CIAV in making "best estimates" as to whether any Resistance families will require food assistance after July. The best guess at the moment is that about 90% of the target population should be self-sufficient. This will be monitored and revised on a monthly basis.

#### NICARAGUA AGRICULTURAL CREDIT

**Question.** Credit programs are now being initiated by the GON to help Nicaraguan farmers get in their spring crop. Preliminary results of the GAO report indicate that because these credit programs are not designed to provide credit to small farmers just starting out with little or no collateral, that the former resistance members who have managed to get a plot of land will not have access to credit. Can you address this irony? What specifically has been done to give small farmers access to credit this spring?

**Answer.** The present Organization of American States (OAS) program provides free seeds, fertilizer and agricultural tools to the ex-Resistance who have received land. This assistance will cover their input needs during this agricultural cycle and few should need actual credit.

A.I.D.'s concern has been more that in the past the credit given by Nicaraguan state banks to farmers has been undisciplined and that more stringent policies toward profit-based lending must be put in place by Nicaragua. Any farmers, large or small, with good credit repayment histories should be eligible for credit from the National Development Bank during this agricultural season. This year for the first time non-payment of credits will result in future year ineligibility to receive credit.

#### NICARAGUA EXTENSION OF CONTRA SUPPORT PROGRAM

**Question.** In May 1990, the U.S. Congress provided \$30 million to repatriate and resettle former Nicaraguan Resistance combatants and their dependents. The resettlement program, administered by the Organization of American States, was originally intended to end in February 1991. However, a large percentage of the former Nicaraguan Resistance and their families had not become self-sufficient by that time. This was caused, in large part, because the government of Nicaragua has not finished providing the land it promised to the combatants in exchange for their demobilization.

AID has decided to extend the program, at a cost of \$9.9 million, through July 31, 1991. AID's extension is based on the assumption that sufficient land will be distributed before the May planting season so that most beneficiaries will be self-sufficient by the August harvest. The government of Nicaragua has promised that all land needed by the former Resistance members will be distributed by April 25, 1991, in time for the May planting season. OAS and Resistance officials believe that this is too optimistic. At this time, however, no one is certain how many former members of the Nicaraguan Resistance are already self-sufficient.

What is the basis for A.I.D.'s prediction that most former members of the Nicaraguan Resistance will receive land and become self-sufficient by August 1991. On what assumptions did A.I.D. base its budget of \$9.9 million for the extension? In view of the fact that neither the OAS nor leaders of the former Resistance believe that all beneficiaries will be self-sufficient by July 31, 1991, will A.I.D. fund further extensions in the event that a large percentage of the Resistance is not self-sufficient by July 31, 1991?

**Answer.** The United States belief that most former Resistance would receive land is based on statements made to that effect, most recently by Antonio Lacayo, Minister of the Presidency, during his visit in February. He stated that Nicaragua planned to complete land distribution by the end of April. If the land is received by that time, farmers will be able to plant and will have a harvest in August.

The budget of \$9.9 million was based on proposals made to A.I.D. by the International Commission on Verification/Organization of American States on what their

costs would be to continue their program until the beneficiaries would receive land and be able to harvest their crops.

There have recently been some indications that Nicaragua will not be able to provide land for all before this planting period ends, but this will not affect a "large percentage of the Resistance." The International Commission on Verification (CIAV) and A.I.D. will monitor this carefully over the next several months. If it becomes necessary to fund any further extension of CIAV, this would likely be at a far smaller level of effort than is currently the case. In any event, any A.I.D. financed extension would require that FY 91 OYB funds be increased.

#### NICARAGUA AGRICULTURAL ASSISTANCE

*Question.* Because it has a largely agrarian economy, Nicaragua relies largely on exported agricultural products to earn foreign currency. Reports indicate that the past harvest of some major export crops was not good. The reasons vary by crop, but one problem was the lack of incentive to invest in the agricultural sector. AID's cash transfer program did address a major constraint to investment in the agricultural sector by making the elimination of foreign trading monopolies a condition for the disbursement of \$24 million through its cash transfer program.

AID disbursed \$24 million in late February 1991, upon evidence that the government of Nicaragua had made significant progress in eliminating monopolies. These, and other funds provided by the United States, are available to import agricultural equipment and other agricultural requirements. However, most of the funds disbursed to date have been used to import petroleum. AID has not yet initiated any long-term development projects which specifically address problems in the agricultural sector.

Is A.I.D. designing projects to deal with the problems of encouraging investment, providing access to credit, improving agrarian management, teaching technological improvements, and expanding exports?

*Answer.* A.I.D. in Nicaragua is currently addressing these problems in four ways. First, the mission in Nicaragua is approaching closure on the design of a five-year \$7 million Private Agricultural Services Project that will focus on investment promotion, technology transfer, and expansion of both traditional and non-traditional exports. Second, in support of investment promotion and expansion of exports, A.I.D. is also collaborating on a regionally-funded Non-Traditional Agricultural Exports project. As a result of this collaboration, local investors are exploring investment opportunities (including divestiture). The first exports of these crops began in March of this year. Third, local currency generations from our balance of payments program and from Food for Progress programs will allow the Central Bank to continue to offer agricultural credit during the 1991/92 planting season. Fourth, A.I.D. will begin working this fall with a private voluntary organization, TechnoServe, through a centrally-funded grant, to provide technical and other assistance to agricultural cooperatives in Nicaragua.

*Question.* If so, will these projects be implemented in ways that ensure that all entities in the agricultural sector benefit?

*Answer.* All of the four initiatives mentioned in the preceding question will be implemented in ways that will ensure access to project benefits by all productive elements of the agricultural sector. Those served will include members of private producers' associations and federations, agricultural cooperatives formerly assisted by TechnoServe or belonging to the private producers' associations, and independent producers. The only restrictions will be those that apply to sugar and citrus production.

#### GUATEMALAN ECONOMY

*Question.* A.I.D. has funded numerous U.S. technical consultants to analyze the Guatemalan Government's financial structure. Considerable amounts have been spent to develop recommendations for revisions in Government expenditures and the tax structure. One of Guatemala's primary problems economically has been and continues to be the lack of equitable and dependable tax system. The political resistance to any changes in the tax structure from the right in Guatemala is strong. Many believe former President Cerezo's lack of effectiveness in his last year in office is due largely to his attempts to begin a fiscal reform process in Guatemala. Those efforts culminated and effectively ceased after the unsuccessful coup attempt in July of 1989.

With relations between Guatemala and the U.S. at an all time low, and given the political orientation of the new President of Guatemala (right wing, religious, business man) what realistic expectation do you have that Guatemala will take advan-

tage of all of this high priced U.S. advice and actually take steps to reform their tax system?

**Answer.** The new Government of Guatemala (GOG) is aware of the urgency of moving quickly to adopt a comprehensive fiscal administration program, including major new tax measures. The fiscal crisis has become so severe that a tax reform program is the only option to begin to balance the budget. The GOG is determined to move forward and recognizes the importance of tax reforms in negotiating an International Monetary Fund (IMF) stand-by agreement, which would accelerate resource flows of international financial institutions to Guatemala.

The technical assistance services provided by A.I.D. have helped in analyzing thoroughly Guatemala's fiscal situation and in identifying a number of alternatives. A political decision must be made among various options available. It must be submitted to and ratified by the Guatemalan Congress. We anticipate that a difficult process of consensus building will be required and we continue to work closely with the GOG to ensure that the tax measures adopted will be technically adequate.

Meanwhile, A.I.D. advisors, who have gained the trust of the GOG, have helped implement immediate administrative improvements, including: elimination of the tax holidays, initiation of special tax audits of exporters, computerization of income tax audits, implementation of a vehicle appraisal system in customs, initiation of a campaign of collection of back income taxes, and procedures for removal of about half of customs inspectors because of corruption. These initiatives represent the first stage of a broader tax reform which is expected to be announced shortly.

**Question.** The Andean countries of Bolivia, Colombia, Peru, and to a lesser extent Ecuador, have been of particular concern to the United States and Congress during the last few years. Virtually all of the coca that comes into the United States as cocaine is grown in the Andean countries—principally Peru and Bolivia. And 80 percent of the cocaine in the United States is exported by the drug cartels in Colombia. The United States has developed a multi-faceted "supply-side strategy" to curb the flow of drugs into the United States and to assist the Andean governments in controlling the threats to their political stability and economies that narcotrafickers and leftist guerrillas pose. This strategy includes military aid, economic development assistance, legal training and assistance through the Administration of Justice program, and debt and trade proposals.

Nevertheless, the Andean nations are not satisfied with the U.S. program, which they complain overemphasizes the military aspects and eradication efforts. They argue that the economic realities of the coca and cocaine trade—which benefits an estimated 1.5 million people in these countries—make it difficult for their economies to shift from narcotics production. Such a shift, they say, requires increased assistance and a reorientation of U.S. efforts towards greater economic cooperation, including a preferential trade regime for Andean products.

The Administration's FY 1991 request for U.S. assistance to the Andean countries totals some \$623 million, of which \$53.2 million is development aid, \$275 million is ESF (including the \$250 million special Andean Narcotics Initiative monies), \$146.9 million is Foreign Military Financing grants and IMET funding, and \$38.7 million is narcotics aid. (The remainder is P.L. 480 and Peace Corps funds.)

Explain your intentions on disbursal of the pending request for \$72 million in ESF, assuming the Committee releases its "hold" on them. What conditions will be imposed on their disbursal other than eradication of coca under cultivation?

**Answer.** Our intentions on disbursal of the pending \$72 million in ESF are: to make three disbursements of \$22 million each in FY 1991 for balance of payments support; and to make available up to \$6 million for commercial bank debt buy-back in cooperation with World Bank and other donors. The \$6 million mentioned above is FY 1990 Economic Support Funds (ESF) that has already been disbursed to a Bolivian special account.

A.I.D. continues to require compliance with two essential conditions for the disbursement of the \$66 million in FY 1991 ESF: sound economic policies and counterdrug performance. Economic policy conditions are principally associated with Bolivia's stabilization and structural adjustment programs.

The first disbursement of \$22 million is based on FY 1990 counterdrug performance and continuation of the Bolivian economic stabilization program. The second and third \$22 million disbursements are conditioned on such actions as: substantial seizures or destruction of refined cocaine products or chemicals; destruction of physical facilities; seizure or destruction of assets; arrest, incarceration or extradition of large scale cocaine traffickers and eradication of 7,000 hectares of coca.

## UPPER HUALLAGA VALLEY PROJECT IN PERU

*Question.* A.I.D.'s Upper Huallaga area development program provides research and assistance in growing "legitimate" crops where coca has been eradicated. Please evaluate the success of this program. What are the strengths and weaknesses?

*Answer.* A.I.D.'s Upper Huallaga Area Development (UHAD) project supports the Government of Peru's (GOP) alternative development program in the principal coca growing area of Peru's high jungle. The project is authorized at \$15 million in loan, and \$12.9 million in grant funds. Of these amounts, approximately \$22.3 million has been disbursed as of January 31, 1991.

The UHAD project is about to complete ten years of implementation. It aims to support Peruvian development and narcotics control objectives in the Upper Huallaga Valley (UHV) by (a) strengthening public sector agricultural support services; (b) developing and transferring appropriate agricultural technologies; and (c) expanding rural and community development activities.

Two factors have impeded implementation of project elements. First, the expansion of illegal coca cultivation has drawn farmers away from the fertile valley floor and more into isolated hilly areas never intended for agricultural use. Second, the security problems related to terrorist and/or narcotrafficking activities have eliminated or forced the withdrawal of most GOP agencies from all but a few valley communities.

The project helps to keep the road networks open so that the UHV can receive needed agricultural inputs and market legitimate valley products. Efforts to provide farmers with agricultural research, extension and credit have lagged due to the high security risk. However, more direct delivery of production inputs and services through farmer groups may be possible to encourage farmers to initiate the shift from coca, thus lessening the impact of a difficult security situation.

In general, future success of A.I.D.-supported efforts in the UHV will depend on GOP success with its integrated counternarcotics strategy, which includes law enforcement, narcotics education and alternative development.

## AID TO ANDEAN NATIONS

*Question.* The Andean nations have argued that more funding for alternative economic development, including crop substitution efforts, is needed. Do you agree? Why or why not? If so, how much funding do you think is needed?

*Answer.* To reduce and eventually eliminate coca production in the Andean countries, an integrated approach of law enforcement, public information and alternative development is needed. This is our strategy in all three Andean countries which produce coca products.

Donors can provide current coca farmers and others involved in primary processing with opportunities and incentives to stop producing coca. But access to a steady, reasonable income in the long-term is what will solve the problem. If that opportunity is not available, and cocaine is still in demand worldwide, production may move to another area of the country or to other countries.

For this reason, alternative development throughout the economy is required to progress toward the long-term goal of replacing the coca economy with licit sources of economic growth. This is the focus of the Andean counterdrug economic assistance which provides balance of payments support—to help offset foreign exchange losses due to the transition out of the coca economy—as well as project support.

Increased trade and investment and debt reduction are complementary elements of this approach. Other donor participation is needed and welcome in these areas—e.g., the Europeans have extended trade preferences to the Andean countries—as well as in the form of increased flows of assistance.

The total funding requirement will depend on the absorptive capacity of the agencies engaged in alternative development in the Andean countries as well as on success in the United States and other countries in reducing the demand for narcotics. Recent and continuing success in reducing such demand will have a favorable impact on funding requirements in the Andes by reinforcing efforts to suppress production and supply.

The A.I.D. commitment under the Andean Counterdrug Initiative is to provide some \$925 million over the next four years. At the same time, other donors (such as the United Nations Fund for Drug Abuse Control) will be providing complementary support to alternative development, including crop substitution. We are optimistic that our assistance will make a difference in the anti-drug struggle.

## A.I.D. ASSISTANCE TO PERU

**Question.** Last year, A.I.D. stated in its Congressional Presentation that, in Peru, the government's posture regarding debt and its unsustainable economic policies have limited assistance that A.I.D. can provide. Since a new government has taken power in Peru, does this judgement still hold? If not, what new activities might A.I.D. undertake in Peru?

**Answer.** The situation in Peru, both with respect to its economic policies and its posture on debt, has improved dramatically and is almost completely different today than it was when last year's Congressional Presentation outlined the situation under the Garcia government.

The factors noted need no longer limit the assistance A.I.D. can provide. Peru continues to have enormous difficulties in servicing its debt since the total burden is so heavy; and it continues to be behind on its U.S. debt payments, remaining under 620(q) and Brooke-Alexander sanctions, but waivers in the context of counternarcotics concerns can be obtained.

Since taking office in July 1990, the Fujimori government has begun a dramatic, major break with the policies of the Garcia government and a definitive turn to sound economic policy. The new program has ended hyperinflation, strengthened the public finances, largely removed distortions in the price structure, and is progressively liberalizing foreign trade.

The Fujimori government has done all this without waiting for donor assistance, although increased assistance from both bilateral donors and international financial institutions is desperately needed to carry through the reforms and revive the economy. Large-scale debt rescheduling, reduction of official bilateral debt and export expansion are also needed to support the reform effort and permit a resumption of economic growth.

In spite of the difficulties involved, the Fujimori government has sustained and intensified its reform effort while waiting for support it desperately needs and deserves from the international donor community. The new government has also adopted a posture on debt that is a vast improvement from that of its predecessor. The Fujimori government is actively seeking Peru's reinsertion in the international financial community and, to this end, has resumed full payment on its currently due debt service with the World Bank and the Inter-American Development Bank while maintaining payment on its debt to the International Monetary Fund.

With the new, more favorable policy climate and improved posture on debt, A.I.D. is undertaking a number of new activities in support of stabilization and adjustment, and counternarcotics cooperation in Peru.

Under the Andean Counterdrug Initiative, A.I.D. plans to provide economic support to the drug control strategy. New activities will include: Balance of Payments support (\$50 million) to help cover the foreign exchange cost of taking more aggressive action against drugs; the National Employment Generation (\$1.0 million) project to provide technical assistance, and training to develop small and microenterprises; and the Investment and Export Promotion (\$3.5 million) project to help generate foreign exchange earnings and employment from non-traditional agricultural and manufactured exports.

On-going activities that we plan to continue under the Andean Counternarcotics Initiative include: Policy Analysis (\$2.2 million) project to provide technical assistance to help the GOP refine the country's economic stabilization and recovery program; Upper Huallaga development (\$1.2 million) project to develop legal alternative income activities in the Upper Huallaga Valley; Drug Awareness and Education (\$0.9 million) project to support the Center for Education and Information on Drug Abuse Prevention (CEDRO) efforts to strengthen public support for drug control and to reduce domestic drug abuse; and, Administration of Justice (\$0.5 million) project to increase the efficiency of the judicial system.

We expect to provide over \$100 million in food aid in FY 1991 to support the Government of Peru's Social Emergency Program and a variety of food-for-work and directfeeding programs implemented by private and voluntary organizations.

In addition, in accordance with the provisions of Section 123(e), A.I.D. plans to obligate about \$10 million for ongoing development assistance activities in agriculture, natural resources, family planning, child survival, and private sector development. Section 123(e) allows for the continuation of support for programs of private and voluntary organizations notwithstanding the prohibitions contained in Brooke-Alexander and Section 620(q).

## ADMINISTRATION OF JUSTICE

**Question.** Last year, Congress authorized \$16 million for Administration of Justice (AOJ) programs in Bolivia, Colombia and Peru in the International Narcotics Control Act of 1990 (P.L. 101-623). How much of this assistance is being used for judicial security and how much is to support judicial reform? How effective are AOJ activities in promoting judicial reform? Has security for Colombian judges improved since this program went into effect?

**Answer.** Extensions of ongoing Administration of Justice (AOJ) projects are being developed in the three countries. We expect to obligate a total of \$7.5 million this fiscal year.

The only country in which judicial security has been a major issue is Colombia. Security has improved for Colombian judges over the last year, but much remains to be done. The \$5 million earmarked for judicial protection in FY 1989 has now been substantially expended for equipment purchases and training by the Department of State Anti-Terrorism Assistance (ATA) and Justice International Criminal Investigative Training Assistance Programs (ICITAP). In addition, A.I.D. supported establishment of new public order courts, in which security considerations were paramount, and International Narcotics Matters (INM) obligated \$1 million for judicial security equipment in September 1990. The Colombian government used its own funds to finance construction and other costs associated with the opening of the public order courts in January. With respect to reform of the justice sector, we are working with Colombian officials now to develop an overall plan. A new AOJ project is expected to be authorized next month, with \$6.5 million to be obligated this fiscal year. Under it, ICITAP will continue to provide training in personal security awareness for judges and techniques of protection for bodyguards. ICITAP will also work with the relevant Colombian institutions to develop the capacity to assess and prosecute threats against judicial personnel.

A.I.D.'s activities over the last several years in Colombia demonstrate how project assistance can be an effective lever in creating a dynamic national process for judicial reform. Had it not been for the project—which became a focal point for reform-minded individuals and funded a justice transition team for President-elect Gaviria—there would not be the consensus on priority reforms that now exists in Colombia.

We are looking at our other projects in the region to see how local reform efforts can best be supported. In Peru, for example, we are incorporating dynamic elements of the private sector, who are engaged in analytical studies that should serve as the basis for policy decisions by the Fujimori administration. In Bolivia, current planning for the justice system is hampered by the impeachment proceedings pending against members of the Supreme Court. When that problem is resolved, we hope to be able to move ahead with activities of the kind underway in Peru. Five hundred thousand dollars programmed for the extension of ongoing AOJ activities, including ICITAP, in each of these Andean countries during FY 1991.

## NARCOTICS AWARENESS AND EDUCATION

**Question.** Is there an increase in domestic drug-use in the Andean region? If so, how significant is it? How effective are A.I.D.'s drug education programs? Does A.I.D. plan further efforts to curb domestic use in these countries?

**Answer.** The best data available in the Andean region indicate that in Lima, Peru, use increased between 1979 and 1986, and declined somewhat in 1988, as follows:

[In percent]

	1979	1986	1988
Marijuana.....	3.2	11.2	6.3
Cocaine Paste.....	1.3	5.2	3.9
Cocaine Powder.....	0.7	4.0	1.8

In other Peruvian urban areas, use follows the same patterns. The increase between 1979 and 1986 was dramatic. The decline between 1986 and 1988 may represent more reluctant to admit use, a different research team, or a response to prevention efforts. Studies in Colombia do not provide national estimates, since they do not use comparable methods and cover only limited geographic areas. In Bolivia, the

most recent data indicated that 7.2% of youths had ever used marijuana, and 5.4% had ever used coca paste.

However, although all the evidence points to a growing problem, methodological flaws bring the data into question. There is no trend data available for Ecuador. Thus, using Peru as an indicator, there has been significant increase in domestic drug use over the last decade.

A survey conducted during April and May of 1988 in Bolivia indicates that an overwhelming majority of those interviewed (90% interviewed in households and 95% interviewed in schools) believed that "drugs constitute an important problem for the country;" which program evaluators took as evidence that A.I.D.'s drug education program was having a positive impact. Existing evaluations of A.I.D. narcotics awareness projects in Colombia and Ecuador do not focus on this question. In Peru, systematic public opinion surveys were conducted during the period 1985 to 1989. They reflect two major changes which occurred: production became perceived as the most important of drug related problems, and the drug problem became one of the three most important concerns of urban Peruvians. The evaluators conclude that "CEDRO's (the Peruvian implementing agency) public awareness efforts appear to have been effective. In sharp contrast to public perception when the project was initiated, now nine out of ten.

Peruvians say that both drug production and trafficking are harmful for their country and generally believe that the country's drug problem (sic) require their government's attention".

A.I.D. does plan further efforts to curb domestic use in the Andean countries. The following shows planned obligations by country and year.

Country	Fiscal year—	
	1991	1992
Bolivia.....	\$112,500,000	\$3,000,000
Colombia.....	1,000,000	1,000,000
Peru.....	943,000	2,000,000

#### ANDEAN COUNTRIES: ECONOMIC GROWTH AND DEVELOPMENT NEEDS

**Question.** In 1989, Congress provided the President with authority—beginning October 1, 1990—to relieve the debt to the United States owed by Bolivia, Colombia and Peru, if the President determined that the country was implementing programs to reduce the flow of cocaine to the United States. The Congress currently has before it the Andean Trade Preference Act (H.R. 661), which would provide special trade benefits for Bolivia, Colombia, Ecuador and Peru, that would amount to a one-way free trade arrangement similar to that which the Caribbean Basin Initiative provides for the Caribbean Region. To what extent do you think that debt reduction and preferential trade treatment are necessary to assist in the process of economic growth and development in the Andean countries?

**Answer.** Debt reduction and expanded trade opportunities are both needed, along with market oriented policy reforms to stimulate economic growth and development in the Andean countries.

Debt reduction and expanded trade opportunities are needed to complement and reinforce our economic assistance programs, which are intended in large part to promote expanded private sector investment in legitimate economic activities as the Andean countries work with us to curb the production and trafficking of cocaine.

Bilateral debt reduction will help all three beneficiary countries to expand imports and investment in their economies to provide new sources of employment and revenue as the flow of cocaine to the United States is stemmed.

Bilateral debt reduction is especially important to Peru, where the Fujimori administration faces an enormous external debt and arrears problem inherited from its predecessor (almost \$20 billion worth of external debt, of which about \$13 billion is in arrears) requiring massive rescheduling and substantial reduction for its resolution.

Enhanced trade opportunities in the form of the Andean Trade Preference Act, similar to the highly successful Caribbean Basin Initiative, will expand Andean countries' export earnings in the short term significantly by offering duty free entrance to the U.S. market on a broad range of products. In the longer term, it will supply an important long-term economic and psychological stimulus to the export

expansion needed to pay for increased imports and meet debt service obligations of the Andean countries.

Zero duty entry under the Andean Trade Preference Act does not involve a very great reduction in duties on Andean-source products, since U.S. duty rates are generally low to begin with, and much Andean-source trade enters the United States duty free in any event under GSP. However, the psychological impact of receiving improved access to U.S. markets is important, especially in Colombia, and will help to strengthen arguments in the Andean countries in favor of further trade liberalization and market-oriented policy reform measures.

All the prospective beneficiary countries have been, or are in the process of, substantially liberalizing their foreign trade systems, reducing their tariff and nontariff barriers to imports, including U.S.-source imports. Furthermore, to the extent Andean countries can expand their exports to the United States as a result of the Andean Trade Preference Act, the Andean countries will be able to expand their imports, including imports from the United States, benefiting all parties.

#### BOLIVIA—ESF

*Question.* Explain your intentions on disbursement of the pending request for \$72 million in ESF, assuming the Committee releases its "hold" on them. What conditions will be imposed on their disbursement other than eradication of coca under cultivation?

*Answer.* Our intentions on disbursement of the pending \$72 million in ESF are: to make three disbursements of \$22 million each in FY 1991 for balance of payments support; and to make available up to \$6 million for commercial bank debt buy-back in cooperation with World Bank and other donors. The \$6 million mentioned above is FY 1990 Economic Support Funds (ESF) that has already been disbursed to a Bolivian special account.

A.I.D. continues to require compliance with two essential conditions for the disbursement of the \$66 million in FY 1991 ESF: sound economic policies and counterdrug performance. Economic policy conditions are principally associated with Bolivia's stabilization and structural adjustment programs.

The first disbursement of \$22 million is based on FY 1990 counterdrug performance and continuation of the Bolivian economic stabilization program. The second and third \$22 million disbursements are conditioned on such actions as: substantial seizures or destruction of refined cocaine products or chemicals; destruction of physical facilities; seizure or destruction of assets; arrest, incarceration or extradition of large scale cocaine traffickers and eradication of 7,000 hectares of coca.

#### PERU—ECONOMIC ASSISTANCE

*Question.* What is the basis and form of our economic assistance to Peru? Is it meant to reimburse them for costs incurred in the drug war or will it have some economic conditionality?

*Answer.* Our A.I.D. program to Peru consists of a sizeable food aid contribution to the country's Social Emergency Program, counterdrug activities under the Andean Counterdrug Initiative, and a modest development assistance program implemented largely through private and voluntary organizations.

In each case, we expect the A.I.D. contribution will help offset Government of Peru (GOP) expenditures in critical areas and free up resources to take more aggressive action against drugs.

The food aid program, which exceeded \$70 million in FY 1990, is proposed to increase to about \$100 million in FY 1991. The food aid responds to immediate food requirements and provides a safety net for poor Peruvians.

Funding under the Andean Counterdrug Initiative is heavily conditioned. Peru needs to demonstrate continued implementation of its economic stabilization program. Additional steps include: (i) signature of the Umbrella Agreement; (ii) documented progress on counternarcotics interdiction on the ground; (iii) a meeting of the Interagency Deputies Committee to review Peru's counternarcotics performance and continued implementation of its economic program and recommendations regarding funding levels and a tranching strategy; (iv) a Presidential 4a determination (that has been redelegated to Secretary Baker) that Peru is in compliance with human rights and other concerns under the International Counternarcotics Act of 1991; and (v) a notification to Congress, without objection, on the FY 1991 Economic Stabilization and Recovery program.

Balance of payments support, proposed at \$50 million under the Andean Counterdrug Initiative, will help cover the foreign exchange cost of the GOP program against drugs. The associated local currency will be jointly programmed for activities which reinforce the alternative development strategy and support a sound ad-

justmont program including credit lines for small-scale enterprises and export promotion, rural roads, rehabilitation and marketing facilities, and counterpart financing for A.I.D. and multi-lateral bank project activities.

A.I.D. plans to continue projects under the Andean Counterdrug Initiative in FY 1991 in the areas of policy analysis, drug awareness and education, administration of justice, and alternative development in the Upper Huallaga Valley.

New projects are being designed to begin implementation in FY 1991. These include the National Employment Generation and the Investment and Export Promotion projects.

#### COLOMBIA ESP DISBURSEMENTS

*Question.* What are your plans regarding disbursement of the second \$21 million recently signed with Colombia?

*Answer.* Prior to disbursement of the second \$21 million tranche under the \$41 million FY 1991 balance of payments program, the U.S. Embassy and A.I.D. will review and confirm Colombian progress in the counternarcotics and economic reform programs.

#### PANAMA ECONOMY

*Question.* As with Nicaragua, the Congress was hounded by the Administration last spring to provide \$500 million to "jump start" the Panamanian economy. Recent reports to the Committee indicate that as of January 1991 only \$109 million of the \$461 million approved for Panama had actually been disbursed to the government. Although most of the emergency funds have been spent, funds designated for repayment of IFI arrears (\$130 million), public investment (\$14 million), private sector reactivation (\$108 million) and development assistance (\$51 million) remain largely unspent. What happened to the "jump start"?

*Answer.* The primary purpose of the U.S. assistance program in the short-run has been to help re-activate economic activity so that Panama can resume primary responsibility for financing its own development. The Panamanian economy has not yet fully recovered from the devastation caused by General Noriega, but significant progress is being made. The public sector reactivation project totals \$113.9 million, \$84 million of which is subject to progress on the signing of a Mutual Legal Assistance Treaty which is expected by mid-April. Of the \$107.9 million reserved for private sector credit, \$72 million will have been disbursed by April 30. The \$130 million reserved for arrears clearing should be disbursed by September 1991. What follows is a status report on what actually has been accomplished with the funds disbursed to date.

After a period of prolonged economic turmoil and political upheaval, Panama, since December 1989, has made a major effort to structure a macro-economic reform program. The dismantling of U.S. economic sanctions and transfer to Panama of close to \$430 million in escrowed funds, the restoration of Panama's eligibility for a sugar quota, and Panama's renewed eligibility for CBI GSP, and Export-Import Bank credits and Overseas Private Investment Corporation guarantees are helping to overcome several years of fiscal mismanagement and reduced investment in Panama. They have also begun to bolster Panama's private sector confidence and stimulated a new willingness to invest in productive activities.

Panama's economy is beginning to recover from two years of steady decline. Real gross domestic product is estimated to have increased by at least 3.4 percent in 1990, the first positive growth rate for Panama's economy since 1987. Since the freeze was lifted on time deposits in July 1990, deposits in the banking system have increased by almost \$2.0 billion. This development had the effect of enhancing liquidity and increasing economic activity. Unemployment has dropped from a post-Just Cause high of 35% to under 20%.

Industrial output, which is largely geared to domestic requirements, was up 4.1 percent. Other economic indicators such as exports of bananas, coffee and sugar, and re-exports from the Canal Free Zone, rose over the 1989 levels.

Further reactivation of Panama's economy will depend on the government completing action on a number of key policies to strengthen public finances; reducing or eliminating outstanding arrears with the World Bank and IDB; reaching agreement on structural reforms; and increasing Panama's international competitive position for support of non-traditional commodities.

As of March 1, 1991, A.I.D. has disbursed \$110 million from the U.S. economic aid package, and we anticipate a substantial increase in disbursement during the next several months.

**Question.** When specifically will Panama be in a position to pay off its arrears to the International Financial Institutions?

**Answer.** Through March 1991, the new Government of Panama made payments totalling \$330 million to the three international financial institutions to stop the build up of arrears.

The Government of Panama has prepared a program for clearing the estimated \$610 million arrears. It is anticipated that the arrears clearing would take place this fall, but many details remain to be settled. Funds for arrears clearing are expected to come from the Government of Panama: \$130 million held in escrow, plus additional resources from the government's budget; A.I.D., \$130 million from the Dire Supplemental; and other bilateral and multilateral donors, \$130 million. A United States Treasury bridge loan is also expected to be part of the package. A Panama Support Group, chaired by the U.S., has identified various sources of bilateral support, and there are preliminary indications that Japan, Taiwan, France, and Italy will contribute to the arrears clearing.

Successful settlement of the arrears also requires a sound structural adjustment program involving public investment, privatization, social security reform, rationalization of the tax system, etc. A combined International Monetary Fund, World Bank and Inter-American Development Bank team is due to travel to Panama in May to discuss a structural reform package. Depending on the outcome of these discussions, the arrears clearing could be carried out in September 1991. It is not possible, given multiple uncertainties, to specify an exact date when this process will be completed.

**Question.** How long will it take after that for Panama to receive lending from those institutions?

**Answer.** Assuming World Bank Board approval this summer of a structural adjustment loan of \$100 million, complemented by \$60 to \$100 million from the Inter-American Development Bank, Panama's arrears can be cleared in September 1991 and first disbursement of these resources would occur before the end of September 1991. Disbursement of the second tranches would occur about one year after the first tranche.

**Question.** Will we see additional requests for large aid to Panama, or is the U.S. sticking to the one time jump start approach in Panama?

**Answer.** We do not anticipate a need for substantial levels of assistance to Panama. Given Panama's achieved progress in infrastructure, health, education, and related social sectors, there is simply not a need for an A.I.D. program at the level contained in the FY 90 Dire Emergency Supplemental. While major resources will not be needed, we anticipate that modest level of Development Assistance and Economic Support Funds may be needed for the following program or mutual interest to the United States:

Activities to strengthen democracy in Panama, primarily improvements in Panama's judicial system and development of a civilian-controlled police force;

Protection of the Canal watershed and Panama's fragile resource base through natural resource conservation;

Improvement of public administration, especially operation of the Canal.

#### TORTURE AND KILING OF CHILDREN IN GUATEMALA

**Question.** To what extent are Economic Support Funds used to help finance the budget of the police?

There are more that 5,000 street children in Guatemala City alone. What steps are being taken under development and Economic Support Fund programs for Guatemala to assist street children?

**Answer.** Economic Support Funds (ESF) are not used to help finance the budget of the police. A.I.D. is using ESF and Development Assistance (DA) funds to support activities designed to improve the system of justice and strengthen democratic institutions, such as the Office of the Human Rights Ombudsman. The recent conviction and sentencing of four police officers who killed a street child are steps in the right direction.

A.I.D. provides assistance to Guatemalan children through a large Child Survival project, which has nationwide coverage and is focused upon poorer areas. Although it is safe to assume that a significant portion of the urban children assisted are "street children", A.I.D. does not have firm data with actual percentages of children in this category.

A.I.D. is also exploring with UNICEF and local private voluntary organizations (PVOs) the possibility of developing a pilot project for improving and/or expanding existing health, education and related services provided by PVOs to orphans and

displaced/street children. The mission has reserved up to \$100,000 in FY 1991 funds for this purpose; an equivalent amount may be available from the Orphaned and Displaced Children project, managed in Washington.

The most direct type of assistance to orphans and displaced children is finance through the PL 480, Title II food aid programs, implemented in cooperation with CARE, Catholic Relief Services, and SHARE. Some 10,000 children are fed every day, through help to about 140 orphanages and related institutions. One of these institutions, Casa Alianza, which is affiliated with U.S.-based "Covenant House", runs several shelters for such children, but it is not able to provide shelter for all in need.

#### CENTRAL AMERICAN INTEGRATION

*Question.* What efforts have the Central Americans taken to revitalize the Central American Common Market? Has any U.S. foreign assistance to Central America gone to regional integration efforts?

*Answer.* The establishment of the Central American Common Market (CACM) at the beginning of the 1960s led to a very rapid expansion of intra-regional trade during that decade. This growth continued during the 1970s, although at a slower pace, despite the withdrawal of Honduras from some regional integration/cooperation activities. By 1980 roughly one-fourth of Central America's exports were intra-regional. Most of the new industries created or expanded during this period were relatively inefficient. But generally they were profitable, protected by high tariffs on competing products from outside the region and benefiting from cheap credit, favorable tax policies, and other types of subsidy. Since there were few incentives for them to lower costs, however, not many became competitive in markets outside the region, and Central American consumers paid more for the products of these industries than they would have paid for competing imports had tariffs been relatively low.

Intra-regional trade collapsed during the 1980s because of the sharp drop in incomes at the beginning of the decade, the inability of some CACM countries (especially Nicaragua) to clear their negative trade balances with each other through the regional clearinghouse mechanism, and the imposition by the countries of the region of quantitative restrictions on intra-CACM trade. Intra-regional exports fell by 65 percent between 1980 and 1986, not even taking into account the effects of inflation.

There is now widespread support in Central America for the idea that an outward-oriented growth strategy must be the principal engine of Central American economic recovery, and that the CACM must be transformed if it is to play a role in the recovery process. In June 1990 the presidents of the Central American countries, in the Declaration of Antigua, committed themselves to a series of reforms in the integration process, including tariff reform, coordination of macroeconomic adjustment policies, and removal of barriers to intra-regional trade.

A.I.D. believes that a rejuvenated process of Central American integration and cooperation can have a positive net impact in the region—and facilitate Central America's incorporation into the hemisphere-wide free trade area envisioned in President Bush's Enterprise for the Americas initiative—if it occurs within a framework of greater openness to the rest of the world. A.I.D. has supported this theme through a number of conferences, seminars, and policy dialogue at both the bilateral and regional level. Our bilateral ESF programs have provided major support for the macroeconomic reforms that have been occurring in the region and are beginning to produce results in the form of stronger economic growth and rapid increases in non-traditional exports. Intra-regional trade began recovering in 1987 in response to this improved macroeconomic performance.

As the Central American countries refine their objectives for a new type of regional integration consistent with outward-oriented policies, A.I.D. is prepared to broaden its support for regional integration and cooperation.

#### MOVEMENT TOWARD A HEMISPHERIC FREE TRADE AREA?

*Question.* What efforts have the member-nations of the Caribbean Community and Common Market (CARICOM) nations taken to spur economic integration in that region? Has any U.S. foreign assistance to the Caribbean region been dedicated to integration efforts?

*Answer.* The original CARICOM agreement of 1973 called for implementation of a Common External Tariff (CET) and free trade among member countries. This has been only partially achieved. Four different tariff schedules have coexisted and nearly all member countries have imposed additional surcharges of differing types

and levels on top of their respective tariff schedules, technically in violation of the CARICOM agreement. While intra-regional trade barriers have been reduced and are generally low, some trade barriers remain.

The hoped for benefits of the CARICOM trade arrangements have not materialized. Intra-regional trade has stagnated at around 6 percent of total trade excluding petroleum, and high-cost regional import substitution activities have replaced lower-cost external imports. Furthermore, there is no evidence that infant industry intra-regional exporters have been able to graduate to the more dynamic external trade opportunities.

CARICOM has developed a new CET for adoption beginning in 1991, with phasing-in arrangements for certain products and countries until 1994. The new CET clearly improves the tariff structure by reducing the number of tariff rates and cutting the maximum tariff from 70 percent to 45 percent. However, considerable dispersion of protection will continue to produce domestic price and investment distortions, thereby grossly biasing investment incentives toward inefficient import substitution.

The A.I.D. program has supported Caribbean economic integration reforms that promote both increased intra-regional and extra-regional trade. This includes progress toward free trade among CARICOM countries and the substitution of low uniform tariffs for excessive extra-regional protection provided by high tariffs and non-tariff barriers.

A.I.D. has supported individual country efforts to reduce excessive external protection. Economic Support Fund (ESF) programs in Belize and Jamaica have supported bilateral efforts to reduce excessive tariffs and to substitute quantitative import restrictions with low tariffs. A.I.D. has supported internal tax reform programs in several Caribbean countries, including Jamaica and Dominica, to provide sound alternative government revenue sources to excessive tariffs. The A.I.D.-supported Caribbean Association for Industry and Commerce, pursuing its advocacy role to influence policy formulation on matters such as trade liberalization and the free movement of skilled workers and resources within the CARICOM region, has participated in the process of drafting rules pertaining to the CET. Regional integration of capital markets is also being supported by A.I.D. projects in Jamaica and the Eastern Caribbean.

A.I.D. also engages host governments in policy dialogue in support of trade reforms consistent with sound economic integration. Technical assistance for trade reforms, bilateral framework agreement negotiations, policy-based programs such as ESF, and collaboration with international financial institutions in support of their trade reform projects all provide continuing opportunities to support Caribbean integration efforts.

## Questions for the Record From Clairman Obey Submitted to the Department of Defense

### PANAMA

*Question.* What specifically is the status of the joint U.S./Panamanian patrols?

*Answer.* Joint U.S.-Panamanian patrols ended 1 December 1990.

*Question.* Are you assured that the Panama Defense Force has been purged of former Noriega cronies?

*Answer.* There is no longer a Panama Defense Force. The newly created Panama Police Force was screened to remove persons with ties to Noriega. The screening process continues.

### GUATEMALA

*Question.* What is the specific status of Guatemala's military assistance pipeline?

*Answer.* The suspension of military assistance that was instituted on 21 Dec 90 remains in effect pending the improvement in the human rights situation in the country. AMB Stroock has declined to release the safety of flight equipment that is exempt from the suspension, pending further measures by the Serrano administration to improve the human rights situation.

The total value of remaining foreign military sales (FMS) pipeline funds and equipment for Guatemala is approximately \$12M. This amount includes \$6.8M of obligated and expended funds (of which \$1.2M is the safety of flight equipment), and \$5.2M that have been obligated but not expended.

*Question.* Has there been a complete cut off of FY 1991 U.S. assistance to the police and to the military?

**Answer.** Per Section 660 of the Foreign Assistance Act, the U.S. Government is prohibited from using security assistance to train the police forces of most foreign nations. There are no assistance programs of any kind between DoD and the Guatemalan police.

#### HAITI

**Question.** The Administration has renewed military aid to Haiti, allocating \$1.2 million in FY 1991. What will that aid provide? Does it include any provisions for encouraging respect for human rights?

**Answer.** Proposed security Assistance to Haiti is limited to nonlethal items. In general, the aid will consist of quality of life articles such as boots, uniforms, rations. Also to be provided are spare parts for communications gear, vehicles, and boats.

Throughout the entire spectrum of USG assistance to Haiti, we continue to support Haitian efforts to develop a functioning democracy that respects basic human rights and a more modern economy capable of sustained, equitable growth. Specifically, with regard to our security assistance, one of our stated goals is to improve human rights. Through the IMET program, we expose Haitians to U.S. traditions of democracy, human rights and civilian control of the military.

### Questions for the Record From Mr. Porter Submitted to Department of State

#### VIGILANTE JUSTICE IN BRAZIL

**Question.** The World had hoped that the conviction of two men for the murder of Chico Mendes, a Brazilian labor leader and rubber tapper, would signal an end to the system of rural vigilante justice that permeates much of Brazil. However, the murder of another rural labor leader, Expedito Ribeiro de Souza, on February 2nd, and I understand yet another rural labor leader in the last few days, makes it clear that vigilante justice is alive and well in Brazil. It is especially disturbing that the assassinations are taking place against people who can be catalysts for positive change in Brazil.

Would you outline the causes of this problem and what you are doing to encourage the Brazilians to strictly enforce the law in rural areas?

**Answer.** Land disputes between landowners and the "landless"—those who work on the land but do not own it—or small landowners, as well as conflicts over rural workers' conditions, have long been a source of violence in Brazil. As with personal disputes, these matters have traditionally been handled without going to the courts or seeking other legal remedies. These conflicts are increasing as economic and social disparities between the rich and poor grow.

U.S. Embassy officials, including the Ambassador, often discuss human rights issues—including the case of Expedito Ribeiro de Souza—with Brazilian federal authorities and have impressed upon them the importance of human rights to our government.

As in the U.S., the Brazilian federal government's authority to intervene in local criminal cases is limited by the Brazilian constitution. It is also limited by resources. However, the Brazilian government is demonstrating an increased willingness to use the tools it has.

The 1988 constitution permits federal intervention in what would normally be a state matter, provided the federal authorities obtain a decree from the Supreme Court and legislative approval. The Brazilian Government has already begun the process in the Ribeiro de Souza case: On March 8, the Brazilian Attorney General petitioned the Supreme Court for federal intervention in the Para region. In addition, on March 5, the Brazilian Congress initiated a measure calling for federal intervention in the Rio Maria area which could lead to a mandate for federal police involvement.

#### ASSISTANCE TO HAITI

**Question.** While I believe that Father Aristide should be encouraged as Haiti's first freely elected president, I think we must determine what his plans are. What stipulations, if any, do you think we should put on assistance to Haiti?

**Answer.** The primary goals of the U.S. assistance program for Haiti are to help institutionalize democratic government, strengthen respect for human rights, and ease the abject poverty suffered by a majority of Haiti's people. Any extraordinary congressional stipulations or restrictions on this assistance could hamper these hu-

manitarian efforts and impede our efforts to help the new, democratic government in Haiti survive. We believe normal conditionality requirements are sufficient for judging the direction of the Aristide government and ensuring our assistance is used effectively.

#### ELECTIONS IN GUYANA

*Question.* As you know, Secretary Aronson, the same political party, the PNC, has won every election in Guyana since 1964. Through persistent effort, opposition groups have kept the pressure on the present regime and in October, all parties agreed on a package of electoral reforms. Would you give the Subcommittee your impression of the situation in Guyana and what impediments still exist to a free and fair election.

*Answer.* This Administration is committed to the fostering of democratic government in this hemisphere and throughout the world. We are engaged in an active dialogue with the Government of Guyana built around the unequivocal message that our future relations will depend on whether Guyana's next national election is judged by the international community to be open and democratic.

The Government of Guyana has taken several important steps toward reforming the electoral process and eliminating abuses associated with past elections. President Hoyte has invited the Commonwealth and the Carter Center to send teams to observe the election process. These observers will be present at various polling places to determine whether voters are allowed free access to the polls and whether ballots are safeguarded. Also, legislation has been passed by the Guyanese Parliament providing for a preliminary count of the ballots at the voting place, reducing the possibility that ballot boxes will be tampered with during transport to a central counting place. In addition, the Government of Guyana is compiling a new voters list, based on a house-to-house enumeration, since the initial voter registration roll was considered defective.

With these reforms in place, we believe prospects are good for free and fair elections. We are providing approximately \$1 million in technical assistance and to fund election observers to reinforce our position on the adherence to democratic principles and we will continue our dialogue with the Government of Guyana on this issue.

#### MONEY LAUNDERING IN PANAMA

*Question.* I know that before Operation Just Cause, which liberated the people of Panama and ended in Manuel Noriega being brought to the United States to trial, Panama was considered a center for the laundering of drug money. We know the many difficulties that face President Endara and the Panamanian people and we support their good efforts, but I would be interested to know your impression of the level of money laundering that continues to be prevalent in Panama.

*Answer.* Money laundering through Panamanian banks and the Colon Free Zone continues to be Panama's most serious narcotics control problem.

Peak volumes of money laundering occurred in the mid-1980's under Noriega. At the end of 1989, this volume had declined significantly due to the deep recession in Panama. In 1990, the volume of money laundering may have increased to the relatively low levels which existed immediately prior to Just Cause.

As you have stated, the GOP's limited resources are restricting its ability to conduct money laundering investigations; it lacks trained law enforcement and regulatory personnel to enforce its drug act and money laundering decrees. Even so, the Panamanian Attorney General's office has been rigorous in interpreting the Panamanian anti-drug trafficking and money laundering statute and vigorous in supporting its interpretations in court. The Panamanian Supreme Court has upheld the Attorney General's authority to subpoena bank records and to freeze bank accounts when related to an ongoing criminal investigation. In January, the Court held that this power extended to accounts held by companies and close associates of suspects.

Since late December 1989, the GOP has frozen several hundred bank accounts associated with suspected money laundering and the Attorney General's office has made available numerous bank records requested for use in USG investigations and prosecutions.

The Panamanian National Banking Commission has implemented a series of regulations requiring banks to maintain currency transaction records and to adequately identify customers in cash and near cash (bank checks, money orders, travel checks) transactions of \$10,000 and over. Fines for violations range between \$100,000 and \$1,000,000.

The USG is providing training to Panamanian officials to help them detect and punish money launderers.

#### AMAZON BASIN

*Question.* What is being done specifically about the contamination of the Amazon basin caused by coca processing?

*Answer.* The US has a number of public information programs in the region, focused on the effects of coca processing. They include sponsoring international conferences, live satellite interviews with US environmental experts, and speakers and visitors to the region.

In addition, USAID addresses the environmental effects under its alternative development program.

In Bolivia, for example, a comprehensive environmental management program is being implemented as an important component of the alternative crops (Chapare Regional Development) project. Watershed management, farm level and community forestry, environmental education, and environmental monitoring programs are supported to minimize damage to soil, water, and forest resources, improving the quality of life and expanding the opportunities for those who abandon or never initiate coca production in favor of the alternative crops.

The government of Colombia recently expressed strong interest in using some of their local currency generated from Andean Narcotics Initiative funds to reforest and rehabilitate land in which coca has been eradicated.

Erosion may be particularly severe since these are very high rainfall areas (up to nine feet of rain per year) and coca leaves are harvested by stripping the bushes up to ten times a year leaving almost no ground cover and resulting in massive erosion.

Coca farmers typically overuse large quantities of fertilizers and pesticides to increase production, also adding to soil and water pollution.

We have no information on the environmental effects of coca production in Brazil. Most processing in Brazil is not from coca leaf to paste but refining the paste into powder. That process requires little water, although it does use quantities of chemicals, which when discarded seep into the water table.

#### COCA PRODUCTION AND THE ENVIRONMENT

*Question.* What effect is the production of drugs having on the environment in Bolivia, Colombia, Peru and Brazil?

*Answer.* The primary environmental impacts arising from coca production are deforestation and pollution.

Coca cultivation takes place on mountain slopes within tropical rain forests that are characterized by very high biological diversity. Coca growers can strip the rain forest from entire mountainsides in a matter of months. So far, it is estimated that coca growers have deforested over 200,000 hectares of fragile rainforest.

Chemicals used in coca processing cause serious soil and water pollution problems. In Peru, for example, it is estimated that coca growers annually dump 57 million liters of kerosene, 32 million liters of sulfuric acid, six million liters of acetone, six million liters of toluene, 16,000 metric tons of lime, 3,000 metric tons of carbide, and 16,000 metric tons of toilet paper into the nation's soils and waterways. More than 150 streams and rivers in Peru have been polluted by the outfall from cocaine labs.

The secondary environmental impacts are soil erosion, and pesticide and fertilizer pollution.

### Questions for the Record From Mr. Porter Submitted to the Agency for International Development

#### HAITI

*Question.* Haiti is the poorest nation in the Western hemisphere. Obviously the needs there are very great. What types of needs are the most pressing in Haiti, what is A.I.D. currently doing there and what plans does A.I.D. have for programmatic changes in Haiti due to the democratic election there?

*Answer.* Haiti has pressing needs in all sectors of the economy. Its infrastructure, particularly power generation, roads, potable water systems and housing, is highly inadequate. Basic social services, including health care, sanitation, AIDS education and control, family planning, and primary education, are very poor or non-existent. Unemployment is extremely high and per capita income is very low. Government macroeconomic policies are inappropriate so there is a need for trade liberalization,

tax reforms, privatization of state enterprises, and land use reform. As a fledgling democracy, there is also an urgent need to strengthen democratic institutions at all levels.

A.I.D. programs in Haiti, mostly through private and voluntary organizations, are helping to strengthen and expand the provision of child survival and health services, AIDS education and control, family planning, and private primary school education. Programs are also underway to promote sustainable agricultural production, to strengthen the role of the private sector in Haiti's development, to alleviate Haiti's difficult foreign exchange situation through an Economic Support Fund balance of payments program, and to increase the availability of food for feeding programs and commercial sales through the P.L. 480 Program.

A.I.D. will encourage government policy reform, including improved monetary and fiscal performance, trade liberalization, more effective tax administration, privatization of state enterprises, and land use reform.

A.I.D. is planning to (1) help the Government of Haiti to establish at all levels of government institutions which are effectively administered and accountable, and respond to the needs of the Haitian people; (2) assist Haiti to undertake economic reforms which are necessary for private sector-led, equitable economic growth; and (3) help to improve the administration of justice and foster respect for human rights.

A.I.D. will seek to develop additional opportunities for participation in income generating activities by segments of the population previously isolated from the economic system.

#### WOMEN IN DEVELOPMENT

*Question.* When Dr. Roskens was here testifying last week he mentioned that the role of women in development was a theme that permeated every aspect of the work that A.I.D. undertakes. Could you give me some examples of how A.I.D. addresses women in development in Latin America?

*Answer.* The Latin American and Caribbean Bureau and missions have undertaken a series of actions to ensure that women have the opportunity to participate meaningfully in and benefit equally from our development programs. To maintain the progress in integrating women into our activities, the bureau has established a Women in Development (WID) Working Group with the purpose of laying out specific actions to be taken over the next several months as we carry out the WID mandate.

The responsibilities and tasks of the WID Working Group fall under three main categories: 1) education, 2) research, and 3) monitoring and evaluation.

*Education:* The LAC Bureau is educating its staff both in Washington and in the missions on ways to realistically target programs and projects within missions' portfolios that are consistent with Agency and bureau objectives and that meet the needs of women in LAC countries. In Washington, the WID Working Group will organize WID training sessions in the bureau at least once every six months. The first session is scheduled to be conducted in May 1991.

*Research:* The bureau is monitoring the progress in research made by GENESYS—Gender in Economic and Social Systems—which is under an A.I.D. research contract out of the Women in Development Office and involves several firms with expertise related to WID issues. The purpose of the GENESYS contract is to assist bureaus and the missions to incorporate WID concerns into A.I.D.'s overall strategic objectives through internal documents such as annual and semi-annual reviews and mid-term assessments.

*Monitoring:* The LAC Bureau monitors progress in the field of gender considerations as programs are developed in the missions and by analyzing whether objectives were achieved in completed programs and projects.

#### PARAGUAY DEBT FOR NATURE SWAP

*Question.* As you know, A.I.D. has been authorized to undertake debt-for-nature swaps. I recall that last year A.I.D. announced a planned swap with Paraguay involving \$500,000 in A.I.D. funds and 170,000 acres of virgin rain forest in Eastern Paraguay (the Mbaracayu region).

Now I understand that this swap is on hold. Can you tell me what the problem is and why the swap, and the preservation of this ecosystem, has not been completed?

*Answer.* A.I.D. granted \$500,000 to the Nature Conservancy on September 24, 1990, to combine with their \$2,250,000 to buy the Mbaracayu property from the International Finance Corporation (IFC) of the World Bank. The IFC held the property as a result of foreclosing on a bad loan. Mbaracayu is covered with primary forest and is the home of the Ache's people (natives indigenous to the region).

The combined A.I.D.-Nature Conservancy money will also endow a Paraguayan private voluntary organization, the Bertoni Foundation, to manage the reserve in perpetuity. Although the final deal has not yet been closed among the Nature Conservancy, the IFC and the Government of Paraguay, we understand it is still on track.

Current negotiations are between the Government of Paraguay (GOP) and IFC and focus on the final price of a second smaller property that will not be part of the park. The GOP has offered \$600,000 and the IFC is asking \$1,000,000. This deal cannot be consummated until the Paraguayan Congress approves the package. Finally, the GOP Congress will also need to declare the Mbaracayu property as an official reserve. This is not expected to present a problem.

#### CHOLERA

*Question.* We have been reading in the papers about the horrible cholera epidemic in Peru. I read this morning that 50,000 Peruvians have been afflicted, and over 250 have died in the last few weeks. The Foreign Assistance Act of 1961 outlines A.I.D.'s mandate in the area of health and specifically mentions the need to provide safe drinking water and to prevent and control disease.

Where does A.I.D.'s program for assisting Central and South American countries in disease prevention currently stand and do you see any hot spots other than the present tragedy in Peru?

*Answer.* The outbreak of cholera in Peru represents the first outbreak in Latin America since 1911. We are very concerned about the impact of the disease as it is likely to spread throughout the region and become endemic.

While it is virtually impossible once an outbreak occurs to prevent cholera from spreading where sanitation is poor and water supplies are unreliable, it is impossible to reduce the number of transmissions through public education and proper management of cases. By reducing transmission, the spread of the epidemic can be slowed. It is also possible to minimize the number of deaths. Cholera does not have to be a fatal disease. It only becomes fatal when victims get dehydrated. Treatment with oral rehydration therapy and intravenous rehydration where necessary will prevent fatalities.

The assistance for strengthening diarrheal disease control programs that A.I.D. and the international health community have been providing to the region's Ministries of Health over the past decade has contributed to a preparedness for the cholera outbreak. As a result, the deaths resulting from cholera have remained relatively low compared to historic levels.

Since the outbreak, the U.S. Government has begun providing assistance in a number of ways, including: distribution of oral rehydration salts and other medical supplies such as intravenous fluids and administration kits, education campaigns, assessment teams to suggest emergency measures to be taken to improve water quality in urban areas, and other resources under A.I.D.'s child survival and water and sanitation projects in Peru, Ecuador, and Bolivia.

The outbreak of cholera in Peru and other countries underscores the critical development problems that still persist in the region. Because of a declining economy, resources have not been available for basic services and infrastructure. Significant investments made during the 1960s and 1970s in water, sanitation, and health care infrastructure have not been maintained. As a result, the infrastructure has deteriorated significantly, with whole systems virtually inoperative or unsafe in many municipalities.

An estimated \$1.1 billion in water and sanitation investments is needed to meet minimum coverage targets for 1995 in Peru, Ecuador, and Bolivia alone. The donor community cannot possibly meet these and similar needs throughout Latin America, much less cover the cost of maintaining current systems. Sustained, broad-based economic growth and stable democracies which permit that growth to occur are needed throughout Latin America if there are to be significant and sustainable improvements in the basic problem.

#### FOREST PRODUCTS AND SUSTAINABLE MICROENTERPRISE

*Question.* I mentioned to Dr. Roskens last week when he was here to testify that there is a product of the Ecuadorian rain forest, a nut called Tagua. The local people collect the nut from the forest in an entirely sustainable way and manufacture it into very durable buttons that are presently being used by two U.S. apparel manufacturers, Patagonia and Smith and Hawken.

I have back in my office a book titled *Useful Palms of the World* that describes literally hundreds of uses for the 2,500 species of palm trees. Many of the uses are

entirely sustainable and they range from basket and rope making to birth control drugs and antibiotics.

Last week, Mr. Lewis made a very important comment and Dr. Roskens agreed that there should be some type of formal or informal mechanism within A.I.D. to identify these types of promising, sustainable microenterprises and promote them. Does such a mechanism exist?

What type of work is A.I.D. presently doing in the area of sustainable microenterprise in Latin America and how promising do you think forest products are in this effort?

Answer. A.I.D. is actively supporting the development of non-destructive uses of tropical forests as economically viable alternatives to destructive timber harvests or slash-and-burn agriculture. Overall, the most successful strategy appears to be the economic development of so-called "extractive reserves", the harvesting of natural forest products. These products have the potential of promoting economic development while ensuring the long-term preservation of the tropical forest. The indigenous peoples of the forests have traditionally subsisted on extractive reserves. They stand to benefit most from their economic development, and have the most to lose from deforestation.

In the case of Latin America, support for such development comes from many actors within A.I.D. The bilateral missions and the Regional Office for Central America and Panama (ROCAP) are the major contributors through natural resource management projects. Outside the regional bureau, the central bureaus concerning themselves with research and private sector development and the Office of the Science Advisor each fund activities. The environmental staff of the Bureau for Latin America and the Caribbean provide an informal coordinating mechanism for all these actors as well as designing and managing pilot projects.

A.I.D. supports research or development of extractive reserves in eight countries in Latin America (Mexico, Guatemala, Belize, Costa Rica, Panama, Ecuador, Bolivia, and Brazil). Examples include: 1) a \$108,680 grant to the New York Botanical Garden to study the biology and economics of the tagua nut and other potential products of the Amazonian forests in Ecuador; 2) support for the development of sustainable microenterprises in Guatemala to harvest the ornamental xate palm, allspice, and chicle (the base for chewing gum) in rainforest buffer areas around designated national parks; and 3) an A.I.D. grant to the private voluntary organization "Cultural Survival" that has allowed the commercialization of extractive rain forest products (e.g. Brazil and cashew nuts for Ben and Jerry's brand Rain Forest Crunch ice cream) with 70% of the profits going to indigenous peoples of the Amazon.

THURSDAY, MARCH 14, 1991.

## PAKISTAN AND ASIAN ISSUES

### WITNESSES

**TERESITA SCHAFFER, DEPUTY ASSISTANT SECRETARY, BUREAU FOR NEAR EAST AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE**

**DESAIX ANDERSON, PRINCIPAL DEPUTY ASSISTANT SECRETARY, BUREAU FOR EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE**

**CAROL ADELMAN, ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE AND THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**HENRIETTA HOLSMAN FORE, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT**

**CARL FORD, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE**

### CHAIRMAN'S OPENING REMARKS

Mr. OBEY. Why don't we start?

I am sure our last witness will be here before you finish.

This morning we will hear Administration testimony on budget requests for assistance for Asia. I will forego any opening statement until after we have heard the Administration witnesses testify.

Let me simply say we have with us today, or will shortly, Teresita Schaffer, Deputy Assistant Secretary, Bureau for Near East and South Asian Affairs; and Desaix Anderson, Principal Deputy Assistant Secretary, Bureau for East Asian and Pacific Affairs; both from the Department of State.

From AID we have, Carol Adelman, Assistant Administrator, Bureau for Europe and the Near East; and Henrietta Holsman Fore, Assistant Administrator, Bureau for Asia and Private Enterprise.

And from DOD we have, Carl Ford, Principal Deputy Assistant Secretary for International Security Affairs.

If I could ask you all to summarize your comments in five to ten minutes, I would appreciate it. Then we can get right to the questions.

Mr. Anderson, do you want to begin?

### MR. ANDERSON'S OPENING STATEMENT

Mr. ANDERSON. I am pleased to appear before you to discuss U.S. policy towards—in East Asia and the Pacific and our fiscal year 1992 foreign assistance recommendations for this region.

Assistant Secretary Solomon regrets he is not able to be here, but he is seeking possibilities for a peace settlement in Cambodia and has been traveling in Asia.

East Asia today is largely peaceful, stable and flourishing. The region's success is based in part on continued U.S. investments. We have invested our ideals and encouragement of democratic institutions, our economic resources in the region's industrial and social development, and our military resources and its security.

We have committed our energy and resources to the region because its peace and stability are vital to our own.

In 1990, we conducted nearly \$300 billion in trade with the region, outstripping transatlantic trade by \$90 billion. The command of strategic Pacific sealanes is essential to our security and economic health, and Asian support for our global objectives is critical to us.

Future returns from the region will require future investments. Shaping the Pacific community based upon the principles of open markets, economic development, respect for human rights and regional stability calls for strong U.S. leadership and a continuing economic, political and security commitment to the region.

We will be unable to sustain that commitment by withdrawing into protectionism or making further drastic cuts in our development and security assistance.

Asian support for our effort in the Persian Gulf is one of the dividends that has accrued from our past investments in the region.

#### JAPANESE CONTRIBUTIONS

I would like to remark briefly about the Japanese contribution. In addition to providing strong political backing, the Japanese government has also pledged approximately \$13 billion in support for the Gulf effort, the most substantial contribution to the Gulf effort of any of the non-Arab coalition partners.

Disbursement of the first \$2 billion in cash and in-kind contributions to the military effort is nearly complete. We expect that the 1.17 trillion yen in contributions to the Desert Storm recently passed by both houses of the Japanese Diet will be disbursed beginning next week.

The region's backing for Desert Storm demonstrates a shared commitment to global security and U.N. peacekeeping efforts, and continuing host nation support for U.S. forward deployed forces in the Pacific reflect support for our continued strong military presence there.

We are pleased with the New Host Nation Support Agreement with the Japanese government which we concluded January 14. According to the agreement, Japan will pay all salaries and benefits to local workers on our basis, as well as all utilities, by 1995.

In the 1991-1995 period, Japan's total cumulative host nation support payments will approach some \$17 billion. I believe the GOJ's commitment to our alliance, the security treaty and a more equitable cost of maintaining U.S. forces in Japan is strong and warrants much greater recognition than has been received to date.

Mr. Chairman, our assistance to the region has been modest in terms of the percentage of our overall assistance budget and in-

creasingly in terms of the percentage of total overseas assistance provided by other countries. But it has paid us back handsomely.

Our development in security assistance has helped lay the groundwork for U.S. sustained economic growth and enhanced security throughout the region.

Our assistance has returned dividends in other less concrete ways. Strong diplomatic support for our policy in the Gulf is one of them.

I would like to highlight our request for continued economic and security assistance for the Philippines. The best investment we can make in a more prosperous and democratic Philippines is assistance that can help provide an adequate standard of living for all the Philippine people.

Economic reform in the Philippines is a prerequisite for economic growth. Our assistance programs such as ESF, development assistance and the multilateral assistance initiative, support policy reform necessary to generate broadly based self-sustained growth.

Our assistance is also critical to the Philippine Government's fight against continuing threat to its existence from both the right and the left. Progress toward a greater democracy in the region suffered a setback on February 23 when the Thai military overthrew a democratically elected government.

We have urged military and civilian authorities to take immediate steps to return Thailand to civilian democratic rule, and we suspended U.S. military and economic assistance to Thailand in the wake of the coup.

In the hope a democratic government is soon restored, we have included assistance for Thailand in our 1992 request.

Mr. Chairman, fiscal stringency led us to consider creative effective and low-cost ways of maintaining security ties with our traditional friends. Our IMET program is one of the most cost-effective security assistance programs we have. Funding for IMET for Malaysia was suspended in the FY 1991 in response to Malaysia's pushing off Vietnamese asylum seekers.

Malaysia began denying first asylum to Vietnamese boat people in May 1989. Since then, Malaysia pushed off more than 10,000 Vietnamese asylum seekers. The U.S. protested the denial of first asylum at all levels of the Malaysian Government.

In the fiscal year 1992 budget, the Administration asked Congress to reinstate funding for Malaysia's IMET program. The U.S. will continue to ask Malaysia to resume granting first asylum to Vietnamese boat people. If our IMET program can be resumed, the funds would be used to support professional military education and training.

Our total request comes to \$702.5 million for economic assistance, development assistance, ESF, PL480, the Philippines MAI, and 210.1 million in security assistance, IMET and FMS credits.

This represents only 5.3 percent of total U.S. foreign assistance. The overall level represents a 2 percent increase over fiscal year 1991.

Economic assistance to the region increases by 2.6 percent with a rise of 1 percent for security assistance. We must not let the overall success of East Asia and the Pacific region blunt our continued attention to its problems or to our own interest in addressing them.

Countries in the region have not experienced equally rapid economic growth, and the forces for economic growth have protected some wrenching political and social strains.

In addition, regional conflicts, notably between the two Koreas and Cambodia, still trouble the region. With this assistance, we are making an investment in the Pacific community's future.

To date, the region's economic success, its peace and prosperity, and its continuing support for our goals in the region and throughout the world are the dividends paid for our past investments.

I hope you will agree that the return we will likely receive from future investments outweighs the relatively small price we will pay.

Thank you.

[The information follows:]

Prepared Statement of  
Deputy Assistant Secretary of State L. Desaix Anderson  
Bureau of East Asian and Pacific Affairs  
before the Subcommittee on Foreign Operations  
Committee on Appropriations  
U.S. House of Representatives  
Washington, D.C.  
March 14, 1991

Mr. Chairman, Members of the Subcommittee, I am pleased to appear before you today to discuss U.S. policies in East Asia and the Pacific, and our FY 1992 foreign assistance recommendations for this region.

Forty years ago, uncertainty filled the East Asia-Pacific Region. The Soviet colossus straddled all of Northeast Asia threatening to destabilize the region wherever it could, Maoism challenged cherished East Asian traditions, the two Koreas were locked in war, and poverty filled the lives of most Asians.

Today, the region is largely peaceful, stable, and flourishing. Last year, the average growth rate in non-communist countries in the region exceeded 5 percent. Japan's wealth helps underwrite Asian development with aid and investment. South Korea, Singapore, Hong Kong, and Taiwan have laid the foundations for continuing economic prosperity. The roots of democracy are taking hold in the Republic of Korea, Taiwan, and the Philippines.

The region's success has been based in part on continuing U.S. investments -- both tangible and intangible. We have invested our ideals in the encouragement of democratic institutions; our economic resources in the region's industrial and social development, and our military resources in its security.

These investments have taken concrete form in a diplomacy that promotes participatory democracy and pluralistic societies based on universal human rights. We have assisted economic development through liberal trade policies and sustained programs of foreign economic assistance. Our formal bilateral security relationships with Japan, the Republic of Korea, Thailand, the Philippines, and Australia have allowed us to guarantee global stability as well as to act as a balancer throughout the region.

We have committed our energy and resources to the region because its peace and prosperity are vital to our own. In 1990 we conducted nearly \$300 billion in trade with the region -- this outstripped trans-Atlantic trade by \$90 billion. Command of strategic Pacific sealanes is essential to our security and economic health, and Asian support for our global objectives is increasingly critical to us.

Mr. Chairman, a prudent investor would want to know what dividends he has received for his time, effort, and money. I can say without hesitation that the dividends we have received from our investments are considerable.

JAPAN, THE REPUBLIC OF KOREA, AND THE PERSIAN GULF

In explaining why I think so, I first would like to draw your attention to Asian contributions to the effort in the Gulf. With few exceptions, Asian diplomatic backing throughout the crisis has been timely and strong. We have also received physical support for our military efforts. Australia dispatched two war ships and medical teams to the Gulf early on. South Korea, Singapore, the Philippines, Thailand, and New Zealand have sent medical teams to the region, and a number of countries have contributed to the evacuation of refugees from Jordan, Syria, Turkey, and Iran.

In this connection, I would like to remark briefly on the Japanese and South Korean contributions.

Japan: Japan provided clear political support throughout the crisis and demonstrated this in the courageous decision to give refuge to 16 of our diplomats, including members of our military liaison mission, in its Kuwait City Embassy. The Japanese Government has also pledged \$13 billion in

support of the Gulf effort -- the most substantial financial contribution to the Gulf effort of any of our non-Arab coalition partners. This includes \$11 billion to support the military effort, \$2 billion in economic assistance to the front-line states, and additional contributions in refugee relief. We appreciate these substantial and helpful contributions to our efforts.

Disbursement of the first \$2 billion in cash and in-kind contributions to the military effort is nearly complete. The US allocation was \$1.7 billion, of which \$1.6 billion has been disbursed or is in the pipeline, and \$100 million is available pending an Administration decision on its use; the remaining \$300 million is being disbursed to support our other coalition partners and to cover administrative expenses. Disbursements of the economic assistance are also proceeding smoothly. \$800 million in aid to the front-line states has been disbursed. Japan has also disbursed more than \$60 million in urgently needed refugee relief. Finally, both houses of the Diet have approved 1.17 trillion yen to support Desert Storm. We expect to begin to receive the lion's share -- in cash -- beginning next week.

As we look to the postwar period, I am confident that Japan will continue to play an important and constructive role in assisting the economic recovery and political stabilization

of the region. We believe that Japan's leaders have shown in the Gulf crisis the political will to be active participants with us in world affairs; and we hope that cooperation in post war arrangements in the Gulf will enhance prospects for building a US-Japanese global partnership.

The Republic of Korea committed \$220 million in cash and in kind to the Gulf effort last fall. This included \$100 million in economic support for the Frontline States and \$120 million in cash, logistical support, and military supplies for coalition forces. In January, Korea committed another \$280 million. The details of the package have yet to be finalized, but we expect it to cover further support for coalition military efforts.

The Republic of Korea has contributed in more than financial terms. The Koreans were the first to provide wide-body air cargo flights from the U.S. to the Gulf. A 154-member hospital support group arrived in Saudi Arabia in January and has treated coalition casualties from the start of ground hostilities. In February, the Koreans dispatched five C-130 transports with crew and support personnel totalling 150 persons to provide support for Desert Storm on the Arabian Peninsula.

HOST NATION SUPPORT

If the region's backing for Desert Storm demonstrates a shared commitment to global security and UN peacekeeping efforts, then continued host nation support for U.S. forward deployed forces in the Pacific reflects support for our continued, strong military presence there. In this context, I would like to discuss efforts made by Japan and the Republic of Korea to assume a larger share of the responsibility of maintaining U.S. forces on their territory.

Japan: We are pleased with the new Host Nation Support (HNS) agreement with the Japanese Government, which we concluded on January 14. According to the agreement, Japan will pay all salaries and benefits to local workers on our bases as well as all utilities by 1995. I believe the GOJ's commitment to our alliance, the Security Treaty, and to a more equitable sharing of the costs of maintaining U.S. forces in Japan is strong and warrants greater recognition than it has received to date. At present, Japan's support of U.S. forces in Japan amounts to \$3 billion annually. In the 1991-95 period, Japan's total, cumulative HNS payments will approach some \$17 billion. If military and civilian Department of Defense salaries are not included in calculating U.S. Forces Japan (USFJ) total costs, Japan would be providing more than 73% of the cost of our presence in Japan by 1995.

The Administration and many in the Congress disagree about which costs related to our presence in Japan the GOJ should bear. While we both agree that the GOJ should not pay USFJ salaries, the Congress has required, in the Defense Appropriations Bill, that Japan pay for all other costs or face annual U.S. troop reductions. We do not believe that Japan should pay all non-salary costs. Our objective should be to have Japan pay all appropriate yen-based costs. The new HNS agreement takes us considerably closer to that goal.

Let me explain why we believe Japan should not pay all non-salary costs. With 73% of USFJ's non-salary costs to be provided by Japan in 1995, that leaves about 27% for the U.S. to cover. This 27% consists largely of operational costs associated with running a military no matter where it is, such as training exercises, spare parts, and supplies. Asking Japan to cover all non-entitled costs could limit our operational flexibility. If the GOJ is to pay completely for U.S. operations, the GOJ would naturally want some say in what those operations should be. Neither U.S. commanders in the field nor the Administration desire such an arrangement.

South Korea: For many years, both Koreans and Americans viewed the Republic of Korea as a developing nation. By 1988, however, economic progress reached a point at which it was

clear that the Republic of Korea could share additional responsibility for defending our common interests. South Korea, which has devoted a higher percentage of its GNP to defense expenditures than most U.S. allies despite a lower level of national wealth, has of necessity been more deliberate in responding to our cost sharing requests than some other allies.

We have pressed Korea annually since 1988 for substantial increases in cost sharing. Negotiations are held annually for the following calendar year. Our goals have been to prepare a multi-year plan under which Korean contributions would increase and to establish a set of general principles to guide cost-sharing implementation. Our requests for increased cost sharing came as the entire U.S.-Korean security relationship was in a period of natural evolution as a result of our own adjustment of forces in South Korea and throughout East Asia. Under the provisions of the Strategic Framework for Asia, 7000 U.S. troops will be withdrawn from Korea by the end of 1992 and the South Korean government will begin to assume a leading role in its own defense while the U.S. moves into a supporting role.

In December we concluded an agreement with the Republic of Korea Government (ROKG) which provides a legal basis for the ROKG to begin paying some of the costs of Korean labor working

for U.S. Forces Korea. We signed a special cost sharing agreement with the South Koreans on January 25. The Korean government also signed a Memorandum of Understanding in which it committed to pay the full cost of moving U.S. forces out of Seoul (Yongsan), estimated at between \$1-3 billion. The Korean government has promised \$43 million in 1991 for labor costs -- an entirely new category. In all, South Korean contributions this year will be \$150 million, more than double the 1990 level of \$70 million.

#### ECONOMIC AND SECURITY ASSISTANCE

Mr. Chairman, our assistance to the region has been modest in terms of the percentage of our overall assistance budget and, increasingly, in terms of the percentage of total overseas assistance provided by other countries. But it has paid us back. Our development and security assistance has helped lay the groundwork for sustained economic growth and enhanced security throughout the region and we have reevaluated our programs in response. In Indonesia, Thailand, and the Republic of Korea, for example, our assistance levels fell considerably as these countries' economies grew and as they began to provide more effectively for their own security. In 1982, we provided these three countries with combined economic and military assistance of \$418 million. In FY 1992, we are requesting only \$47.6 million.

Our assistance has returned dividends in other, less concrete ways -- strong diplomatic support for our policy in the Gulf is one of them. It also has demonstrated to the peoples of the region our strong interest in their security and prosperity. It has allowed us to create enduring institutional ties with East Asian governments and private organizations involved in economic development. It has backed our commitment to human rights throughout the region with a concrete expression of our interest in its people's welfare. All of these form the sinews of our influence and the ties of trust between us and the countries of East Asia. Without them, we would be left with virtually no tools with which to affect the region's progress.

#### THE FUTURE

Mr. Chairman, we must not let the overall success of East Asia and the Pacific region blunt our continued attention to its problems -- or to our own interest in addressing them. Countries in the region have not experienced equally rapid economic growth and the forces of economic development have subjected some to wrenching political and social strains. In addition, regional conflicts -- notably between the two Koreas and in Cambodia -- still trouble the region. The recent coup in Thailand demonstrates the fragility of a young democracy.

million allocated for Development Assistance (DA) under our bilateral A.I.D. agreements. There is also approximately \$8 million in regional and centrally programmed A.I.D. funding which may be affected by the suspension, as well as much of the \$73.4 million unexpended prior year development assistance funding.

Other programs affected by the suspension included \$2.4 million in International Military Education and Training (IMET) and at least \$22.7 million in unexpended prior year Foreign Military Financing (FMF), as well as Anti-Terrorism Assistance and Trade Development Program funds for feasibility studies administered by the Commerce Department. Pursuant to Section 513 of the Foreign Operations, Export Financing and Related Programs Appropriations Act for FY-91, this assistance will not be resumed until a democratically-elected government has taken office in Thailand.

The coup leadership has described the steps it intends to take to restore civilian, democratic government to Thailand. The first of these is promulgation of a provisional constitution. This took place March 1. This constitution includes provisions for the drafting of a permanent constitution and the establishment of an interim legislative assembly. A provisional government has been formed headed by a civilian Prime Minister, Anan Panyarachun, who has served as a Thai Ambassador in Washington. Press restrictions have been lifted.

We welcomed Anan's statement that there is "no excuse for running the country under martial law one minute longer than necessary," and we hope other members of the interim cabinet will share fully this commitment.

The coup is certainly a setback to the recent evolution toward greater political democracy which had been taking place in Thailand. Thailand has long been a close friend and ally of the United States and remains so today. It is on that basis that we have and will continue to urge that the process to return democratic government in Thailand be as rapid as possible. The actions taken by the military leaders since the coup are in this direction. It appears the leadership recognizes that an early return to democratic, civilian government in Thailand is necessary.

Mr. Chairman, future returns from the region will require future investments. Shaping a Pacific Community based upon the principles of open markets, economic development, respect for

human rights, and regional stability calls for strong U.S. leadership and a continuing economic, political, and security commitment to the region. We will be unable to sustain that commitment by withdrawing into protectionism, making further drastic cuts in our development and security assistance, or otherwise signalling a decline in American interest in this dynamic region.

I would like to highlight our request for continued economic and security assistance for the Philippines. The best investment we can make in a more prosperous and democratic Philippines is assistance that can help provide an adequate standard of living for all of the Philippine people. Economic reform in the Philippines is a prerequisite for economic growth. With approximately one-half of the population living below the poverty line, economic reform is both a dire necessity and a challenge. A deadly earthquake, devastating floods, droughts, and the fallout from the December 1989 coup attempt and Iraq's invasion of Kuwait have made this challenge even more difficult.

Much of our assistance programs, such as ESF, DA and the Multilateral Assistance Initiative (MAI), support policy reforms necessary to generate broadly based, self-sustained growth. Our ESF program, for example, supports privatization,

import liberalization, improved tax administration, better public sector resource management, and infrastructure development. Money committed under the MAI is predicated on policy reform which complements these areas. Furthermore, our strong support for the MAI encourages participation from other donor countries. MAI funds also have been used for technical assistance, natural resource management, and infrastructure development. We also encourage Philippine economic reform through our participation in the IMF, World Bank, and Asian Development Bank. The Philippines also participates in our PL-480 program.

The Philippine Government needs to fight the threats to democracy by military means as well as economic. The FMF and IMET programs help equip and train the Armed Forces of the Philippines (AFP) to counter the threat from an estimated 17,000 Communist guerrillas active throughout the country. Within the last year, the AFP has made headway in the struggle against the Communist insurgency. The arrest by the AFP of key Communist Party/New People's Army (CPP/NPA) leaders has contributed to a loss of communication and coordination within the Communist organization. The downfall of Communism in other parts of the world has also hurt the CPP/NPA. It is imperative that the Philippine Government maintain its momentum against the Communist insurgency.

The threat to democracy also comes from the right, as evidenced most dramatically by the December 1989 coup attempt which resulted in the loss of over 100 Philippine lives. The AFP has had significant recent success in arresting top rebel leaders involved in the August 1987 and December 1989 coup attempts. Continued success in the policy of decapitating rebel organizations will help to forestall further right-wing destabilization attempts.

I would also like to draw your attention to our IMET program for the region. Mr. Chairman, fiscal stringency has led us to consider creative, effective, and low cost ways of maintaining security ties with our traditional friends. It is the unanimous opinion of our East Asian ambassadors and military commanders that IMET is the most cost effective security assistance program we have. Training friendly and allied students in U.S. schools improves the effectiveness of our alliances and provides the base, should it become necessary, to enter effectively into military relationships designed to counter threats to regional security. I doubt that our operations in the Gulf could have been as successful if hundreds of Saudi, Egyptian, and other coalition troops had not been trained in U.S. military schools. We do not know when we may need to create such a coalition in East Asia, but we should

not be unprepared.

#### CONCLUSION

Mr. Chairman, our total requests come to \$702.5 million, with \$492 million for economic assistance (DA, ESF, PL 480, and the Philippines MAI) and \$210.1 million in security assistance (IMET and FMS credits). This represents only 5.3 percent of total U.S. foreign assistance. The overall level represents a 2% increase over FY 1991. Economic assistance to the region increases by 2.6 percent with a rise of 1 percent for security assistance.

With this assistance and with our other political, military, and economic efforts, we are making an investment in the Pacific Community's future. To date, the region's economic success, its peace and prosperity, and its continuing support for our goals in the region and throughout the world are the dividends paid on our past investments. I hope you agree that the return we will likely receive from future investments outweighs the relatively small price we will pay.

Country SummariesIndonesia

The United States and Indonesia have developed a friendly relationship since the advent of President Soeharto's New Order 25 years ago. That relationship is important to us. Indonesia spreads across all the strategic straits between the Indian and Pacific Oceans, pathways for much of the world's shipping, including petroleum supplies. Indonesia plays an influential and moderating role in the international arena. It is a leading member of ASEAN and the NAM, and Foreign Minister Alatas' efforts to negotiate a Cambodia solution are admired by all. Indonesia, with the world's largest Moslem population, has supported U.N. sanctions against Iraq.

Indonesia has vast reserves of oil, natural gas, and other strategic raw materials. In the last several years, Indonesia has significantly deregulated its economy and expanded the private sector. This huge country, with the world's fifth largest population, is potentially an equally huge market. Opportunities for U.S. trade and investment are increasing. The Gulf Crisis has had a mixed effect on Indonesia's balance sheet. Higher oil prices last fall upped receipts; but plummeting tourism and reduced non-oil exports due to a slowed world economy probably leave only a small net gain. With per capita income at only \$500 per year, Indonesia remains poor.

The Indonesian Government considers U.S. assistance levels to be indicative of our commitment to bilateral and regional relationships. IMET has been particularly valuable in training future Indonesian leaders, and we have requested \$2.185 million for FY-92. In the past our security assistance supported large-scale purchases of defense articles, but funding constraints have caused FMS/FMF to be zeroed out since FY-90. This is a pity, for even a token amount could help maintain the bilateral relationship by supporting maintenance of U.S.-origin defense equipment such as the F-16. Our planned \$5 million in ESF for FY-92 will complete the State Department's pledge to assist ExIm Bank financing of AT&T's portion of the second-switch telecommunications project, potentially a billion-dollar contract for the American supplier.

AID's economic assistance program in Indonesia is relatively small in dollars, but has had immense impact. We have proposed DA funding of \$45.25 million for FY-92. A major emphasis in the past several years has been to encourage Indonesian economic deregulation efforts. The results speak for themselves. A series of deregulatory packages since 1983 have transformed the marketplace into an arena where free

enterprise can blossom. Indonesia's 7 percent growth rates in 1989 and 1990 are a result. Indonesia's population growth rate has dropped markedly, and AID's noncoercive family planning assistance has played a major role in that success. Other AID projects encourage strengthened democratic institutions, improved agricultural productivity, sustainable forestry, and other worthy goals.

GNP: \$80 Billion (1989)  
 Per Capita GNP: \$500  
 Defense Expenditures: NA  
 As % of GNP: 2.1% (1987)

### Malaysia

The United States has enjoyed friendly relations with Malaysia since Malaysia's independence in 1957. Although formally non-aligned in its foreign policy, Malaysia shares important political objectives with the U.S., including a commitment to the continued success of the Association of Southeast Asian Nations (ASEAN) and support for Thailand's security and a comprehensive Cambodian settlement on the basis of free and fair elections. Prime Minister Mahathir's government endorses the continued presence of U.S. facilities in the Philippines and enhanced U.S.-Singapore security cooperation.

As a member of the United Nations Security Council through December 31, 1991, Malaysia voted in favor of all twelve resolutions dealing with the invasion of Kuwait, including Resolution 678 which authorized the use of all necessary means to liberate that nation

Malaysia sits astride strategic sea lanes which link the Indian Ocean and the South China Sea. Malaysia has oil, natural gas and abundant other natural resources, good primary and secondary education, a strong free-market economy, and an expanding light industry producing electronic components and consumer goods. A generally rising standard of living makes it a growing market for U.S. goods, although regional economic disparities persist. The U.S. is Malaysia's second-largest trading partner; U.S. investment in Malaysia continues to grow rapidly. In 1990 a U.S.-Malaysian joint venture won two USAF contracts to maintain and repair C-130s.

Malaysia is a multi-ethnic society with a parliamentary and federal government. Regular, fair and free parliamentary, state and local elections are contested by the ruling National Front and several opposition parties. The long-running Communist-led insurgency virtually ended in December 1989 with the signing of a peace agreement between the Government and the Communist Party of Malaya. Malaysia continues to enforce its tough counter-narcotics laws to reduce trafficking and use, but drug abuse remains a national concern. Malaysia's counter-narcotics efforts complement our own efforts to engage Thailand and the other ASEAN countries in more intense and effective regional programs to cut back narcotics trafficking.

Between 1975 and 1989 Malaysia provided first asylum to more than 250,000 Vietnamese boat people. Malaysia's Red Crescent Society worked closely with the U.S., other countries and the U.N. High Commissioner for Refugees (UNHCR) to care for the refugees in camp and facilitate their resettlement. Malaysia's concern that it not be left with a "residue" of Vietnamese that no other country would take was intensified when it became clear that the Comprehensive Plan of Action, adopted in June 1989, had made no provision for dealing with asylum-seekers who were found not to be refugees.

Malaysia began denying first asylum to Vietnamese boat people in May 1989. Since then, Malaysia has pushed off more than 10,000 Vietnamese asylum-seekers. All but five are believed to have made it safely to Indonesia. The U.S. has vigorously protested the denial of first asylum at all levels of the Malaysian Government, and we continue to work with other resettlement countries and the UN High Commissioner for Refugees on the problem. We remain hopeful that Malaysia will once again accord first asylum.

Funding for International Military Education and Training (IMET) was suspended in FY-91 in response to Malaysia's pushing off Vietnamese asylum-seekers. The IMET program exposed Malaysians to U.S. traditions of democracy, human rights and civilian government control of the military. In the past our security assistance supported purchases of spare parts for C-130s and other U.S.-origin equipment, but funding constraints have caused FMS/FMF to be zeroed out since FY-89. FMS cash and commercial sales demonstrate U.S. reliability as a friend and as a supplier of defense equipment and services. FMS sales encourage the Malaysians to consider future purchases from the U.S., and to diversify their sources of major weapons systems, communication and transportation equipment away from Europe.

The United States strongly regrets Malaysia's push off policy and will continue to urge Malaysia to resume granting first asylum to Vietnamese boat people. In the FY-92 budget, the Administration asks Congress to reinstate funding for Malaysia's IMET program. Malaysia's renewed granting of first asylum would provide a strong reason for resuming this assistance. If the IMET program is reinstated, the funds will be used to support professional military education and technical training. FMS sales would support the aforementioned C-130s and other U.S. aircraft, helicopters, vehicles, ships and other equipment.

GDP: \$37.9 Billion (1989)  
 Per Capita GDP: \$2,270  
 Defense Expenditures: \$1.4 Billion (1990 est.)  
 As % of GDP: 3.8%

### Singapore

The Republic of Singapore for many years has been a dependable and steadfast supporter of the U.S. military presence in Southeast Asia to enhance the stability of the region. In November, 1990, the United States and Singapore signed an Agreement which enables the USAF to deploy greater numbers of aircraft to Singapore and for the USN to use more extensively Singapore's naval facilities.

By providing IMET training, the U.S. maintains contact with Singapore's military officers, helping to ensure that U.S. interests in the region are understood, and exposing Singaporeans to U.S. views of democracy and human rights.

GDP: \$427.5 Billion (1989)  
 Per Capita GDP: \$625  
 Defense Expenditures: \$850 Million (1990 est.)  
 As % of GDP: 2.1%

### Cambodia

Our request for East Asia includes \$25 million for Cambodia. By 1992, we expect our assistance to have expanded with the achievement of a comprehensive settlement there. We have provided a modest amount of non-lethal assistance for the Non-Communist groups. By 1992, we also expect to be supporting community development, leadership and human rights training, and election efforts under an ongoing UN operation -- as well as continuing to meet the very special needs of children in

Our program would help to stabilize the economic situation in Cambodia in the aftermath of decades of warfare and turmoil and in preparation for free and fair elections organized and conducted by the UN. We will also support the Non-Communist parties to develop as credible political organizations and as alternatives to the Communist Phnom Penh regime and Khmer Rouge parties in those elections.

A freely elected government in a stable Cambodia will be better able to stand up to any future attempt by the Khmer Rouge to undermine the situation and return to power through violence. A peaceful Cambodia will help preserve the political and economic stability of Southeast Asia. U.S. assistance will also encourage other countries to support the settlement process and provide aid.

GDP: \$890 Million (1989)  
 Per Capita GDP: \$280  
 Defense Expenditures: NA  
 As % of GDP: NA

### South Pacific

Despite their small geographic size and population, the 10 Pacific Island nations receiving economic assistance (Cook Islands, Fiji, Kiribati, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu, and Western Samoa) encompass - with their Exclusive Economic Zones - an enormous area, greatly enhancing their strategic, economic, and environmental importance. The region stands out as a region where countries have, for the most part, embraced democracy from independence and maintained it, despite fragile, undeveloped economies. Our economic assistance helps strengthen the political and economic stability of the island nations. The President's Summit meeting with Pacific Island leaders in October, 1990 underscored our concern for and commitment to the region.

We are requesting \$19.5 million in economic assistance (\$10.3 million in ESF and \$9.2 million in DA) for the South Pacific in FY 1992. Of the ESF, \$10 million will go to the region under the South Pacific Tuna Treaty. This treaty has been our single most significant foreign policy success in the South Pacific, eliminating a major source of friction in our relations and demonstrating a commitment to involvement in the entire region. Fisheries resources are of critical economic and environmental importance to the region, and the treaty has led to close cooperation on the key regional environmental issues of driftnet fishing and fisheries resource management.

We are also requesting \$300,000 in ESF for Fiji. ESF-supported projects for Fiji are designed to ensure they benefit each of Fiji's ethnic communities.

Our \$9.2 million Development Assistance request will help implement four regional projects announced by the President at the Pacific Island Summit in Honolulu. These projects will help the island nations develop their marine resources, commercial agriculture, environmentally safe business and tourism, and market access and regional cooperation. The focus will be on strengthening the private sector and increasing government reliance on market-led growth. Environmental protection will be an important component of U.S. assistance to the region.

We are requesting \$280,000 in IMET funding for the region, to be given to Papua New Guinea (\$80,000), Solomon Islands (\$50,000), Tonga (\$50,000), Vanuatu (\$50,000), and Fiji (\$50,000). This IMET training helps cultivate respect for democracy and human rights in island nation security forces. It also helps maintain and foster friendly ties with local security forces in a strategically-located region that has, for the most part, been traditionally hospitable to a U.S. presence.

We are also requesting \$300,000 in FMF for Fiji. U.S. military assistance helped make possible participation of Fiji's small military force in important and dangerous international peacekeeping efforts in southern Lebanon and the Sinai prior to the 1987 coups. Actual expenditure of both IMET and FMF for Fiji remains contingent on the return of elected government, anticipated later this year or early next.

### Fiji

GDP: \$1.32 Billion (1989)  
Per Capita GDP: \$1,750  
Defense Expenditures: NA  
As % of GDP: 2.5%

### Papua New Guinea

GDP: \$3.26 (1988)  
Per Capita GDP: \$890  
Defense Expenditures: \$42 Million  
As % of GDP: 1.3%

### Solomon Islands

GDP: \$156 Million (1988)  
Per Capita GDP: \$500  
Defense Expenditures: NA  
As % of GDP: NA

### The Republic of Korea

The U.S. has a vital interest in continued peace and stability on the Korean Peninsula. The Korean security situation has not changed. North Korea maintains the bulk of its heavily armed forces well dug-in, close to the DMZ. To deter aggression from North Korea, the U.S. continues to assist the Republic of Korea in its efforts to strengthen its defense capabilities. At the same time, we have encouraged the Republic of Korea to develop democratic practices -- an effort that has been quite successful.

We ended FMS credits for Korea in 1986 as a result of the Republic of Korea's economic progress and international trade position. Korea is still a major cash customer for U.S. military equipment. Under the continuing military sales program, Korea is maintaining and upgrading its conventional land, air, and sea forces.

In addition to FMS sales, we conduct a modest IMET program for Korea. Through this program, the U.S. seeks to promote better understanding within the Korean military of U.S. doctrine and traditions, including the role strengthening the democratic system. The IMET program also helps strengthen the vital inter-operability of our forces. The Republic of Korea also pays all transportation and living costs for its students.

GDP: \$200 Billion (1989)  
 Per Capita GNP: \$4,600  
 Defense Expenditures: \$10 Billion (1989)  
 As % of GDP: 5%

### Mongolia

We established relations with the People's Republic of Mongolia January 1987. Since last winter, Mongolia has implemented reforms designed to dismantle its previously rigid political and economic system. At the same time, the Soviet Union, traditionally Mongolia's largest aid donor, began reducing drastically their level of assistance. Recognizing Mongolia's need for support in implementing democratic institutions and market-oriented economic reform, Secretary Baker committed the U.S. to a carefully-focused program of technical assistance in 1990. The Administration is requesting \$4 million in FY 1992, a \$2 million increase over last year's funding.

GDP: \$1.7 Billion (1985)  
 Per Capita GDP: \$880  
 Defense Expenditures: ??  
 As % of GDP: ??

### PHILIPPINES

For FY 1992, our total foreign assistance request comes to \$556 million, with \$353 million going for economic assistance (ESF, DA, PL 480, and the Philippines Multilateral Assistance Initiative) and the remainder to military assistance (IMET and FMF grants).

Our economic assistance is aimed at enabling the Philippines to maintain democracy and achieve sustained economic growth by raising production and expanding trade, not from increasing aid and debt. Encouraging continued economic reforms and redressing income inequalities are keys to this democratic growth strategy. Last year (1990), was a difficult year. The Philippine economy confronted an earthquake, droughts, floods, higher oil prices, and falling investor confidence after the 1989 coup attempt. Our assistance was crucial to help the government cope with these external shocks. With IMF Board approval of a new standby program for the Philippine government February 20, we are hopeful that the Philippines will maintain its economic reform momentum. Representatives of twenty-two countries and donor entities have just expressed their confidence in the Philippine economy by pledging approximately \$3.3 billion to the Multilateral Assistance Initiative (MAI) at the Second MAI Consultative Group in Hong Kong, February 26.

Military assistance is primarily intended to aid the Armed Forces of the Philippines (AFP) in its efforts to battle an entrenched Communist insurgency. The 17,000 fighters of the communist New Peoples Army (NPA) are committed to the violent overthrow of the democratically elected government of President Aquino. Our military assistance provides much of the supplies and equipment needed by the AFP to counter the NPA, and enhances professionalism through the education of AFP officers. Furthermore, our assistance is a sign that we support the internal stability and external defense of an historic friend and ally in an important region of the world.

GDP: \$40.5 Billion (1989)  
 Per Capita GDP: \$625  
 Defense Expenditures: \$850 Million (1990 est.)  
 As % of GDP: 2.1%

**Burma**

We suspended all assistance to Burma in September 1988 in response to the Burmese military's bloody takeover of power. We remain extremely disappointed at the lack of progress toward the implementation of parliamentary democracy in Burma. Despite promises to do so promptly, the ruling State Law and Order Restoration Council (SLORC) has taken no steps to implement the results of the May, 1990 election. No timetable for a return to the promised civilian rule has been announced, and the military regime continues to suppress domestic opposition.

Since the election, we have encouraged the Burmese military to abide by its results. We have been active in multilateral efforts to influence the Burmese. In July 1990, Secretary Baker urged Burma's neighboring ASEAN states to use their influence with the Burmese to encourage a transition to civilian government and the release of political prisoners. Our Embassies in Singapore, Malaysia, and Thailand have since reinforced this message. In addition, Secretary Baker sent a letter in August to General Saw Maung, the Chairman of the State Law and Order Restoration Council (SLORC), urging him to transfer power to a civilian government and to release all political prisoners, including NLD leader Aung San Suu Kyi.

The United States organized a multilateral diplomatic approach to the Burmese in Rangoon in September, in which the U.S. and a number of like-minded countries again called for the implementation of the May elections. We consult with our friends and allies on a regular basis to seek ways to increase the pressure on the Burmese government.

Section 138 of the Customs and Trade Act of 1990 (the "Moynihan Amendment") calls on the President to impose appropriate economic sanctions on Burma if the President cannot certify by October 1 that Burma has taken certain political reforms and improved its performance on narcotics suppression. Burma cannot meet these requirements, and we have so informed

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Congress. The U.S. has already taken several economic measures against Burma in an effort to encourage an improvement in the situation in that country.

--We long ago terminated all forms of economic assistance to Burma and actively urge others to do so.

--We have suspended Burma's GSP privileges.

--We have decertified Burma on narcotics. This means that we will oppose loans to Burma by the World Bank, the IMF, and other international organizations.

We are currently considering what economic sanctions against Burma might be appropriate and will notify Congress promptly of the outcome of our assessment.

GDP: \$11 Billion (1988)  
 Per Capita GDP: \$280  
 Defense Expenditures: \$315 Million  
 As % of Central Government Budget: 21%

#### Thailand

On February 23 forces of the Thai military took power in a bloodless coup d'etat in Thailand. The reason given for the coup was corruption in the government of former Prime Minister Chatichai and threats to the military and monarchy. The coup group announced the abolition of the constitution, dissolution of the appointed senate and the elected national assembly, and declared martial law. Prime Minister Chatichai Choonhavan, Deputy Defense Minister Athit Kamlang-ek, and a small number of advisors and government officials were detained. They have since been released.

Consistent with U.S. policy and law, we announced the suspension of FY 1991 military and economic assistance to Thailand. The suspension affects FY 1991 allocations of \$2.5 million in Economic Support Funds (ESF) and \$11.6 million allocated for Development Assistance (DA) under our bilateral A.I.D. agreements. There is also approximately \$8 million in regional and centrally programmed A.I.D. funding which may be affected by the suspension, as well as much of the \$73.4 unexpended prior year development assistance funding. Other programs affected by the suspension included \$2.4 million in International Military Education and Training (IMET) and at least \$22.7 million in unexpended prior year Foreign Military Financing (FMF), as well as Anti-Terrorism Assistance and

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grants administered by the Commerce Department for feasibility studies. Pursuant to Section 513 of the Foreign Operations, Export Financing and Related Programs Appropriations Act for FY 91, this assistance will not be resumed until a democratically-elected government has taken office in Thailand.

We issued a statement February 23 expressing our deep regret at the overthrow of Thailand's democratically-elected government and deploring the change of government and constitution by military means.

The coup is certainly a setback to the recent evolution toward greater political democracy which had been taking place in Thailand. Thailand has long been a close friend and ally of the United States and remains so today. It is on that basis that we have and will continue to urge that the process to return democratic government in Thailand be as rapid as possible. The actions taken by the military leaders since the coup are in this direction. It appears the leadership recognizes that an early return to democratic, civilian government in Thailand is necessary.

We believe that if democratic government is reestablished, we should be in a position to continue contributing to Thai development. We have a long term friendly relationship with Thailand and want to continue to deal with the Thai on that basis. Therefore, we would like to maintain our FY 1992 economic and security assistance requests. The administration is requesting \$12.3 million in development assistance, another \$2.5 million in economic support funds for the Affected Thai Villages Program, \$2.5 million in PL 480 Title II funds for the Thai border, and \$2.5 million for TMRP.

GNP: \$64.5 Billion (1989)  
Per Capita GDP: \$1,160  
Defense Expenditures: \$1.9 Billion (1989 est.)  
As % of GNP: 2.9%

#### LAOS

Secretary Baker met with the Lao Foreign Minister in October, the highest level meeting with the Lao since 1975, and both sides expressed a desire to continue to

strengthen relations. The Lao have agreed in principle to a Peace Corps program. We expect final agreement in the near future and arrival of the first volunteers later this year. We were encouraged to see the Lao quickly condemn the Iraqi invasion of Kuwait and to refrain from criticizing the U.S. role in the Gulf crisis.

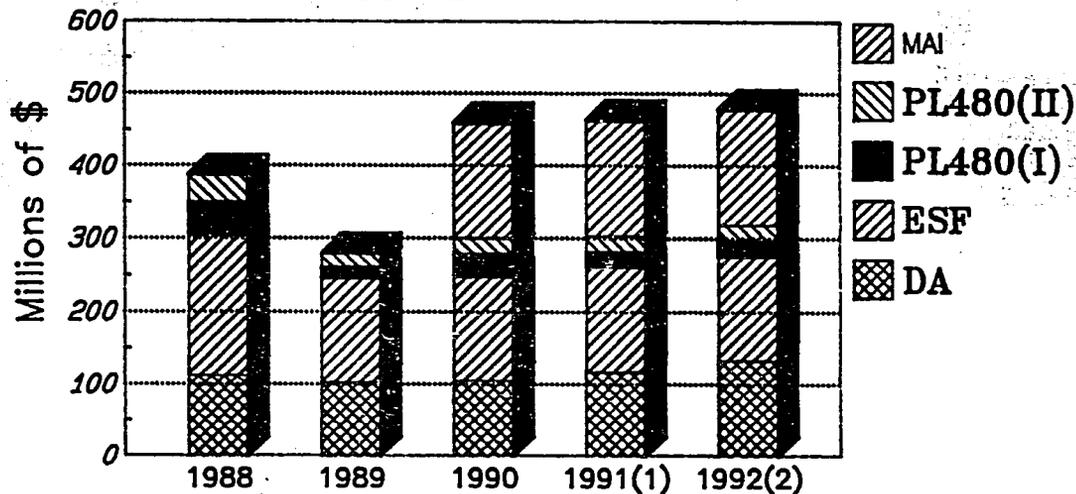
The President recently certified Laos as cooperating on counter-narcotics. The official USG estimate is that opium production fell 27 percent in 1990, partly as a result of Lao anti-drug education campaigns and implementation of crop-substitution projects, including one we fund. For the first time, the Lao conducted several law enforcement actions in 1990. They have taken additional actions already this year and have accepted a USG proposal to create special border patrol and investigative units to control narcotics trafficking. The Lao participated in DEA and Customs training seminars and have begun to develop a liaison relationship with these agencies. The International Narcotics Matters Bureau is funding a six-year crop-substitution project in northeastern Laos. The project, begun in late 1989, is going very well, and we believe it contributed to the decline in opium production in the region.

After some recent delays, we believe our POW/MIA efforts in Laos are back on track. After excellent cooperation during the 1989-90 dry season, the onset of our POW/MIA activity for this dry season was delayed for 3-4 months for reasons that are still not clear to us. We recently were able to resume activities, with a successful excavation and survey operation in Savannakhet Province. We are hopeful we will be able to begin investigating several of the so-called "discrepancy case" in northeastern Laos very soon, perhaps later this month. These are cases in which individuals were last known to be alive in the hands of the Pathet Lao.

Although we have no regular AID program in Laos, we have been able to provide a small amount of assistance. Under a "notwithstanding" provision of the Foreign Assistance Act, AID is funding an \$850,000 prosthetics project. The U.S. Army Corps of Engineers recently built a small school in the rural south, the first time the U.S. military has done such work in Laos.

GDP: \$585 million (1989 est.)  
 Per Capita GDP: \$150  
 Defense Expenditures: NA  
 As % of GDP: 2.7% (1987)

## U.S. Economic Assistance to the East Asian and Pacific Region (Appropriation Basis)

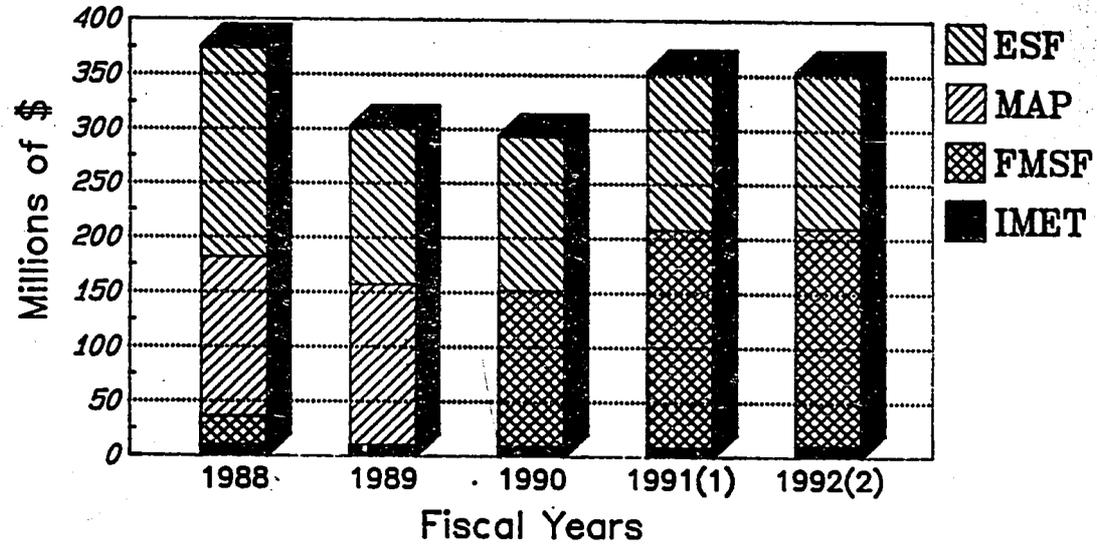


(1) Estimate

(2) Request

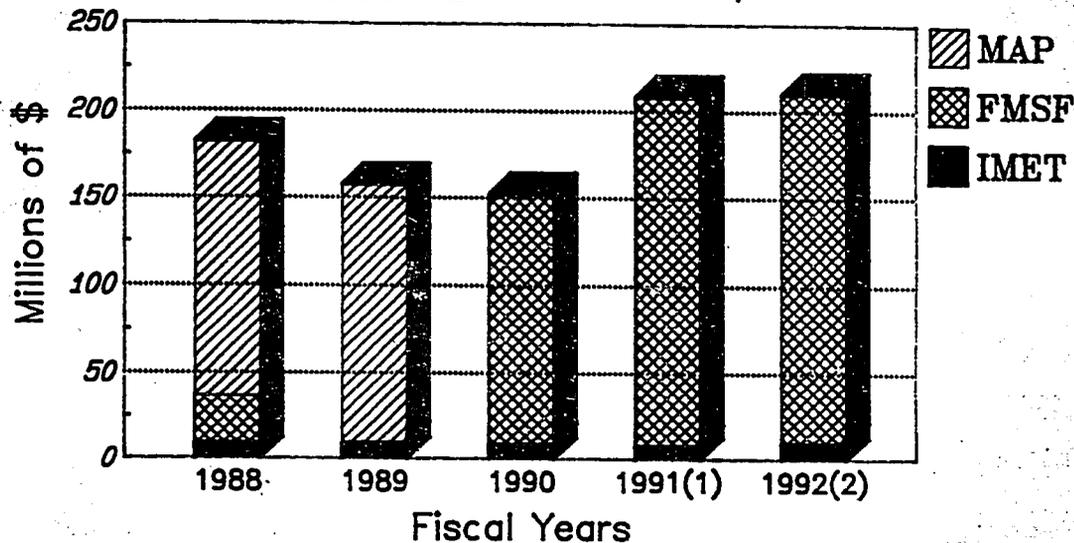
EAP/EP: EAID8692 02/26/91

## U.S. Security Assistance to the East Asian and Pacific Region (Appropriation Basis)



(1) Proposed  
 (2) Recommended  
 EAP/EP: 2/26/91 SAID8892

# U.S. Military Assistance to the East Asian and Pacific Region (Appropriation Basis)

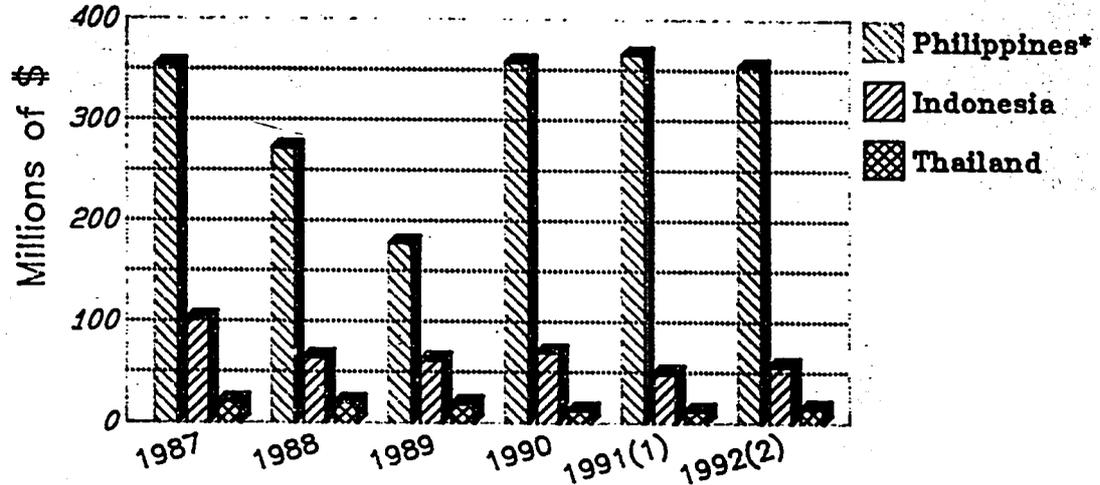


(1) Estimate

(2) Request

EAP/EP: 2/26/91 MAID8892

## U.S. Economic Assistance to the East Asian and Pacific Region (Appropriation Basis)



\*Includes \$159.3 million in FY90, \$160 million  
in FY91 & FY92 for MAI for the Philippines  
EAP/EP: 3/8/91 EAIDCTY92

1) Estimate  
2) Request

Mr. OBEY. Mrs. Schaffer.

MRS. SCHAFFER'S OPENING STATEMENT

Mrs. SCHAFFER. I am pleased to have the opportunity to discuss the current situation in South Asia and the situation in the region.

I have submitted a longer statement for the record. With your permission, I would like to make a few briefer remarks.

U.S. security assistance is a key tool in supporting basic American policy goals in Southeast Asia. These include, most importantly, to continue to support and promote security in the region through decreasing tensions between states, to discourage a race toward acquisition of weapons of mass destruction, to promote and strengthen democratic institutions through economic development, encouraging privatization, and assisting with the building of democratic structures, to seek support for a successful winding up of the issues raised by the Gulf War and to pursue our worldwide interests in narcotics control, human rights and combatting terrorism.

We are pleased all the South Asian countries supported the 12 U.N. Security Council Resolutions on the Gulf crisis, though the shock of the outbreak of hostilities generated anti-American demonstrations in several of them.

Pakistan, Bangladesh and the Afghan resistance organizations sent troops to help defend Saudi Arabia. The war's economic impact on South Asia was considerable, although not as heavy as feared last fall. Almost all the countries in the region suffered from a serious decline in remittances and a drop in trade.

My written testimony describes recent events throughout the area from Afghanistan through Bangladesh in light of these goals.

I would like to review orally the key points of my testimony as they pertain to two high priority countries, Afghanistan and Pakistan.

In Afghanistan, the U.S. and the Soviet Union have continued discussions on ending the Afghanistan conflict which would include a cutoff of U.S. and Soviet arms support.

We and the Soviets are in general agreement in a number of areas, including the need for a transition process that would guarantee free and fair elections. We have not been able to agree on how best to disengage our respective support and to achieve a cease fire.

PAKISTAN

New aid to Pakistan and U.S. government military deliveries were suspended October 1 because the President has not certified, as required by law, that Pakistan does not possess a nuclear explosive device and that continuation of our assistance in military supply programs will significantly reduce the risk of its doing so.

We continue to have important shared interest with Pakistan in maintaining regional peace and stability, a just political settlement in Afghanistan, combatting the spread of illicit narcotics, strengthening democratic institutions and fostering economic growth.

I am pleased to report that the President certified on March 4 that the October 1990 elections, despite some problems, were generally free and fair.

We have allocated funds for Pakistan in the current fiscal year and are requesting further funding in fiscal year 1991 in the hope that developments on the nuclear issue will lead to a presidential certification and permit us to resume aid.

The Administration remains concerned about the broader problem of nuclear competition in South Asia and continues to encourage regional efforts to prevent nuclear weapons proliferation.

Pakistan and India have taken initial steps to address this problem, including the January exchange of instruments of ratification for an agreement not to strike at each other's nuclear facilities.

We hope that they will be able to identify further steps they can take either bilaterally or without side support to reduce the risks posed by these nuclear programs. We are ready to do what we can to help.

The level of tension between India and Pakistan over Kashmir is perceptibly lower than it was last spring. The two foreign secretaries are expected to meet shortly. We hope they will be able to sign agreements on further military confidence building measures.

We continue to urge both India and Pakistan to find ways of broadening their understanding in this crucial area.

I would like to conclude, Mr. Chairman, by noting our encouragement at the improved climate for democratic institutions in several South Asian nations. Bangladesh on February 27 held the freest and fairest elections in its history.

In Nepal, the first party based elections in 30 years are scheduled for May 12. It appears that some 400 Indians will also be going to the polls again in May.

We will continue our diplomatic efforts in South Asia on behalf of nuclear nonproliferation, increased security and improved human rights.

U.S. assistance programs supported by Congress are a vital part of this effort. We must also continue to help build the political, economic and social foundations the South Asian nations need to address their enormous problem

Thank you.

[The information follows:]

Testimony of Teresita C. Schaffer  
Deputy Assistant Secretary of State  
Bureau of Near Eastern and South Asian Affairs

Before  
The Subcommittee on Foreign Operations  
House Appropriations Committee

March 14, 1991

**SOUTH ASIAN ISSUES**

Mr. Chairman, Members of the Subcommittee:

I appreciate this opportunity to appear before you today to discuss the current situation in South Asia and our aid policies and programs for the region.

Democratic institutions have displayed encouraging vitality in South Asia. Bangladesh held elections February 27 and elections are scheduled for May 12 in Nepal. The new government in Pakistan, elected in late October, has established itself following elections which we believe to have been on balance free and fair despite some irregularities. The orderly change in the Indian government last November in spite of serious social and communal disturbances demonstrated the dynamics of democratic government in the world's most populous democracy. We are confident India will find a solution to the crisis sparked by Prime Minister Chandra Shekhar's resignation in accordance with the same democratic principles.

There have been some signs of improvement in regional stability as well, notably in Indo-Pakistan relations. However, other trends remain problematic. The problems of Afghanistan, Kashmir, and Sri Lanka continue to fester. We continue to be concerned about nuclear weapons competition in a region as volatile as this.

The basic United States policy goals for South Asia are:

- to continue to support and promote security in the region through decreasing tensions between states;
- to discourage a race toward acquisition of weapons of mass destruction;
- to promote and strengthen democratic institutions through economic development, encouraging privatization, and assisting with the building of democratic structures; and
- to seek support for a successful winding up of the issues raised by Gulf War.

These are in addition to our global goals of promoting human rights and opposing trade in narcotics. U.S. economic and security assistance is a key tool in supporting these goals.

First, however, I need to discuss the impact of the Gulf War at greater length. It was an event external to the region, but nevertheless had an immediate impact that overshadowed longer term trends. South Asian nations opposed Iraq's brutal occupation of Kuwait. They all honored the UN economic sanctions against Iraq, at some expense to their own economies. Pakistan, Bangladesh, and Afghan Resistance organizations sent troops to help defend Saudi Arabia. The war's economic impact on South Asia was not as heavy as was

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feared last Fall, largely because oil prices have returned to traditional levels and supplies are plentiful. Almost all countries in the subcontinent, however, suffered because of a serious decline in remittances and a drop in trade with the Gulf region. This was accompanied by a great deal of personal hardship and dislocation for South Asian expatriate workers.

In Pakistan, there were demonstrations against U.S. Gulf policy and in favor of Saddam Hussein. These disturbances were also rooted in other resentments, particularly the suspension of U.S. aid in October because of the nuclear issue, and attempts by political parties to manipulate popular passions for short term gains. However, Prime Minister Sharif's government continued to support implementation of all the UNSC resolutions related to the Gulf crisis, including total and unconditional Iraqi withdrawal from Kuwait. In addition, Pakistan contributed 11,000 troops, which are stationed in Saudi Arabia. This support prevailed despite strongly negative reactions from the Pakistan Peoples' Party opposition and certain Islamic parties, and the different views articulated in December and January by the military leadership. We estimate that Pakistan's economy could have lost up to \$1 billion as a result of the crisis.

The Afghan regime told the UN Secretary General in late December that it was complying with sanctions. Privately, it appeared to favor Iraq, with prominent media coverage of anti-coalition demonstrations in Kabul. Afghan Resistance

parties split between Hekmatyar, Sayyaf, and Rabbani, who condemned coalition efforts, and Mojaddedi, Khalis, Mohammedi, and Gailani, who supported the defense of Saudi Arabia and liberation of Kuwait. Most mujahidin commanders and refugees, while sympathetic to the suffering of the Iraqi civilian population, were opposed to Iraq's takeover of Kuwait, and supported the expulsion of Saddam's forces. The Gulf crisis has had no significant impact on the Afghan economy. Despite initial concerns about sharp cut-backs in funding, private Saudi and Kuwaiti assistance organizations continued to serve Afghan refugees throughout the crisis.

We welcomed India's continued support for the UN resolutions and appreciated India's willingness to refuel our supply planes en route to the Gulf, even though we decided to make alternative arrangements when domestic criticism of the government over the flights became intense. However, India also joined NAM efforts at the UN and elsewhere to promote an early ceasefire, without the explicit linkage to concrete Iraqi moves to withdraw from Kuwait which we considered essential. Many anti-war and anti-U.S. demonstrations occurred in India; in Calcutta they threatened the security of our Consulate. The Gulf crisis seriously worsened India's already weak balance of payments situation.

The interim government in Bangladesh supported the UNSC resolutions on Iraqi withdrawal from Kuwait and continued the deployment of 2,300 troops to defend Saudi Arabia. Popular

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sentiment expressed in generally peaceful demonstrations and in the press, ranged from anti-Iraq to pro-Iraq. Bangladesh was particularly hard hit by the Gulf war. Taking into consideration its increased oil bill and loss in remittances and trade, the overall decline of its GNP is 2.5%.

Nepal complied fully with economic sanctions and supported the 12 UNSC resolutions. It had few citizens in the Gulf and minimal trade relations with Iraq and Kuwait so the overall economic impact of the crisis was not great. However, the crisis caused a 50% reduction in the important tourist industry, reducing Nepal's annual foreign exchange receipts by around 3%. Higher fuel and transportation costs caused by the crisis affect garment sales already hurt by the U.S. recession.

The Government of Sri Lanka also supported all UNSC resolutions on the Gulf and provided refuelling privileges for coalition ships and aircraft. The costs of the Gulf crisis to Sri Lanka, originally estimated by the Asian Development bank at 5% of GDP, will probably be much less than anticipated given reduced oil prices and the brevity of the fighting.

Strengthening support in the region for the UN Security Council resolutions will be one of our key policy goals as we move forward. Stability and peace in South Asia take on added importance as we contemplate the establishment of a more durable regional security system.

Mr. Chairman I will now discuss each of the South Asian countries in turn, relating our aid request to our overall policy goals

#### AFGHANISTAN

To support war-affected Afghans who have remained in their country and to create conditions which will draw Afghans home, we are requesting a continuation of our cross-border program at a level of \$60 million. An additional \$4.8 million will go for food assistance to needy civilians.

In addition to our support for UN efforts to encourage a political solution, the U.S. and Soviet Union have continued discussions on ending the Afghan conflict which would include a cut off of U.S. and Soviet arms support. We are in general agreement in a number of areas, including the need for a transition process that would guarantee free and fair elections. We have not been able to agree on how best to disengage our respective support and to achieve a ceasefire. We anticipate renewing senior level discussions with the Soviets but have not set a date. Both we and the Soviets recognize that it is the Afghans themselves who will have to determine their own future.

In Afghanistan, there was considerable fighting over the past year, but little significant change in control of

territory. The Najib regime continues to seek increased international recognition, but has not broadened its internal support. Within the Resistance, the Afghan Interim Government has degenerated into ineffectiveness and disarray as party leaders have continued their rivalries. Divisions have deepened over the Gulf War. The National Commanders' Shura has gained support from a broad range of Afghans and is focussing on coordinating military activities. The increased cooperation among commanders could extend into administrative and political areas in the future and is an encouraging development.

#### PAKISTAN

For Pakistan in Fiscal Year 1992, the Administration is requesting \$100 million in Economic Support Funding, \$25 million in Development Assistance, \$ 113.5 million in Foreign Military Financing, and \$.9 million for International Military Education and Training. We also expect to continue providing about \$7 million in counter-narcotics assistance.

As you know, Mr. Chairman, new aid to Pakistan as well as U.S. Government military deliveries have been suspended since October 1 because the President has not certified, as required by law, that Pakistan does not possess a nuclear explosive device and that continuation of our assistance and military supply programs will significantly reduce the risk of its doing so. We have allocated aid for Pakistan this fiscal year in the hope that developments on the nuclear issue will lead to a

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Presidential certification, permitting resumption of aid. If this does not occur, the funds would become available for reprogramming to other recipients.

As a result of overall constraints on the foreign assistance budget, and the necessity to address pressing needs elsewhere, the FY 91 allocation was significantly reduced from the earlier Administration request. For FY 91, a total aid package of \$237.8 million was allocated, including \$91.9 million in foreign military financing (in the form of both grants and concessional credits), \$.9 million in International Military Education and Training, \$100 million in Economic Support Funding, \$25 million in Development Assistance and \$20 million in PL 480 Title I. In addition, we are providing \$ 7.5 million in counter-na limited by Pressler.

Pakistan remains a valued friend, with shared interests in a just political settlement in Afghanistan, maintaining peace and stability in the region, combatting the spread of illicit narcotics, strengthening democratic institutions, and fostering economic growth. The U.S. is encouraged by the Sharif Government's steadfastness regarding the Gulf and its efforts to liberalize the economy, and will continue to work to restore the relationship to a more balanced footing. Within the constraints of our nonproliferation objectives, we would like to be able to continue our material support for Pakistan's economic development and security.

The October 1990 national elections represent another step toward the institutionalization of democracy in Pakistan. Despite indications of possible fraud in a small number of National Assembly constituencies, on balance, the elections were free and fair, producing a result that we believe reflects the will of the electorate. Although the elections were held in a more polarized political atmosphere than the 1988 elections, and there have been a number of unsubstantiated charges of vote-rigging and fraud, given the paucity of hard evidence to support these allegations and the magnitude of the victory by Prime Minister Sharif's coalition, any irregularities would not have been significant enough to affect the overall outcome of the vote.

The Administration's commitment to nonproliferation remains strong. The issues posed by Pakistan's nuclear program are being carefully monitored by our government and are under discussion with the Government of Pakistan. We are confident that the GOP fully understands the requirements that we face under U.S. law. In addition to our bilateral discussions of the nuclear issue with the Pakistanis, we remain concerned about the broader problem of nuclear competition in South Asia. The Administration continues to encourage regional efforts to prevent the proliferation of nuclear weapons.

Pakistan and India have taken some initial steps to address this problem, including the January exchange of instruments of

ratification for their agreement not to strike at each other's nuclear facilities. We hope that they will be able to identify further steps they can take -- either bilaterally or with outside support -- to reduce the risk posed by these nuclear programs in a volatile region. We are ready to do what we can to help.

Indo-Pakistani relations have continued to make progress. The level of tension between New Delhi and Islamabad over Kashmir is perceptibly lower than it was last Spring. At upcoming talks, the two Foreign Secretaries may sign agreements on military confidence building measures which could contribute positive momentum to the relationship while reducing risk of stumbling into conflict. We continue to urge both India and Pakistan to find ways of broadening their understanding in this crucial area.

#### INDIA

The Administration is requesting \$99.9 million in aid to India for FY-1992: \$22 million in Development Assistance, \$77.6 million for PL 480, \$15 million in housing guarantees, and \$.345 million for International Military Education and Training. The PL 480 program, the largest Title II program in the world, integrates food supplements with maternal and child health programs administered by voluntary agencies. Development Assistance focuses on increasing participation of the private sector in the Indian economy.

Prime Minister Chandra Shekhar's resignation last week will probably lead to new elections in the next few months. The combination of a caretaker government and campaigning severely reduces the possibility for vigorous government action or new initiatives.

The government faces a pressing balance of payments problem exacerbated by the Gulf conflict. To deal with this, India departed from past practice and obtained \$1.8 billion in assistance from the IMF. This may not be sufficient to bridge the balance of payments gap for the coming year.

The Shekhar government tried to resolve the conflicts in Punjab and Kashmir through dialogue. The Prime Minister consulted widely on the Kashmir problem and declared willingness to meet with anyone to discuss resolution of this conflict. Militant groups rejected his offer, and the violence continued. The daily rituals of militant attacks and security force counterattacks have claimed almost 200 lives in Kashmir this year. Our view on the violence in Kashmir continues to be that there must be a resolution through political dialogue. In

Punjab, Chandra Shekhar replaced the governor and police chief soon after taking office. More importantly, he met in late December with Akali Dal leader S.S. Mann to lay the groundwork for future substantive meetings. The number of violent incidents declined somewhat in December and remained fairly constant in January and February. Even so, in Punjab more than 675 people have already died this year in terrorist-related activities.

India's domestic economic activity remains hampered by excessive central control and government interference. India's investment regime effectively discourages U.S. businessmen from committing capital there. Even though the U.S. was the leading foreign investor in India last year, the amount was tiny -- \$19 million from a total of \$76 million. In Uruguay Round negotiations, India supported us on agricultural policy, but important differences remain on other fundamental issues such as intellectual property rights, market access, and trade-related investment matters.

India's membership on the Security Council will give it an opportunity -- and a responsibility -- to help shape some of the major features of the world political landscape. The U.S. and India consult closely on issues likely to come before the Council, and share the hope that the UN will be able to play a constructive role in reducing the risk of instability and conflict in the world. We don't always see eye-to-eye, but I believe the enhanced dialogue increases mutual understanding and thus strengthens bilateral ties in the long run.

**BANGLADESH**

For Bangladesh in Fiscal Year 1992, the Administration is requesting \$62 million in Development Assistance, \$74.5 million in P.L. 480 food and commodity assistance and \$350 thousand in International Military Education and Training Funds. This assistance will improve the lives of the Bangladeshi people, strengthen the partnership between business and development and promote and consolidate democracy.

During the past six months, while the world's attention has been focused on the Gulf, there has been a peaceful democratic evolution in Bangladesh that compares favorably with last year's democratic changes in Eastern Europe. On February 27, the people of Bangladesh went to the polls to elect 297 members of Parliament from a field of over 2700 candidates representing over 60 political parties. The elections have been viewed by international observers, the press, the students, and the diplomatic community as the most free, fair and non-violent in the twenty year history of Bangladesh. We commend the interim government of Bangladesh, the political parties, the students, the security forces and the voters who worked together in the spirit of compromise and cooperation to build democracy in Bangladesh.

We consider this election to be only the beginning of Bangladesh's progress toward stronger democratic institutions.

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The next months will present the unique challenges of forming a parliament and then holding presidential elections or changing the Constitution to allow for a parliamentary democracy as preferred by some parties. We look forward to working with the new Government.

The U.S. has actively promoted democracy in Bangladesh for many years. USAID-funded programs have contributed to the process through voter education programs and training of poll watchers and indigenous election observers. The National Democratic Institute for International Affairs has sent several missions to Bangladesh, including a four-person team for the parliamentary elections, that worked with local election observers and party members to develop election monitoring skills.

The U.S. continues to be interested in the economic development of Bangladesh. We have contributed over \$3 billion to the country's development since its independence in 1971. Bangladesh continues to enjoy one of our largest Development Assistance and P.L. 480 food and commodity assistance programs totalling over \$130 million annually. These programs emphasize helping Bangladesh to meet basic human needs particularly in the areas of health and population, agriculture development and employment generation.

The Administration and Congress have been concerned about the debt of the poorest countries. In this context Congress

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passed Section 572 of the 1989 Foreign Operations Appropriation Act which relieves the burden on the neediest debtors who are making appropriate economic reforms. Because of Bangladesh's commitment to continue economic reforms and its efforts toward strengthening democratic pluralism, the Administration has announced its intent to relieve Bangladesh's outstanding Development Assistance debt of \$292 million during this fiscal year. This debt is for Development Assistance provided prior to 1983. Since 1983 all Development Assistance aid to Bangladesh has been in grant form. We believe that debt relief can make a significant contribution toward the country's economic and political development.

We are satisfied with the Government of Bangladesh's efforts to continue economic reform. Last year's sharply falling foreign reserves have stabilized and Bangladesh is apparently sticking to its IMF Enhanced Structural Adjustment Program negotiated in August of 1990, in spite of the impact of higher oil prices last Fall and lost remittances from workers in Kuwait and Iraq.

#### NEPAL

For Fiscal Year 1992, the Administration is requesting \$15 million in Development Assistance, \$500 thousand in Foreign Military Financing, and \$185 thousand in International Military Education and Training funds for Nepal. We will continue to stress liberalizing markets with a strong sectoral emphasis on

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agriculture/forestry and health/population, working closely with the World Bank and the Asian Development Bank in restructuring agricultural policy.

Nepal continues its transition to democracy. On November 9, King Birendra promulgated a new Constitution which establishes constitutional monarchy and multi-party parliamentary democracy, guarantees basic human rights, and provides the framework for democratic institutions. Nepal's first multi-party elections in 30 years are scheduled for May 12.

The mechanisms planned and implemented by the National Election Commission (NEC) were designed to ensure a free and fair election. The NEC registered 10.7 million voters and evaluated applications from 47 groups seeking recognition as political parties. To qualify, groups had to adhere to democratic norms, hold internal elections, and be "national" in character (i.e., not based on ethnic, regional, tribal, religious, or caste identities). The Delineation Commission drew the lines for 205 constituencies, which have an average of 35,000 voters each.

The United States has encouraged and supported Nepal's democratic transition from the beginning. Through the Asia Democracy Program, we provided more than \$800,000 in FY 90 to support constitutional reform and the development of pluralistic democratic institutions. An additional \$130,000 has been made available from FY 91 funds. Some of these funds

are being used to finance ongoing voter and citizen education projects, and some have been allocated to such activities as parliament strengthening, election observer training, assistance to the election commission and to non-partisan human rights organizations, and training assistance for a number of emerging political leaders.

The Embassy has been in contact with the National Endowment for Democracy (NED) and the two U.S. party institutes, NDI and NRI, since April 1990 to use their expertise and resources in support of Nepal's democratic process. We plan to field a 10-member NDI/NRI observer team coordinated by International Foundation for Electoral Systems, and we will continue to offer our experience of democratic systems in whatever way the Nepalese find useful.

#### SRI LANKA

For Sri Lanka in fiscal year 1992, the Administration is requesting \$19.3 million in Development Assistance, \$21.6 million in P.L. 480, and \$200,000 in International Military Education and Training funds.

Sri Lanka embodies one of South Asia's starkest paradoxes. On the one hand, it takes pride in a strong, democratic tradition and dynamic economic policies which brought a five percent annual growth rate for 1990. At the same time, Sri Lanka has suffered two brutal insurgencies. Although the JVP,

which has a brutal record, was crushed by early 1990; the Liberation Tigers of Tamil Eelam continue to wage a bloody separatist war against the Government. Deputy Defense Minister Ranjan Wijeratne, who was assassinated on March 3, was the latest victim of Sri Lanka's tragic cycle of violence. We have consistently urged dialogue, not bloodshed, as the means to resolve Sri Lanka's ethnic differences. While the ceasefire in early January did not last, we are encouraged that the Government left the door open to future talks.

We are also troubled by the human rights abuses committed by all parties to the conflict, including government forces. The Government's establishment of a human rights task force was a welcome development. We commend its efforts to maintain communal harmony and to promote military discipline while fighting a violent insurgency. Plainly, a democratically-elected government has the right to protect itself from those who would overthrow it by force. Yet those charged with enforcing the law -- including the Sri Lankan military and police -- have a special obligation to obey it. On human rights matters, the Government of Sri Lanka's primary responsibility is to vigorously investigate all extrajudicial killings and disappearances credibly linked to security forces and bring those responsible to justice. Beyond that, there must be greater effort to investigate officials linked to serious abuses. Discipline in the security forces must be strengthened. We have underscored this point on many occasions, including at the donor Consultative Group meeting in

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Paris on October 25. Other delegations, including the European Community, expressed similar concerns in their statements.

I would like to conclude, Mr. Chairman, by noting again that we are encouraged by the improved climate for democratic institutions in several South Asian nations. U.S. assistance programs, supported by the Congress, have made a real contribution to this development. But working for greater democratic government and widened opportunities for free enterprise in South Asia, as anywhere else, is a means to an end: an improved life for the people of the region. We will continue our diplomatic efforts in South Asia on behalf of non-proliferation, increased security, and improved human rights. We also must continue our programs to help build the political, economic, and social foundations required for South Asian nations to adequately address themselves the tremendous problems they face.

**Mr. OBEY. Ms. Adelman.**

**Ms. ADELMAN'S OPENING STATEMENT**

**Ms. ADELMAN.** I would like to draw attention to three factors affecting our overall A.I.D. activities and relationships with Afghanistan, Pakistan, Cambodia and the Philippines.

The first is clearly economic and political liberalism sweeping the world. This brings with it a new set of problems, a new set of activities with which we can support these countries having to do with public accountability, the responsibility of democracies, and how to make democracy work, such as decentralization of local government.

A second factor is the changing superpower relationship that affects our relationship with our cross-border programs in Cambodia and Afghanistan.

A third is our own geopolitical bilateral relationship in Pakistan, with the nonproliferation issue now, and in the Philippines with the base negotiations, where we are redefining our relationship.

As I look at these countries, these themes clearly are shaping our assistance efforts and objectives.

**PHILIPPINES**

In particular, our request for the Philippines is \$40 million in development assistance, \$120 million ESF, \$160 million for the MAI, and \$20 million in Title I.

Our program emphasis in the Philippines continues to be the promotion of broad-based economic growth through employment generation, micro-enterprise, through a growth that is not an elite mercantilism, but rather one that will make for equity of public policy, so that the little guy can get a business license, so that the small and medium-sized entrepreneur can flourish, just as the larger entrepreneurs have done.

The Philippines actually has social indicators much better than many of our other countries. The infant mortality rate is below 50, which is well below the A.I.D. target for child survival programs.

We have moved to a second generation set of objectives for the new emerging projects. That is the sustainability of social services.

How do you work with financing schemes so that you can make these projects continue after we leave? We have funded a very innovative new program for child survival, where we have given a separate grant to the Ministry of Health in return for targets they are achieving in immunization, family planning and other things.

We are also working with the Philippines to expand the health insurance program to more than just the wage-based population and to provide the right incentives so that users pay for preventive services, which they don't do now, to work those incentives into the system so that such services can be self-sustaining and cost limiting.

The major thrust of our policy and dialogue is in the macro-economic arena to achieve the right kinds of policies to help encourage that broad-based economic growth. We are doing this through liberalization of the investment [regime] and trade regimes. Our extensive work with the other donors on the MAI, with the Japanese,

the World Bank IMF, and many other donors has held together very well with donors agreeing on how to help the Philippines and on what policy reforms to encourage.

All of this is underpinned by the importance of the environment. We have authorized an enormously vital project to work with the PVO's in what we hope may be one of the largest debt-for-environment swaps undertaken anywhere so far. PVOs will be an integral part of that, as they are in so much of the Philippines programs.

We exceeded the target you asked us to meet under the MAI. We had asked that you not impose targets; that you let us have the latitude to go beyond; and we have.

We have done PVO projects for well over \$40 million in everything, from micro-enterprise to health, to street children, to exciting relationships with large companies there, helping them in their philanthropic efforts in various places throughout the Philippines. Despite a serious downturn in economic indicators in the last year and a half, our projects are helping to provide safety-nets and helping to foster the kinds of policies needed to bring the economy back to a healthy state.

#### CAMBODIA

Quickly, on Cambodia, so that I don't use up my seven minutes here, our request is for \$25 million; \$20 million in DA, \$5 million in ESF. It is on the hopeful assumption that we will soon have a comprehensive peace settlement. That is what that money is supporting.

If a peace settlement comes about, it will, obviously, call for more development within Cambodia, the electoral process, the reconstruction process. Right now that money is supporting the non-communist resistance, and some activities within Cambodia, especially those that affect children or infants.

We have about \$2 million this year going into that, obligated from last year, and another \$5 million that we are soon going to be soliciting proposals on and getting suggestions from PVO's and other groups to work with humanitarian concerns.

#### AFGHANISTAN

For Afghanistan, our request is slightly lower than last year's. It is \$60 million; \$30 million in ESF, \$30 million in DA and \$19.4 million in Title II. I must say that I find myself frequently talking about the problems of Afghanistan and how difficult it is to work there, and putting an inordinate amount of time to make sure that we are in direct line with the legislation and with monitoring for vulnerabilities that we have to do for good stewardship of public funds.

In this process, when we are being so careful to look at the program's weak points, we sometimes forget to point out its achievements.

I would like to read off a few statistics to you that I believe, because I have seen them, and I visited these training sites.

I have seen a bit of what they turn out. Since 1986, the cross border program in Afghanistan has put in over 1600 small irriga-

tion systems in Afghanistan. It delivered over 1400 metric tons of fertilizer.

It trained over 1800 Afghans in basic health and medicine. I sat at some of those training sessions where they pack up the health workers with very light weight teaching materials so that they can get it over the mountains on the mules that they take in. We have provided text books and training materials to over 160,000 primary school students and have also done work in adult literacy for over 37,000 adults.

I think we have affected the lives of people in that unfortunate war-torn country and we hope for a sound and lasting political solution so that we can do more with an Afghanistan that can determine its own political future.

#### PAKISTAN

On Pakistan, in normal times I would be talking to you with great enthusiasm about some very excellent private-sector and economic reforms that the government is undertaking in privatization and liberalization, which will lead to broad-based economic growth.

I would be talking to you about the education programs where we have been trying to narrow the growing gap between female and male literacy, in one of the few countries where this is happening. I'd be telling you about our multi-million dollar education program, multi-million dollar child survival program, and large family planning program, which we are moving ahead quite successfully.

However, I won't be telling you about those achievements now because, as you know, the continued failure to meet the certification requirements under the Pressler Amendment means that we will be beginning the phase-down of that program.

We have been working hard over the last three months, particularly with many of the evacuees who have come out of Pakistan, in a laborious process of project-by-project analysis to see how we phase out these projects.

To finish a project, you cannot stick to your original objectives and yet phase down a project to meet the spirit of Section 617 to minimize waste. We will be coming to you with congressional notifications on what we are de-obligating and re-obligating.

We will also be consulting you, and will involve you in any level detail you want to see.

[The information follows:]

PREPARED STATEMENT OF  
CAROL ADELMAN, ASSISTANT ADMINISTRATOR  
BUREAU FOR EUROPE AND NEAR EAST  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
BEFORE THE HOUSE COMMITTEE ON APPROPRIATIONS  
SUBCOMMITTEE ON FOREIGN OPERATIONS  
U. S. HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C.  
MARCH 14, 1991

**Mr. Chairman and members of the Committee:**

Thank you for the opportunity to present the budget for the Asian country programs administered by A.I.D.'s Bureau for Europe and Near East. For the Philippines, Cambodia, Pakistan and Afghanistan, A.I.D. is requesting \$ 115.0 million in Development Assistance funds, \$255.0 million in Economic Support funds, \$160.0 million in Special Assistance Initiative funds and \$35.3 million in PL 480 Title II funds. In addition, we are seeking, through USDA, \$40.0 million in PL 480 Title I support.

**Programs for the Nineties**

A.I.D. has shaped its approach to assistance in these countries in a balanced manner: addressing long term needs as well as immediate concerns. The long term strategy follows the objectives articulated by Secretary Baker and the A.I.D. vision statement of foreign assistance. These priority areas -- support for democracy, free market development, environmental planning, concern for individual well being, and addressing transnational dangers -- have been the focus of our program over the past year and will continue to be so during FY 1992.

○ In the Philippines, this has meant the support of policy reforms which foster long term private sector growth, infrastructure investments that increase the flow and decrease the cost of goods and services, programs in energy and natural resource conservation to redress the adverse environmental consequences of growth, and the development and maintenance of social safety nets to assure that the poor, who suffer from the short term consequences of reform, are protected.

○ In Cambodia, A.I.D. is providing humanitarian assistance to the non-communist resistance in the form of food, clothing, and medical supplies; is looking after the special needs of Cambodian children and its war victims; and, is preparing for increased involvement following the establishment of a democratically elected government.

○ In war-torn Afghanistan, A.I.D. support helps to ensure that life inside the country will be stable enough to encourage Afghans to return once security conditions permit. Assistance has been concentrated on increasing food supplies, repairing the nation's road and water supply systems and improving basic health and educational service delivery systems. In FY 1992, A.I.D. will continue these efforts, focusing on improving the management of the service delivery systems it has developed.

O In Pakistan, A.I.D. is preparing to wind down its program. Future assistance to this country will only be used if Presidential certification under FAA Section 620(E) (the Pressler Amendment) is provided. We hope that circumstances will permit us to resume assistance. However, in the absence of a Pressler certification we have no choice but to wind up. If current negotiations cannot resolve outstanding issues, FY 1992 allocations will be used for other country programs.

### Philippines

In the Philippines, A.I.D. continues to help maintain democracy and achieve private sector led, broad based, sustained economic growth through a partnership between the public and private sectors and private voluntary organizations (PVOs). A.I.D. is convinced that private sector led economic growth and the new jobs it generates is essential if poverty is to be reduced further and the poor are to be given the economic means to make real choices in their lives.

The past five years have not been easy for the Philippines, as it continues to suffer from political instability, natural disasters and external shocks. Despite increased levels of resources and continued commitment by the donor community, economic recovery has not met expectations. Government performance has been mixed in implementing the economic reforms needed to turn around the economy, especially those related to privatization, trade liberalization, investment incentives and fiscal deficit. The US continues to emphasize support for Philippine's democracy. However, the magnitude and timing of our support will mirror the GOP's commitment to reform. This point was made to the Philippines delegation to the MAI Pledging Session held in Hong Kong on February 25 and 26, 1991.

Our assistance continues to aim at improving the capacity and efficiency of the government to promote basic social services and to build institutions and infrastructure that facilitate growth of the private sector. Our assistance supports policy and institutional reforms that promote private sector led growth, decentralization, and deregulation. For example, A.I.D. support has assisted the GOP in selling, restructuring or dissolving 54 state owned companies, valued at \$1.2 billion. In addition, analysis supported by A.I.D. provided the underpinnings for the recent devaluation of the peso and the adoption of an open market exchange rate. Finally, A.I.D. supported analysis assisted in revising and simplifying Philippine investment laws that will make it easier for private investors to start-up new businesses. Recommended changes are now under discussion in the Philippine Congress.

The A.I.D. program places major emphasis on environment, having initiated a \$125 million grant effort to promote economic and ecologically sustainable natural resource management of the

Philippine tropical forests. Of the total, \$75.0 million will be distributed to support reforms, including a \$30.0 million debt-for-environment swap; \$25.0 million to endow a new or existing private foundation to carry out a non-governmental organizations grants program; and, \$25.0 million for technical assistance for special studies and analysis, policy reform and financial monitoring, evaluation and audit services. To promote sound urban and industrial environment management, A.I.D. will also be designing a new \$20.0 effort in this area this year.

PVOs play an important role in the entire development process and are actively addressing social and health needs, employment, and a wide array of economic and environmental problems. For example, A.I.D. has provided over \$45.0 million in grants to Philippine PVO's and is now supporting 60 PVO's involved in grass-roots income and employment generation programs, community legal and health care services, vocational training, reforestation and environmental activities, and assistance to cultural minorities.

In FY 1992, A.I.D. is requesting \$333.4 million consisting of \$40.0 million in DA; \$120 million in ESF; \$160 million in SAI/MAI; and \$13.4 million in PL-480 Title II to continue to help the Philippines maintain democracy and be responsive to the needs of people. In addition, \$20.0 million in PL 480 Title I will be sought through USDA.

#### Cambodia

In Cambodia we seek a comprehensive political settlement to a war that has plagued that ravaged land for all too long. The USG seeks to bring to the people of Cambodia peace, stability and a chance for a better life. This can be achieved through free and fair elections -- organized by the United Nations, providing all Cambodians the opportunity to select the government of their choice.

Since 1986 AID has provided non-lethal assistance to the Cambodian Non-Communist Resistance. This is vital to ensure a Non-Communist alternative in Cambodia's future and assists with negotiating a comprehensive political settlement developed through the Perm Five Framework. The NCR program provides food, clothing, technical health training, and medical supplies, as well as, administrative and transportation costs.

A.I.D. is supporting a new program of humanitarian assistance for the children of Cambodia. UNICEF estimates that 20% of all Cambodian children die before they reach the age of five. Close to 30% of these deaths are caused by vaccine preventable diseases. Diarrhoea and respiratory infections, along with undernourishment, are also considered to be leading causes of infant mortality.

To help the children of Cambodia, A.I.D. has provided \$2.0 million

in grants to UNICEF and World Vision, a US based PVO. With our funding, totalling \$1.2 million, UNICEF will be able to immunize more children against vaccine preventable diseases and to begin a new program to assist disadvantaged children --- such as orphans and the disabled. The remaining grant funds, \$800,000, will assist World Vision to improve the quality of child care at Cambodia's only pediatric hospital. This year A.I.D. will provide an additional \$5.0 million for similar activities. These funds will go through international relief agencies and U.S private voluntary organizations. While specific allocations of proposed FY 1992 funds have not been made pending a peace settlement, we will continue to support programs to assist Cambodian children.

### **Afghanistan**

A.I.D.'s cross-border, humanitarian assistance program for Afghanistan complements the U.S. Government's objective of supporting self determination for the Afghan people. The program serves the dual purposes of: (1) relieving the suffering of Afghans unwilling or unable to leave their war-torn country, and (2) helping to ensure that conditions inside Afghanistan are such that refugees can return to their country as soon as security conditions permit. Another element of the program is support for U.N. reconstruction and development efforts which will lead the rehabilitation of a post-war Afghanistan.

The FY 1992 program will permit A.I.D. to continue funding ongoing activities in agricultural reconstruction, health, and education. We are also requesting \$19.4 million in PL 480 Title II food aid for FY 1992.

The A.I.D. program has focused on improving the food supplies of the Afghan people through P.L. 480 food assistance and rehabilitation of the farm sector in liberated areas of Afghanistan. The latter includes not only improving rural infrastructure but also supporting the role of the private sector, i.e., commercial traders, in delivering agricultural supplies and inputs from Pakistan to Afghanistan.

Since 1986, over 1,600 small irrigation systems have been rehabilitated. In addition, more than 1,400 metric tons of fertilizer have been sold through private traders inside Afghanistan. The program has also invested in the health and education sectors. Over 1,800 Afghans have been trained in basic and mid-level health care and are currently working inside Afghanistan. Approximately 160,000 primary school students and teachers have been supplied with textbooks and instructional materials and 37,000 adults have graduated from literacy programs through A.I.D.-financed projects. In these efforts, A.I.D. is working with private voluntary organizations. The A.I.D. program will continue the rehabilitation of the agricultural sector, expand

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the primary education system, and improve the quality of public health services -- all designed to improve the social and economic conditions in Afghanistan in order to facilitate the return of refugees to their homeland.

### Pakistan

Because the President did not certify that Pakistan does not have a nuclear device and that the proposed US assistance program will significantly reduce the risk that Pakistan will possess a nuclear explosive device as required by the Pressler Amendment, we cannot furnish new economic assistance to Pakistan as of Oct. 1, 1990. Since then, A.I.D. has furnished no new economic assistance to Pakistan. Under the Pressler Amendment funds from the economic assistance pipeline can continue to be disbursed. Without full funding, however, most ongoing projects will not achieve their original objectives.

We hope we can resolve the nuclear issue to meet our legal requirements. But if Pressler Amendment issues cannot be resolved between the United States and Pakistan, A.I.D. intends to utilize the authority of FAA Section 617 to modify the program for close-out. Section 617 permits new obligations and reobligation of funds already in the pipeline in order to make program modifications, but only for the purpose of winding up the program in an orderly manner. A.I.D. has a project-by-project review underway to determine how we could wind up the program expeditiously, while leaving behind useful units of assistance and preventing waste of U.S. funds expended to date.

A.I.D.'s program in Pakistan has aimed at bringing peace and stability to South Asia, and assuring self-determination for the people of Pakistan. We have sought to achieve these goals by promoting broad-based, private-sector led economic growth; by helping successive governments, as well as Pakistan's private sector, to improve basic social conditions; and by supporting the process of free elections through strengthening democratic institutions. In addition, A.I.D. has promoted U.S./Pakistan trade, and continued cooperation with Pakistan on environmental protection and narcotics control.

In the past five years, even during periods of political instability, our assistance has helped Pakistan maintain an above-average growth rate in GNP of about 5 to 6 percent. U.S. balance of payments assistance has played an important role in helping to finance Pakistan's \$2 billion-a-year balance of payments gap and ensure Pakistan's macroeconomic stability.

In addition, the U.S. has supported -- with project and program assistance, and through persistent policy dialogue -- the adoption by the Government of Pakistan:

include privatization of the banking system, liberalization of agricultural prices, e.g. for wheat and fertilizer, so as more accurately to reflect the market, streamlining of the investment approval process, reduction in import taxes, and opening up the energy sector to private investment. These reforms have aimed to improve the efficiency of the economy -- and hence its long-term growth prospects -- by promoting greater reliance on the private sector, less regulation, and increased competition.

Social indicators, such as incidence of malnutrition and illiteracy, have improved relatively little over time, despite economic growth. U.S. assistance has therefore also concentrated on primary education, health, child survival and family planning.

For F.Y. 1992, A.I.D. has requested \$145 million in economic assistance for Pakistan. This consists of \$25 million in Development Assistance, \$100 million in Economic Support Funds and \$20 million in P.L. 480 Title I assistance. This will be used in Pakistan only if U.S./Pakistan negotiations are successful and the President finds that he can issue a certification under the Pressler Amendment. If Pressler issues cannot be resolved, FY 1992 economic assistance allocations will be used for other country programs.

Mr. OBEY. Ms. Holsman Fore.

MS. HOLSMAN FORE'S OPENING STATEMENT

MS. HOLSMAN FORE. Mr. Chairman, it is my pleasure to appear before you. Let me present the Administration's request for certain countries, specifically Indonesia, Thailand, Mongolia, the South Pacific; and in East Asia, Bangladesh, India, Nepal, Sri Lanka and India in South Asia. In addition, I will provide information on our ASEAN and other regional programs.

These particular countries present a significant economic challenge in economic as well as political terms. Yet many of them are performing well.

While poverty is on the wane throughout the region, it still represents a large segment of society and is a major problem for these countries. India alone is home to one third of the world's poor.

Anyone who has traveled in Asia has been impressed by the growth and the vibrance of the region. But you also come away profoundly affected by lack of jobs, food, electricity and sanitation which continue to afflict the people.

There is so much to do. But progress is being made.

Our investments, and those of thousands of local self-employed and small business people are paying off. Asian countries are attacking economic and social problems, such as agricultural production, health, education, infant and child mortality, environment and urbanization.

At the same time good economic policies are energizing and supporting the private sector in these countries so that individuals can start roadside businesses, taxi services, produce markets, shops, clinics and schools. A.I.D.'s investments in clinics, schools, water, sewer and power structures are becoming more sustainable in the long term, because of the viability of the local private sectors.

For development activities in Bangladesh we are requesting \$137 million in 1992, to continue our support of rural development, agriculture, family planning and rural electrification. Twenty-five million dollars will support the family planning program, which has resulted in a five-fold increase in the use of family planning methods in the past 15 years—to more than one-third of eligible couples.

We are also supporting a successful micro-enterprise program in Bangladesh, where most of the credit is extended to women and the average loan size is approximately \$38. I am pleased we have reached agreement to forgive Bangladesh's development assistance debt to the U.S. of approximately \$292 million. I would like, specifically, to thank some Members of this committee who helped to get this through.

For India, our request is \$100 million, focusing on the development of new technologies in medicine, the environment and agriculture. Twenty-five Indo-U.S. joint ventures have been created and are undertaking research and development in biotechnology, engineering, pollution control and anti-cancer drugs.

Our request for Indonesia in 1992 is \$56 million, which is devoted to family planning, the environment, health, private sector development, as well as democracy. The growth of GNP in Indonesia is the highest in Asia. Poverty has declined from 58 percent in 1970

to 17 percent in 1987, a remarkable indicator by any measure. Our child survival projects in Indonesia helped reduce the infant and child mortality rates by almost 50 percent over the last two decades. We have more than \$50 million in active projects which have supported Indonesia's dramatic decrease in population growth to under two percent.

Our request for Thailand is \$15 million. This was prepared prior to the military coup. All assistance has been suspended at this time.

We are requesting \$4 million for the second year of our new program in Mongolia. Our program features technical assistance and training to help Mongolia move from a centrally planned economy to a free market economy.

For the South Pacific and Fiji we are requesting \$20 million to help the island nations develop marine resources, commercial agriculture, environmental protection and market access and regional cooperation.

The ASEAN request is for \$3.3 million. Three main areas of cooperation with our fellow ASEAN countries are trade and investment, human resources development and environmental technology transfer.

At the same time, in Nepal we are requesting \$15 million to support programs in agriculture, forestry, rural development, health and population. We are also emphasizing the liberalization of Nepal's markets as well as democratic initiatives.

For Sri Lanka we are requesting \$41 million in assistance, part of which is for agricultural irrigation and natural resource management. These are important elements of our program. We also support small enterprise development, investment promotion and the privatization—or "peopleization" as they call it in Sri Lanka—of state-owned enterprises.

A.I.D. is also funding a PVO co-financing project designed to train and integrate those women who have returned to Sri Lanka because of the Gulf crisis. Some estimates indicate that 70,000 of these women are returning.

Finally, \$13.7 million in DA is requested for Asian regional programs which support projects in the environment, education, irrigation, vitamin A, and democracy. You will note a strong region-wide emphasis on environmental and natural resources management with more than \$44 million or 20 percent of our development assistance budgeting going for environmental activities in 1992.

We also remain committed to the maintenance of biological diversity. Of special note is our new natural resources management project in Indonesia which includes establishing three conservation areas.

In Asia—we are trying to meet—three challenges. The first is to help the people to reduce levels of poverty and population growth with training, jobs and education.

The second is to promote the development of the local private sectors for the dignity and skills that self-employment brings and for the capital, technology and training that the U.S. brings to a society and its development efforts.

Finally, the environment: to arrest the tragic spread of destructive environmental practices and to try to restore some of what has

already been damaged. Urban pollution of air and water is one of the fastest growing development problems in Asia.

Our diverse portfolio of activities is carefully designed to activate growth, prosperity and participation in the Asian region.

Thank you.

[The information follows:]

STATEMENT OF

HENRIETTA HOLSMAN FORE, ASSISTANT ADMINISTRATOR

BUREAU FOR ASIA AND PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS

APPROPRIATIONS COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

MARCH 14, 1991

Mr. Chairman and members of the Subcommittee:

Thank you for the opportunity to present the budget for the Asian country and regional programs administered by A.I.D.'s Bureau for Asia and Private Enterprise. These programs include Indonesia, Thailand, Mongolia, South Pacific and ASEAN in East Asia, and Bangladesh, India, Nepal and Sri Lanka in South Asia. In addition there is a set of regional support programs for all Asian countries. For these programs, A.I.D. is requesting \$206 million in Development Assistance and \$18 million in Economic Support Funds, as well as \$180 million in P.L. 480 Titles II and III. The total level requested is \$404 million, approximately 7 percent higher than the comparable figure in FY 1991.

#### Development Challenge

These Asian countries present a significant development challenge for us, with over one half of the more than one billion people living in poverty (World Development Report 1990). India alone is home to one-third of the World's poor - more poor than in all of sub-Saharan Africa.

In traveling through these countries one is impressed by the growth and vibrancy of the economies. Yet you are also profoundly affected by the misery which accompanies poverty. I know because I've seen this first hand. We must maintain our efforts to attack the social problems associated with poverty -- in agriculture production, health and population, education, infant and child mortality and environment. We know many of our investments to foster growth have helped in this effort. We need to continue seeking ways to involve the private sector to sustain our efforts in reducing poverty by providing jobs and efficient services.

#### Development Objectives

Economic growth performance in these Asian countries has been relatively good, compared with other regions and also with earlier periods. Countries such as Bangladesh, Nepal, and Sri Lanka are doing moderately well, particularly taking into account the disruptive impacts of ethnic strife in Sri Lanka, the recent border crisis in Nepal, floods in Bangladesh, and a degree of political instability in all three countries. They have maintained positive growth rates in per capita terms reflecting better performance both on economic growth and population growth.

India experienced a marked acceleration in economic growth during the 1980's, due in part to good agricultural performance and liberalization in trade and industry. Whether this improvement can be sustained or not depends critically on good economic management. This may be difficult to achieve in the current unsettled political situation.

Indonesia and Thailand are emerging as genuine success stories, particularly in terms of successful adjustment to shocks of the early and mid-1980's, based on timely and effective policy measures, although the military coup in Thailand has introduced an element of uncertainty.

If economic management is prudent and if liberalization continues growth prospects for these Asian countries range from good to excellent. Further, it is heartening to note that generally good economic growth in the Asia region has resulted in significant declines in the incidence of poverty. Data from Indonesia, Thailand, India, Sri Lanka, and Bangladesh show a clear tendency for poverty to decline with growth.

Country	(Period)	<u>% Population Below The Poverty Line</u>		<u>Per Capita Growth</u>	
		First Yr	Last Yr	GNP 65-88	GDP 87-90
Indonesia	(1980-87)	58	17	4.3	4.2
Thailand	(1962-86)	59	26	4.0	9.6
India	(1972-83)	54	34	1.8	3.7
Sri Lanka	(1963-82)	37	27	3.0	1.2
Bangladesh	(1973-85)	65	44	0.4	0.7

On the basis of these encouraging trends and prospects, our developmental goals in these Asian countries are:

- to further reduce the levels of poverty and population growth,
- to reinforce and accelerate the movement towards market-oriented economies, which supports the local private sector, and
- to continue to arrest destructive environmental practices and restore damaged areas.

We want to enhance the role and performance of markets in critical areas such as the environment and natural resources; population, health and education; finance, trade, and investment; and in some cases, infrastructure. Markets in these areas exist in one form or another, but they tend not to work very well without quite a bit in the way of solid policy and institutional underpinnings. Our general goal is to strengthen the policy and institutional framework within which market participants operate. In this way we can play a role in ensuring that the relatively good performance in the region -- which accounts for the bulk of global poverty -- is sustained and improved and, therefore, the proportion of people living in poverty further reduced.

### Effectiveness

Through our evaluations of A.I.D.'s assistance to these countries, we have evidence that our assistance is being used effectively. It is achieving our foreign policy objectives, and helping to establish conditions necessary for broad based, economic growth and development. A.I.D. is working to overcome policy constraints so that donor assistance as well as private investment results in greater economic growth to benefit all members of these societies. Some examples of how our assistance has been used effectively and resulted in economic development beneficial to the poor may be drawn from our program in Bangladesh.

A.I.D. has supported a program which is restructuring the fertilizer distribution system in Bangladesh. Greater access to fertilizer has been widely recognized as a prerequisite for increasing food production by small farmers. Our program is helping Bangladesh deregulate fertilizer prices and markets. As a result, distribution and sales of fertilizer to farmers through private dealers has increased supplies dramatically. Fertilizer sales have grown by 20 percent since 1989, farm level prices have decreased by 10 percent in 1990, and the private market shares have grown to 90% for urea and 98% for gypsum by 1990. Crop production, and most notably rice production, grew by 18 percent in 1990 over the previous year. In addition to the millions of small farm households which have benefited from this restructuring, some 50,000 private retailers of fertilizer and other agricultural inputs operate nationwide in a vibrant competitive fertilizer market.

Also in Bangladesh, an A.I.D. project has greatly increased lending to women running microenterprises. Approximately 99 percent of the borrowers belong to the poor segment of the population. The size of the average loan is about \$83.00. fiscal years 1988 and 1989, about 96 percent of the total volume of loans disbursed were less than \$300.00.

Our programs in Indonesia also illustrate how the poor benefit. For example, in population, A.I.D. support was instrumental in helping the national family planning program reduce population growth to under 2% for the decade. This compares to an average of 2.3% for the previous decade. Without this decline, there would have been an additional 50 million job seekers. Moreover, agricultural production advances would have been overwhelmed and demands for social services would have been much higher -- with considerable budget implications.

A.I.D. has also helped the Government of Indonesia make enormous strides in expanding rural financial services. Our assistance to 3660 rural banking institutions has resulted in a 40% annual growth in deposits and loan volume. Perhaps most important, the system is now profitable and self-sustaining.

Our assistance to seven provincial systems to make loans to the smallest borrowers has also been quite successful. The program has recently been judged by an independent evaluation to be among the best microenterprise projects worldwide.

#### Country and Regional Program Levels

**Bangladesh** -- We are requesting \$62.0 million in DA and another \$75 million in Food Aid for programs in agriculture, family planning, and rural infrastructure - particularly electrification and roads. We are the leading donor in the family planning sector. Over the last 15 years we have witnessed a five-fold increase in the number of couples using family planning methods. This is over a third of the eligible couples.

The program is now increasingly emphasizing the development of the urban private sector and democratic initiatives to sustain the gains in real per capita growth during the 1980's. The program channels much of its resources to or through the private sector, including private-voluntary organizations.

Food Aid will continue to help meet domestic shortfalls and be programmed to reduce agricultural price distortions and subsidies, and encourage agricultural diversification.

**India** -- The country program request for India is \$22 million in DA and \$78 million in PL 480 Title II Food Aid.

The DA program is directed at liberalizing the Indian economy through increased participation of the private sector. Private sector approaches are utilized to help bring technologies and technology development processes to the market place. The program focuses public sector and academia on resolving private sector-identified bottlenecks to economic development. Energy efficiency is also being directly addressed through parallel funding with the World Bank of a large management and energy financing project.

Poverty concerns are directly addressed by integrating food supplements under the largest PL 480 Title II program in the world with maternal and child health programs.

**Nepal** -- The DA request for Nepal is \$15 million. This program is focused on agriculture, forestry, health and population issues. A.I.D. is giving increased emphasis to liberalizing markets and decreasing the role of the public sector in the economy. The Mission to Nepal has worked closely with the IBRD and the ADB in restructuring agricultural policy, particularly in regards to fertilizer pricing and incentive for the private sector to market agricultural inputs.

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A.I.D., of course, will continue to respond to requests to help build the country's fledging democratic institutions. Specifically, we will support administrative decentralization, improvement in the administration of justice and strengthening the legislature.

Sri Lanka -- The request is for \$19.3 million in DA and \$21.6 million in Food Aid. The program is directed toward enhancing the private sector's role in development, increasing rural incomes and productivity, as well as rehabilitating the war-ravaged areas of the country.

Private sector assistance focuses on policy reform and privatization of state-owned enterprises; investment promotion; small enterprise development; and low-income housing through 3,000 private credit and thrift societies. The Mission's multi-year assistance program proposal under Food for Progress will support this thrust.

Rural income programs support the national priority development effort in the Mahaweli area, irrigation privatization, agricultural policy, research production, and marketing assistance aimed increasingly at commercial agriculture; and environmental protection. Food aid will be integrated into these programs.

The rehabilitation program provides assistance to help revitalize agriculture, irrigation, the private sector, and housing in the war-ravaged North and East of the country, where fighting has been renewed.

Indonesia -- The requested program for Indonesia includes \$45.3 million in DA, \$5.0 million in ESF and \$5.8 million in Food Aid.

The DA program is devoted to family planning, environment, health, private sector development and democracy. We will continue efforts to expand family planning services which has already lead to the growth rate declining to under 2 percent per year. Child survival support will continue in order to lower the infant mortality rate further.

The environment and bio-diversity are increasing concerns. The program is helping the government redefine its role in the economy, increasing the country's potential to be the next development success story in Asia.

ESF funding is needed to meet A.I.D. obligations to EXIM supporting the AT&T Second Digital Switching Project. Food Aid supports a PL 480 Title II feeding program.

**Thailand** -- The Thailand request was for \$12.3 million in DA and \$2.5 million in ESF. It was prepared prior to the recent military coup. We very much regret the overthrow of the elected Thai government by military leaders.

In accordance with Section 513 of the Appropriations Act, our FY 1991 \$14.1 million assistance program has been suspended. Prior year funds which have not been obligated or expended are also on "hold". They total \$73.4 million. In addition, some \$8 million of central and regional program funds which had been targeted for Thailand are also being withheld.

Total funds suspended or being withheld at this time amount to \$96.1 million. As provided for in Section 617 of the Foreign Assistance Act, A.I.D. has up to eight months to terminate existing program assistance. Our A.I.D. Mission in Thailand is preparing plans now in accordance with that provision. The United States is currently the only country which has suspended assistance to Thailand.

Prior to the coup, both Thailand and A.I.D. had agreed to an innovative "advanced developing country" program for the 1990s. This program was built on the theme of mutual benefit: the matching of Thai development needs for the 1990s with U.S. technical expertise in areas where we have a comparative advantage. We would hope to reestablish this program when a democratically elected government is in place.

**Mongolia** -- We are requesting \$4.0 million for the second year of this new program. In light of the positive political and economic policy developments in Mongolia, Secretary Baker in July 1990 agreed to initiate an assistance program.

In December 1990, A.I.D. approved a \$2 million FY 1991 program for Mongolia. The program will feature technical assistance and training to help Mongolia make the difficult transition from a centrally planned to a free-market economy. Specific areas of concentration include legal and regulatory reform and private sector development. Additional funding will be needed in FY 1992 for this program.

**South Pacific and Fiji** -- The requested levels are \$9.3 in DA and \$10.3 in ESF for these island nations. An important part of our DA supported South Pacific program will be the implementation of four projects announced by the President at the Pacific Island Summit of 1990 in Honolulu. These projects will help the island nations develop marine resources, commercial agriculture, profitable environmental protection, and market access and regional cooperation. The focus of these programs is on strengthening the private sector and increasing government reliance on market-led growth.

ESF is used to meet our Tuna Treaty commitments and a small amount for Fiji's marine resource development.

**ASEAN** -- The ASEAN request is \$3.3 million. ASEAN comprises the countries of Brunei, Indonesia, Malaysia, The Philippines, Singapore and Thailand. In 1988, agreement was reached with ASEAN for the A.I.D. program to address critical constraints to sustainable regional economic growth and to enlist private and public sector cooperation to this end. The three main areas of cooperation are trade and investment support, human resource development, and environmental technology transfer.

**APRE Regional** -- Development assistance funds totaling \$13.7 million is requested for this portfolio of projects which support our Asian bilateral field programs. These projects are managed from Washington for reasons of administrative effectiveness and convenience.

The Irrigation Support Project provides field technical assistance to improve the efficiency, reliability and equity of water delivery and use. The Asia Pacific Economic Cooperation (APEC) Partnership for Education project will establish and enhance sustainable U.S. educational links in the Association of Southeast Asian Nations (ASEAN) region, especially in areas needed for private sector led-growth. Project activities include institutional partnerships, outreach to Asian students studying in the United States, and expansion of private sector training programs.

The Regional Vitamin A project aims to reduce infant and child morbidity and mortality in the APRE countries by supporting promising country specific Vitamin A interventions, thereby reducing the incidence of Vitamin A deficiency among children. The APRE Environmental Support project supports planning activities, technical assistance for field and Washington offices in forestry, bio-diversity, natural resources economics and environmental education, and support for the Global Environmental Facility coordinated by the World Bank.

The Asia Democracy Program aims to help Asian countries meet the need for democratic reform and consolidation in the 1990s and beyond. It will provide non-partisan funding and technical assistance to activities in such areas as improving the electoral process, developing varied and impartial media, strengthening public advocacy, strengthening legislatures, and improving judicial process and protection. Programs are developed and carried out with host country governments, the private sector and nongovernmental organizations. A grant to the Asian-American Free Labor Institute provides funding to promote and strengthen labor unions and rural workers organizations in several Asian countries through training and technical assistance.

Conclusion

Mr. Chairman, Members of the Subcommittee, I believe that the A.I.D. program for FY 1992 is responsive to the needs and challenges A.I.D. and the people of Asia face in the region. It supports efforts to further reduce the levels of poverty and population growth, to accelerate movement toward market oriented economies, and to deal with environment concerns. I hope that the Congress and the American people will support our proposed \$404 million investment as one that is modest in cost with good prospects for substantial dividends.

Thank you.

Mr. FORD. Thank you, Mr. Chairman.

#### MR. FORD'S OPENING STATEMENT

Congressman I am pleased to be here to comment on the situation in South Asia and East Asia Pacific region. I intend to present a brief outline of our Fiscal Year 1992 plans for military foreign aid programs in my opening statement.

With your permission submit a fuller explanation and a written statement for the record.

Let me begin with South Asia.

I would like to first say a few words about South East Eastern countries participation in Desert Shield and Desert Storm. All countries of the region opposed the Iraqi invasion and support U.N. sanctions.

Of particular interest to us were the military contributions made by South Asia countries to the coalition. Pakistan deployed 11,000 troops, Bangladesh sent 2300 men.

Even the Afghan resistance sent some units. For several critical weeks India allowed our overflights and provided refueling facilities for our aircraft.

Sri Lanka permitted ship and aircraft refueling. These supporting efforts happened in the face of considerable enthusiasm for Saddam Hussein in the streets.

#### PAKISTAN

In the case of Pakistan, also with certain political leaks and among the military leadership, we are gratified by all their support and participation.

Mr. Chairman, we do not have an extensive security assistance program in South Asia. Besides IMET programs, Pakistan has been the focus of our efforts in the past decade.

At the same time, however, we have been attempting to improve our security relationship with Pakistan's traditional rival India. We do not see our relations with them as a zero sum game.

In part, a reflection of this, the Department of Defense co-sponsored the second annual Indo-U.S. strategy symposium last December to provide a semi-official forum for dialogue and to improve understanding between the U.S. and our Indian friends.

As to Indo-Pakistan relations, it has become apparent that even though tension over Kashmir remains, the possibility of another border war seems much reduced. The two countries exchange of instruments of ratification of the no-strike of nuclear facilities and their promise of additional confidence building measures are encouraging.

Of course, the recent resignation of Prime Minister Shankar raises a question. Given the stability of India's democratic condition, we do not expect problems.

As you are aware, we suspended security assistance to Pakistan on October 1. No further foreign military financing, grants or loans has been issued to Pakistan.

No new FMS letters of offer and acceptance were implemented for contracts approved for FMS financing. No FMS materials was

shipped or delivered to Pakistan by the U.S. Government after the date.

Training under the International Military Education and Training Program, IMET, has been continued. The fact that the Administration is requesting security assistance funds for Pakistan in the Fiscal Year 1992 budget, should not be interpreted as a signal that the President intends to issue Pressler Amendment certification. For budgetary purposes, we have made the assumption of further progress on this nuclear issue and have asked for funds for Pakistan at a level that is consistent with our available resources, and our national security interest.

Even so, the foreign military financing portion of the Administration's security budget request for Fiscal Year 1992 for Pakistan is radically reduced from the request we presented a year ago. We hope that Pakistan will restrain its nuclear program within limits that would permit the President to make the required certification and allow a resumption of our military and economic assistance.

If this does not come to pass, Pakistan's allocation would be reprogrammed to other FMS claimants. We believe our best hope for resolving the nuclear certification problem lies in a regional approach that involves Pakistan and other regional players.

In any case, this is an important and difficult policy issue. We look forward to working with you and other Members to see if we can find the solution.

Certainly U.S. Pakistan relations are not at their best today. Many Pakistanis feel that the U.S. has once again abandoned Pakistan at a time of great external threat.

We hope such a view will pass. For the past 40 years, the U.S.-Pakistan relationship has fluctuated. However, our repeated return to a positive balance suggests the two countries have enduring interest in that relationship. We are not abandoning Pakistan and hope our Pakistani friends will work with us to remove the current obstacles in our mutual security relationship.

Elsewhere in South Asia the Administration is also requesting \$500,000 in FMS grants for Nepal to procure additional modern communications equipment, to enhance the capabilities of their forces participating in U.N. peacekeeping operations.

Overall the IMET request for South Asia totals about \$2.1 million for Fiscal Year 1992, including monies for Bangladesh, India, Nepal, Pakistan and Sri Lanka.

In addition to the obvious objectives of increasing military skills and knowledge, the IMET program has special importance for the military establishments of South Asia through the exposure it provides to military professionalism, democratic values, respect for human rights and belief in the rule of law.

#### EAST ASIA AND THE PACIFIC

I would now like to turn to East Asia and the Pacific.

In the Pacific more than any other region, our security interests and effectiveness are dependent upon a series of bilateral relationships. There is no over-arching alliance system to which each country contributes to the common defense means, nor as each of you is

fully aware, is there a strong lobby for foreign military support in Asia.

Yet the needs in the Asian Pacific region are just as intense and important as elsewhere. It is the Asia Pacific region where U.S. trade has exceeded that of Europe for over a decade with the margin of difference increasing every year.

It is the Asia Pacific region where American national interests are focusing as never before. It is also the region where a delicate balance is maintained in large measure because of U.S. security commitments and physical presence.

Many nations like the Philippines, Singapore, Malaysia, Thailand and Indonesia actively seek increased defense cooperation because they realize the growing interdependence of their own and our national interests and the benefits derived from cooperation and inter-operability in the security realm.

In Fiscal Year 1992, the Administration is requesting \$200.3 million in FMF grants for the East Asia-Pacific region, \$200 million for the Philippines and \$300,000 for Fiji. These are the only two countries in the region for which we are requesting military assistance.

While other countries could certainly use FMF grants, this minimal request reflects the growing fiscal retrenchment experienced in the military portion of the foreign aid budget. As projected, the requested FMF funding for Asia Pacific represents slightly over 4 percent of the total worldwide request.

This is a very small amount for a region wherein a dozen or more vital relationships could be immeasurably strengthened for relatively small expenditures. Yet, we do understand the difficulties involved.

Overall, FMF program funding declined by \$150 million between Fiscal Year 1990, and Fiscal Year 1991. This continued a downward trend in FMF funding that began in Fiscal Year 1987. This decline squeezed out small but important and effective programs in Indonesia and Thailand.

Further erosion in the Asia-Pacific region could do great damage to U.S. interests. The Administration's Fiscal Year 1982 request reflects both the realities of reduced U.S. resources and improved economic prospects for some nations.

It leaves a modest amount of IMET funds as the only military assistance program available to maintain military to military contacts with developing nations and Asia in: Fiscal Year 1992, we anticipate funding IMET programs in 11 nations in the region.

If we receive full funding for our request, those 11 nations will share in just under \$10 million of IMET funding.

The programs vary widely according to the needs of the recipient nation from just \$15,000 for Singapore to \$2.8 million for the Philippines. The funds are primarily to be used for sponsoring foreign attendance at U.S. military schools and courses, as well as providing training opportunities in such areas as counterterrorism, counterinsurgency and joint combined exercises.

As you can see, both the IMET and FMF programs in East Asia are modest. Nonetheless, they are extremely important.

The FMF request for the Philippines will aid in that country's counterinsurgency effort. The IMET program will enhance the professionalism of the Philippines Armed Forces.

Fiji will use the \$300,000 of FMF funding for the purchase of American made M-16 rifles for its U.N. peacekeeping forces. At the same time other countries have not been coping as well. Defense modernization has been slowed in some countries of the region because our FMF funds were central to foreign decisions on purchases of military equipment.

In other countries the previous reliance on U.S. systems has been replaced by active pursuit of third-country suppliers such as China, France and the U.K. because those countries are offering lower prices, better terms and/or other financial assistance.

In summary, I would only comment that the Administration recognizes that FMF and IMET funding will be constrained for the foreseeable future. Nonetheless, the war in the Persian Gulf stands as a clear reminder that we must remain prepared and vigilant.

Defense cooperation with both allies and friends is key to greater regional understanding, mutual respect and regional stability. The limited funds requested in Fiscal Year 1992, for the FMF and IMET programs in both these regions pay dividends far in excess of their modest cost.

The Department of Defense strongly urges, the subcommittee and the entire Congress to support our request.

Thank you, Mr. Chairman.

[The information follows:]

**SUBMITTED TESTIMONY**

**OF**

**CARI W. FORD, JR.**

**PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE**

**FOR INTERNATIONAL SECURITY AFFAIRS**

**TO THE**

**FOREIGN OPERATIONS SUBCOMMITTEE**

**OF THE**

**HOUSE APPROPRIATIONS COMMITTEE**

**14 MARCH 1991**

GOOD MORNING, MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THIS SUBCOMMITTEE. I AM PLEASED TO BE HERE TO COMMENT ON THE SITUATION IN BOTH SOUTH ASIA AND THE ASIA-PACIFIC REGION.

LET ME BEGIN FIRST WITH SOUTH ASIA. THE EVENTS IN THE PERSIAN GULF OVER THE PAST SEVEN MONTHS ALSO REVERBERATED THROUGHOUT SOUTH ASIA. ALL OF THE COUNTRIES OF THE REGION OPPOSED THE INVASION AND OCCUPATION OF KUWAIT AND SUPPORTED THE ECONOMIC SANCTIONS. MANY OF THE COUNTRIES CONTINUE TO FEEL ECONOMIC HARDSHIP FROM THE DECLINE IN REMITTANCES AND DROP IN TRADE. OF PARTICULAR INTEREST TO THE DEPARTMENT OF DEFENSE, OF COURSE, WERE THE MILITARY CONTRIBUTIONS MADE BY A NUMBER OF SOUTH ASIAN COUNTRIES TO THE COALITION ARRAYED AGAINST SADDAM HUSSEIN. PAKISTAN CONTRIBUTED SOME 11,000 TROOPS AND BANGLADESH SENT 2,300 TO HELP DEFEND SAUDI ARABIA. THIS SUPPORT HELD IN THE FACE OF CONSIDERABLE SUPPORT FOR SADDAM HUSSEIN IN THE STREETS AND, IN THE CASE OF PAKISTAN, WITHIN CERTAIN POLITICAL ELITES AND THE MILITARY LEADERSHIP. AN INTERIM GOVERNMENT IN BANGLADESH STOOD FIRM IN THE FACE OF POPULAR DEMAND TO BRING HOME THE TROOPS. THE FACTIONS OF THE AFGHAN RESISTANCE SENT TOKEN FORCES. THE INDIAN GOVERNMENT PROVIDED REFUELING FACILITIES FOR LOGISTICS SUPPORT FLIGHTS TO THE GULF, ALTHOUGH WE EVENTUALLY SOUGHT ALTERNATIVE ARRANGEMENTS WHEN POLITICAL PRESSURE ON THE SHEKHAR GOVERNMENT MOUNTED. AFTER A BRIEF SUSPENSION, SRI LANKA RESUMED ITS SUPPORT OF THE MULTINATIONAL COALITION BY PERMITTING SHIP AND AIRCRAFT REFUELING.

OF COURSE, MOST OF OUR SECURITY ASSISTANCE ATTENTION IN SOUTH ASIA OVER THE PAST DECADE HAS BEEN ON PAKISTAN. THE FOREIGN MILITARY FINANCING PORTION OF THE ADMINISTRATION'S SECURITY ASSISTANCE BUDGET REQUEST FOR FISCAL YEAR 1992 FOR PAKISTAN IS RADICALLY REDUCED (\$228M TO \$113.556M) FROM THE REQUEST WE PRESENTED JUST A YEAR AGO. ONLY \$91.9 MILLION HAS BEEN ALLOCATED IN FMF, MOSTLY IN CONCESSIONAL CREDITS, FOR PAKISTAN IN THE CURRENT FISCAL YEAR.

AS THE SUBCOMMITTEE IS WELL-AWARE, THE CONTINUED ABSENCE OF THE PRESIDENTIAL CERTIFICATION ON PAKISTAN'S NUCLEAR PROGRAM REQUIRED BY SECTION 620E(E) OF THE FOREIGN ASSISTANCE ACT (THE "PRESSLER AMENDMENT") PRECLUDES ACTUAL PROVISION OF EVEN THESE REDUCED LEVELS OF ASSISTANCE TO PAKISTAN. SECTION 620E(E) FURTHER PROHIBITS SALE OR TRANSFER OF MILITARY EQUIPMENT AND TECHNOLOGY IN THE ABSENCE OF THAT SAME CERTIFICATION. FOR ALL PRACTICAL PURPOSES, WE SUSPENDED SECURITY ASSISTANCE TO PAKISTAN ON OCTOBER 1, 1990. WE CONTINUE TO HOPE, OF COURSE, THAT OUR DISCUSSIONS ON THE NUCLEAR ISSUE WILL ENABLE THE PRESIDENT TO MAKE THE PRESSLER CERTIFICATION AND ALLOW RESUMPTION OF OUR MILITARY AND ECONOMIC ASSISTANCE. IF THIS DOES NOT COME TO PASS, PAKISTAN'S ALLOCATION WOULD BE REPROGRAMMED TO OTHER FMF CLAIMANTS.

A REDUCTION IN FUNDING LEVELS IN EXCESS OF FIFTY PERCENT FROM LAST YEAR'S REQUEST REQUIRES EXPLANATION. PAKISTAN ENJOYED

FMF FUNDING LEVELS OF ABOUT \$230 MILLION ANNUALLY UNDER A MULTI-YEAR ASSISTANCE PROGRAM AGREED UPON AT THE HEIGHT OF THE SOVIET OCCUPATION OF NEIGHBORING AFGHANISTAN. GIVEN ITS GEOGRAPHIC LOCATION, TIES TO BOTH TO ITS EAST AND WEST, AND ROLE IN MODERATE ISLAMIC FORA, PAKISTAN REMAINS OF STRATEGIC IMPORTANCE TO THE UNITED STATES. PAKISTAN ALSO CONTINUES TO HAVE LEGITIMATE MILITARY REQUIREMENTS THAT WILL EXCEED WHAT WE HAVE PROVIDED IN THE PAST OR PROPOSE TO PROVIDE IN THE FUTURE. HOWEVER, POLITICAL DEVELOPMENTS, INCLUDING THE END OF THE COLD WAR AND THE RISE OF NEW DEMOCRACIES IN EUROPE, AND OUR OWN BUDGETARY CONSTRAINTS COMBINE TO CREATE NEW CLAIMANTS ON A SHRINKING FOREIGN ASSISTANCE PROGRAM. WITHOUT SUGGESTING SPECIFIC FUNDING LEVELS, WE MADE EVERY EFFORT TO ENSURE THAT PAKISTAN WAS PREPARED FOR A REDUCTION IN SECURITY ASSISTANCE IN FY 1991 AND BEYOND.

OPERATION DESERT STORM HAS ALSO HAD AN SIGNIFICANT EFFECT ON THE ALLOCATION OF OUR SECURITY ASSISTANCE FUNDS. AS WE SEEK TO ASSIST FRIENDS AND ALLIES WHO HAVE PARTICIPATED IN AND PROVIDED ESSENTIAL SUPPORT TO THE DEPLOYMENTS AND COMBAT OPERATIONS.

THE FACT THAT THE ADMINISTRATION IS REQUESTING SECURITY ASSISTANCE FUNDS FOR PAKISTAN IN THE FY 1992 BUDGET SHOULD NOT BE INTERPRETED AS A SIGNAL REGARDING THE PRESIDENT'S INTENT TO MAKE THE PRESSLER AMENDMENT CERTIFICATION. WE OBVIOUSLY HOPE THAT PAKISTAN WILL RESTRAIN ITS NUCLEAR PROGRAM WITHIN LIMITS ACCEPTABLE TO US AND THUS PERMIT THE PRESIDENT TO CERTIFY. IN

THIS REGARD, WE BELIEVE THAT OUR BEST HOPE FOR RESOLVING THE NUCLEAR CERTIFICATION PROBLEM LIES IN A REGIONAL APPROACH THAT INVOLVES PAKISTAN'S NEIGHBORS AND OTHER SOUTH ASIAN PLAYERS. FOR BUDGETARY PLANNING PURPOSES ONLY, WE HAVE ASSUMED THAT THE PRESSLER CERTIFICATION CAN BE MADE IN FY 1992 AND ARE REQUESTING FUNDS FOR PAKISTAN AT A LEVEL THAT WE BELIEVE IS CONSISTENT WITH PAKISTAN'S NEEDS, OUR NATIONAL SECURITY INTERESTS, AND OUR AVAILABLE RESOURCES.

THERE IS NO DENYING THAT U.S.-PAKISTAN RELATIONS ARE NOT AT THE BEST AT THE MOMENT AND THAT STRONG LATENT ANTI-AMERICAN FEELINGS HAVE SURFACED IN DISTURBING WAYS, EVEN AMONG THE NORMALLY PRO-AMERICAN PROFESSIONAL MILITARY. MANY OF OUR MILITARY CONTACTS FEEL THAT THE U.S. HAS ONCE AGAIN ABANDONED PAKISTAN AT A TIME OF GREAT EXTERNAL THREAT. WE HOPE THAT SUCH VIEWS ARE TRANSITORY. FROM A HISTORICAL PERSPECTIVE, THE STATE OF OUR RELATIONS AND HOW EACH COUNTRY HAS VIEWED THE OTHER HAVE FLUCTUATED DRAMATICALLY OVER THE PAST FORTY-PLUS YEARS. HOWEVER, THE REPEATED RETURN TO A POSITIVE EQUILIBRIUM SUGGESTS THAT OUR COUNTRIES HAVE ENDURING, SUPPORTIVE INTERESTS WITH EACH OTHER.

PAKISTAN REMAINS AN IMPORTANT FACTOR IN MAINTAINING SOUTH ASIAN REGIONAL STABILITY. WE WANT TO ENCOURAGE PAKISTAN'S CONTINUED ECONOMIC DEVELOPMENT AND STRENGTHENED DEMOCRATIC INSTITUTIONS. PAKISTAN CAN ALSO CONTRIBUTE IMPORTANTLY TO OUR INTERESTS IN POST-CRISIS SECURITY ARRANGEMENTS FOR THE GULF.

PAKISTAN HAS LONG-STANDING MILITARY RELATIONS WITH ALL OF THE GULF STATES. AS A CONSERVATIVE MUSLIM STATE, THERE COULD BE AN IMPORTANT PLACE FOR PAKISTAN, IF ITS LEADERSHIP WISHES TO PLAY SUCH A ROLE. PAKISTAN IS CRUCIAL TO OUR OBJECTIVES OF PREVENTING PROLIFERATION OF MISSILES AND NON-CONVENTIONAL WEAPONS IN THE REGION. WE ARE ALSO INTERESTED IN SEEING THAT PAKISTAN RETAINS ITS PROGRESSIVE AND OPEN ORIENTATION AND DOES NOT BECOME AN INWARD-LOOKING, RADICAL SOCIETY. IT IS FURTHER IN OUR INTEREST THAT PAKISTAN CONTINUE TO RELY ON US FOR ITS SECURITY AND NOT DEVELOP A CLOSER RELIANCE ON IRAN OR THE PRC OR BOTH.

CLOSE TIES WITH THE U.S. ARE IMPORTANT TO PAKISTAN IN LARGE PART BECAUSE OF THE ARMS SUPPLIER AND AID DONOR ROLE THAT THE U.S. HAS PLAYED OVER THE YEARS AND HOPES TO PLAY IN THE FUTURE. A STRONG U.S.-PAKISTAN RELATIONSHIP ALSO SUPPORTS THE STRENGTHENING OF DEMOCRATIC INSTITUTIONS AND THOSE WHO WISH TO SEE PAKISTAN DEVELOP ECONOMICALLY AND SOCIALLY AND WITHOUT EXCESSIVE RELIANCE ON IRAN AND OTHER RADICAL MODELS.

IN THE ABSENCE OF THE PRESSLER AMENDMENT CERTIFICATION BY THE PRESIDENT AFTER 1 OCTOBER 1990, THE DEPARTMENT OF DEFENSE ACTED IMMEDIATELY TO SUSPEND SECURITY ASSISTANCE FOR PAKISTAN AS REQUIRED BY LAW. NO FURTHER FOREIGN MILITARY FINANCING, GRANTS OR LOANS, WAS ISSUED TO PAKISTAN. NO NEW FMS LETTERS OF OFFER AND ACCEPTANCE (LOAS) WERE IMPLEMENTED, NOR CONTRACTS APPROVED OR FMS FINANCING. NO FMS MATERIAL WAS SHIPPED OR DELIVERED TO

PAKISTAN BY THE U.S. GOVERNMENT AFTER THAT DATE. TRAINING UNDER THE INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) PROGRAM WAS DISCONTINUED.

THE MANAGEMENT ACTIONS TAKEN BY THE DEPARTMENT OF DEFENSE TO IMPLEMENT PRESSLER ARE INTENDED AS A SUSPENSION OF ASSISTANCE AND NOT TERMINATION. WE HAVE NOT CANCELED EXISTING CONTRACTS, AND PERFORMANCE UNDER FUNDED CONTRACTS FOR DEFENSE SERVICES HAS BEEN ALLOWED TO CONTINUE. DEFENSE ARTICLES BEING PROCURED THROUGH FMS CONTINUE TO BE DELIVERED TO THE U.S. GOVERNMENT OR DESIGNATED CONTRACTOR SITES WHERE THEY ARE STORED. THE LONG-STANDING SECURITY RELATIONSHIP BETWEEN THE U.S. AND PAKISTAN, ESPECIALLY CLOSE OVER THE LAST DECADE, HAS DEVELOPED MILITARY-TO-MILITARY RELATIONSHIPS THAT ARE SURVIVING THE CURRENT AID SUSPENSION, ALTHOUGH THAT HAS CERTAINLY CREATED STRESSES. WE CONTINUE TO MAINTAIN OUR SECURITY ASSISTANCE OFFICE IN OUR EMBASSY IN ISLAMABAD, ALTHOUGH AT REDUCED LEVELS DUE TO THE SECURITY SITUATION IN PAKISTAN RESULTING FROM THE GULF CRISIS. PAKISTANI MILITARY STUDENTS CONTINUE TO ATTEND OUR SCHOOLS, WHERE U.S. FUNDING IS NOT INVOLVED. THE U.S. NATIONAL WAR COLLEGE PLANS TO SEND A GROUP TO PAKISTAN THIS SPRING IF THE SECURITY SITUATION PERMITS, AND THEIR AIR WAR COLLEGE WILL VISIT THE STATES LATER THIS YEAR. PAKISTANI CADETS ATTEND THE U.S. AIR FORCE ACADEMY. THE PAKISTANI MILITARY PRIZES ITS PROFESSIONAL ASSOCIATIONS WITH ITS AMERICAN COUNTERPARTS AND

JUDGES ITSELF BY OUR STANDARDS. IT IS A RELATIONSHIP THAT IS IN OUR BEST NATIONAL INTERESTS TO PRESERVE.

ELSEWHERE IN SOUTH ASIA, THE ADMINISTRATION IS ALSO REQUESTING \$500,000 IN FMF GRANTS FOR NEPAL TO PROCURE ADDITIONAL MODERN COMMUNICATIONS EQUIPMENT TO ENHANCE THE CAPABILITIES OF THEIR FORCES PARTICIPATING IN U.N. PEACEKEEPING OPERATIONS.

OVERALL, THE IMET REQUEST FOR SOUTH ASIA TOTALS \$2.065 MILLION FOR FY 1992, DISTRIBUTED AS SHOWN ON THE ATTACHED CHART. IN ADDITION TO THE OBVIOUS OBJECTIVES OF INCREASING MILITARY SKILLS AND KNOWLEDGE, THE IMET PROGRAM HAS SPECIAL IMPORTANCE FOR THE MILITARY ESTABLISHMENTS OF SOUTH ASIA THROUGH THE EXPOSURE IT PROVIDES TO MILITARY PROFESSIONALISM, DEMOCRATIC VALUES, RESPECT FOR HUMAN RIGHTS, AND BELIEVE IN THE RULE OF LAW. THERE IS NO QUESTION IN MY MIND THAT THE IMET EXPERIENCES PROVIDED IN YEARS PAST TO NOW SENIOR MILITARY OFFICERS FROM SOUTH ASIAN COUNTRIES PLAYED A POSITIVE PART IN THE ADVANCES IN DEMOCRACY AND DEMOCRATIC INSTITUTIONS THE REGION HAS ENJOYED IN THE PAST YEAR.

I WOULD NOW LIKE TO TURN TO EAST ASIA AND THE PACIFIC, BEGINNING WITH A FEW COMMENTS ON OUR FMF AND IMET PROGRAMS, FOLLOWED BY SOME OBSERVATIONS ON THE STATE OF OUR SECURITY RELATIONSHIPS IN THE REGION.

IN THE PACIFIC, MORE THAN ANY OTHER REGION, OUR SECURITY INTERESTS AND EFFECTIVENESS ARE DEPENDENT UPON A SERIES OF BILATERAL RELATIONSHIPS. BECAUSE IT IS NOT RELEVANT TO THIS DIVERSE REGION, THERE IS NO OVERARCHING ALLIANCE SYSTEM TO WHICH EACH COUNTRY CONTRIBUTES TO THE COMMON DEFENSE NEEDS. NOR, AS EACH OF YOU IS FULLY AWARE, IS THERE A STRONG LOBBY FOR FOREIGN MILITARY SUPPORT IN ASIA. YET THE NEEDS IN THE ASIA-PACIFIC REGION ARE JUST AS INTENSE, JUST AS IMPORTANT AS ELSEWHERE. IT IS THE ASIA-PACIFIC REGION WHERE U.S. TRADE HAS EXCEEDED THAT OF EUROPE FOR OVER A DECADE WITH THE MARGIN OF DIFFERENCE INCREASING EACH YEAR. IT IS THE ASIA-PACIFIC REGION WHERE AMERICAN NATIONAL INTERESTS ARE FOCUSING AS NEVER BEFORE. IT IS ALSO THE REGION WHERE A DELICATE BALANCE IS MAINTAINED, IN LARGE MEASURE BECAUSE OF U.S. SECURITY COMMITMENTS AND A PHYSICAL PRESENCE.

BECAUSE OF THE TREMENDOUS ECONOMIC AND POLITICAL PROGRESS IN THE REGION, AND THE LIKELIHOOD THAT IT WILL CONTINUE TO OUT PACE OTHER GEOGRAPHIC REGIONS, THE 21ST CENTURY HAS BEEN CALLED THE ASIAN CENTURY. DESPITE THIS ACKNOWLEDGEMENT, WE OFTEN OVERLOOK THE TREMENDOUS BENEFITS TO BOTH OUR SECURITY, AND MORE PAROCHIALY OUR ECONOMY, THROUGH RELATIVELY MINIMAL EXPENDITURES IN MILITARY FOREIGN AID PROGRAMS LIKE FMF AND IMET. OLD ALLIES AND LOYAL FRIENDS HAVE FOUND THEIR ACCESS TO U.S. GRANTS, LOANS OR CREDITS, EDUCATION AND TRAINING PROGRAMS AND AMERICAN MADE MILITARY EQUIPMENT RESTRICTED. WE ARE DENYING THEM THE FUNDS AND PROGRAMS THAT WOULD NOT ONLY ALLOW THEM TO SATISFY

LEGITIMATE DEFENSIVE REQUIREMENTS, BUT WE ARE ALSO FORECLOSING AN AVENUE THAT PROMOTES A TREMENDOUSLY GREATER DEGREE OF BILATERAL UNDERSTANDING AND COOPERATION.

PLEASE DO NOT MISUNDERSTAND MY MEANING. OUR MORE ECONOMICALLY SUCCESSFUL ALLIES LIKE JAPAN AND KOREA ARE ABLE TO SUPPORT THEIR DEFENSE PROGRAMS THROUGH THEIR OWN RESOURCES ON A PAY AS YOU GO BASIS. BUT FOR MANY OF OUR OTHER FRIENDS, STILL DEVELOPING THEIR POTENTIAL, THE AMERICAN FMF AND IMET PROGRAMS HAVE BEEN A MAINSTAY OF DEFENSE MODERNIZATION. TRAINING IN THE UNITED STATES IS WHERE CLOSE AND LONG LASTING MILITARY-TO-MILITARY TIES ARE DEVELOPED, AND FOREIGN STUDENTS ARE EXPOSED TO AMERICAN TRADITIONS OF DEMOCRACY, HUMAN RIGHTS AND ELECTED CIVILIAN GOVERNMENT CONTROL OF THE MILITARY.

MANY NATIONS, LIKE THE PHILIPPINES, SINGAPORE, MALAYSIA, THAILAND, AND INDONESIA ACTIVELY SEEK INCREASED DEFENSE COOPERATION BECAUSE THEY REALIZE THE GROWING INTERDEPENDENCE OF THEIR AND OUR OWN NATIONAL INTERESTS, AND THE BENEFITS DERIVED FROM COOPERATION AND INTEROPERABILITY IN THE SECURITY REALM. WE MUST AVOID SHOOTING OURSELVES IN THE FOOT BY UNDERTAKING ACTIONS SUCH AS FURTHER REDUCING OF FMF FUNDS AT A TIME WHEN WE ARE STRONGLY ENCOURAGING OUR FRIENDS TO "BUY AMERICAN".

IN FY-92, THE ADMINISTRATION IS REQUESTING \$200.3 MILLION IN FMF GRANTS FOR THE EAST ASIA - PACIFIC REGION: \$200 MILLION FOR THE PHILIPPINES AND \$300,000 FOR FIJI. THESE ARE THE ONLY TWO COUNTRIES IN THE REGION FOR WHICH WE ARE REQUESTING FOREIGN

MILITARY FINANCING. WHILE OTHER COUNTRIES COULD CERTAINLY USE FMF GRANTS, THIS MINIMAL REQUEST REFLECTS THE GROWING FISCAL RETRENCHMENT BEING EXPERIENCED IN THE MILITARY PORTION OF THE FOREIGN AID BUDGET. AS PROJECTED, THE REQUESTED FMF FUNDING FOR ASIA-PACIFIC REPRESENTS ONLY SLIGHTLY OVER FOUR PERCENT OF THE TOTAL WORLDWIDE REQUEST. THIS IS A VERY SMALL AMOUNT FOR A REGION WHEREIN A DOZEN OR MORE VITAL RELATIONSHIPS COULD BE IMMEASURABLY STRENGTHENED FOR A RELATIVELY SMALL EXPENDITURE.

YET, WE DO UNDERSTAND THE DIFFICULTIES INVOLVED. OVERALL FMF PROGRAM FUNDING DECLINED BY \$150 MILLION BETWEEN FY-90 AND FY-91. THIS CONTINUED A DOWNWARD TREND IN FMF FUNDING THAT BEGAN IN FY-87. THIS DECLINE HAS ALREADY SQUEEZED OUT SMALL, BUT IMPORTANT AND EFFECTIVE PROGRAMS IN BOTH INDONESIA AND THAILAND. FURTHER EROSION IN THE ASIA-PACIFIC REGION COULD DO GREAT DAMAGE TO U.S. INTERESTS.

THE ADMINISTRATION'S FY-92 REQUEST REFLECTS BOTH THE REALITIES OF REDUCED U.S. RESOURCES AND IMPROVED ECONOMIC PROSPECTS FOR SOME NATIONS. IT LEAVES A MODEST AMOUNT OF IMET FUNDS AS THE ONLY MILITARY ASSISTANCE PROGRAM AVAILABLE TO MAINTAIN MILITARY-TO-MILITARY CONTACTS WITH DEVELOPING NATIONS IN ASIA. IN FY-92, WE ANTICIPATE FUNDING IMET PROGRAMS IN ELEVEN NATIONS IN THE REGION.

IF WE RECEIVE FULL FUNDING FOR OUR REQUEST, THOSE ELEVEN NATIONS WILL SHARE IN JUST UNDER TEN MILLION (9.795M) DOLLARS OF IMET FUNDING. THE PROGRAMS VARY WIDELY ACCORDING TO THE NEEDS

OF THE RECIPIENT NATION -- FROM JUST \$15,000 FOR SINGAPORE TO 2.8 MILLION DOLLARS FOR THE PHILIPPINES. THE FUNDS ARE PRIMARILY TO BE USED FOR SPONSORING FOREIGN ATTENDANCE AT U.S. MILITARY SCHOOLS AND COURSES AS WELL AS PROVIDING TRAINING OPPORTUNITIES IN SUCH AREAS AS LOGISTICS AND MAINTENANCE, COUNTER-TERRORISM, COUNTER-INSURGENCY AND JOINT/COMBINED EXERCISES.

AS YOU CAN SEE, BOTH THE IMET AND FMF PROGRAMS IN EAST ASIA ARE MODEST. NONETHELESS, THEY ARE EXTREMELY IMPORTANT. THE FMF REQUEST FOR THE PHILIPPINES WILL AID IN THAT COUNTRY'S COUNTERINSURGENCY EFFORT. THE IMET PROGRAM WILL ENHANCE THE PROFESSIONALISM OF THE PHILIPPINE ARMED FORCES. FIJI WILL USE THE \$300,000 OF FMF FUNDING FOR THE PURCHASE OF AMERICAN-MADE M-16 RIFLES FOR ITS U.N. PEACE-KEEPING FORCES.

AT THE SAME TIME, OTHER COUNTRIES HAVE NOT BEEN COPING AS WELL. DEFENSE MODERNIZATION HAS BEEN SLOWED IN SOME COUNTRIES OF THE REGION BECAUSE OUR FMF FUNDS WERE CENTRAL TO FOREIGN DECISIONS ON PURCHASES OF MILITARY EQUIPMENT. IN OTHER COUNTRIES, THE PREVIOUS RELIANCE ON U.S. SYSTEMS HAS BEEN REPLACED BY ACTIVE PURSUIT OF THIRD COUNTRY SUPPLIERS - SUCH AS CHINA, FRANCE AND THE UK - BECAUSE THOSE COUNTRIES ARE OFFERING LOWER PRICES, BETTER TERMS AND/OR OTHER FINANCIAL ASSISTANCE.

#### JAPAN

LET ME BEGIN THIS PORTION OF MY TESTIMONY BY PROVIDING YOU WITH AN UPDATE ON WHERE WE ARE WITH OUR MOST IMPORTANT SINGLE

DEFENSE RELATIONSHIP IN THE REGION - JAPAN. A STRONG, COMPLEMENTARY SECURITY RELATIONSHIP WITH JAPAN CONTINUES AS THE KEY TO OUR PACIFIC STRATEGY OF LONG TERM STABILITY AND ACCESS TO THE ASIA-PACIFIC REGION. JAPANESE SUPPORT ENHANCES OUR ABILITY TO REMAIN FORWARD DEPLOYED IN ASIA. WITHOUT IT, WE WOULD NOT BE ABLE TO SUSTAIN THE PRESENCE PACIFIC-WIDE THAT OPTIMIZES OUR FORCE STRUCTURE, DETERS REGIONAL CONCERNS OVER INTRA-THEATER HEGEMONY, AND GIVES THE U.S. SOMETIMES SUBTLE (BUT NEVERTHELESS REAL) ECONOMIC, DIPLOMATIC AND STRATEGIC INFLUENCE IN THE REGION. JAPAN UNDERSTANDS THIS AS WELL. EARLIER THIS YEAR WE AGREED UPON A SIGNIFICANT HOST-NATION SUPPORT ARRANGEMENT WHICH WILL RESULT IN JAPAN ASSUMING MORE THAN 50% OF OUR STATIONING COSTS OVER THE NEXT FIVE YEARS, INCLUDING 100% OF ALL FOREIGN LABOR AND 100% OF ALL UTILITIES COSTS. IF YOU EXCLUDE MILITARY SALARIES, JAPAN WILL BE PAYING OVER 70% OF OUR COSTS. JAPAN ALREADY PROVIDES ALMOST ALL NEW CONSTRUCTION AND MORE THAN 50% OF OUR LABOR-COSTS. WHILE JAPAN CAN AFFORD TO PAY MORE -- AND WE WILL CONTINUE TO PURSUE ADDITIONAL SUPPORT -- WE ARE RAPIDLY REACHING A POINT WHEREBY JAPAN WILL BE PAYING ALL THE APPROPRIATE COSTS OF OUR PRESENCE.

JAPAN'S OWN DEFENSE CAPABILITY CONTINUES TO IMPROVE IN A MANNER CONSISTENT WITH THE DEFENSIVE ROLE JAPAN PLAYS IN THE REGION. JAPAN FOREGOES OFFENSIVE FORCES AND AS A MATTER OF POLICY REFRAINS FROM PARTICIPATING IN FOREIGN ARMS SALES. THESE POLICIES OF JAPAN SHOULD BE RECOGNIZED AS CONTRIBUTING SIGNIFICANTLY TO REGIONAL STABILITY AND PROSPERITY.

JAPAN'S FOREIGN ASSISTANCE BUDGET IS NOW THE LARGEST IN THE WORLD AND MOST OF IT IS DIRECTED TOWARD THE ASIA-PACIFIC REGION, CONTRIBUTING SIGNIFICANTLY TO THE STABILITY AND ECONOMIC GROWTH OF THAILAND AND INDONESIA IN PARTICULAR. JAPAN IS WORKING WITH US TO ENSURE LONG TERM PROGRESS IN THE PHILIPPINES, AND IS SUPPORTIVE OF OUR EFFORTS TO REACH AN EQUITABLE ARRANGEMENT OVER OUR BASES THERE.

JAPAN HAS PLEDGED ALMOST \$13 BILLION FOR SUPPORT OF THE MULTINATIONAL EFFORT IN THE GULF WAR. JAPAN HAS BEEN CRITICIZED FOR DELAY IN MEETING ITS CONTRIBUTION. IN FACT, JAPAN HAS BEEN VERY RESPONSIVE TO THE NEEDS OF THE MULTINATIONAL FORCES AND FRONTLINE STATES WITH THE \$4 BILLION COMMITTED IN CY 90 AND HAS BEEN EXPENDING FUNDS AS QUICKLY AS REQUIREMENTS HAVE BEEN IDENTIFIED. WE EXPECT THAT THE NEARLY \$9 BILLION COMMITTED THIS YEAR WILL BE DISPERSED VERY SOON. I WOULD ALSO LIKE TO COMMENT BRIEFLY ON THE "IN-KIND" SUPPORT PROVIDED THE U.S. CENTCOM BY JAPAN. THERE HAD BEEN SPECULATION THAT THIS IN-KIND SUPPORT WOULD SIMPLY BE ANOTHER VENUE TO MARKET JAPANESE GOODS, THEREBY QUESTIONING THE GOVERNMENT OF JAPAN'S COMMITMENT TO THE COALITION. IN FACT, BY DOLLAR AMOUNT, APPROXIMATELY 70 PERCENT OF ITEMS CONTRACTED FOR ARE U.S. MANUFACTURED COMING FROM U.S. SUPPLIERS. ONLY ABOUT SEVEN PERCENT ARE JAPANESE MADE ITEMS. THE REMAINING 23 PERCENT OF THE ITEMS ARE FROM MIDDLE EAST SUPPLIERS. BUT OUR BEST ESTIMATE IS THAT AT LEAST TEN PERCENT OF THOSE ARE OF U.S. ORIGIN AS WELL.

IT IS SOMETIMES CONVENIENT FOR SOME TO FIND FAULT WITH THE PACE AND SCOPE OF JAPANESE CONTRIBUTIONS. IT IS SAID THAT JAPAN MOVES TOO SLOWLY, OR THAT IT MOVES ONLY AFTER U.S. PRESSURE, OR THAT IT ONLY LOOKS AFTER ITS OWN INTERESTS. BUT IF ONE LOOKS AT THE BIG PICTURE, IT IS APPARENT THAT JAPAN IS A DEMOCRACY, THAT IT IS DOING MORE THAN MOST WOULD HAVE THOUGHT POSSIBLE ONLY A FEW YEARS AGO, AND THAT JAPAN HAS BEEN ONE OF THE STRONGEST POLITICAL ALLIES OF THE U.S. IN RECENT TIMES. IT WOULD BE A MISTAKE TO JUDGE JAPAN'S CONTRIBUTION TO THE NEW WORLD ORDER BASED SOLELY ON ITS ABILITY OR INABILITY TO PROVIDE MILITARY FORCES.

#### KOREA

TURNING TO THE KOREAN PENINSULA, WE REMAIN CONCERNED THAT THIS IS THE MOST LIKELY PLACE IN THE REGION FOR HOSTILITIES TO ERUPT. KIM IL-SUNG IS ONE OF THE FEW COMMUNIST IDEOLOGUES LEFT ANYWHERE IN THE WORLD. HE HAS STEADFASTLY REFUSED TO ACKNOWLEDGE THAT THE COMMUNIST SYSTEM HAS BANKRUPTED ITSELF, AND IS RELUCTANT TO INITIATE MUCH NEEDED REFORMS TO BRING NORTH KOREA OUT OF THE DARK AGES. HE PERSISTS IN RULING WITH AN IRON HAND, AND CONTINUES A MILITARY BUILD UP THAT IN NO WAY COULD BE CALLED DEFENSIVE, NORTH KOREA CONTINUES ITS NUCLEAR PROGRAM AND REFUSES TO ACCEDE TO IAEA SAFEGUARD INSPECTIONS. DESPITE THE PROMISE AFFORDED BY THE SOUTH-NORTH TALKS, PYONGYANG THUS FAR REMAINS INTRANSIGENT. THE ENTIRE NORTH KOREAN SOCIETY IS SUFFERING ECONOMICALLY AND DEVELOPMENTALLY BECAUSE OF THE DIE-

HARD COMMITMENT OF THE TWO KIMS TO ACHIEVE THEIR GOAL OF UNITING KOREA, BY FORCE IF NECESSARY.

IN CONTRAST, THE SITUATION IN THE SOUTH CONTINUES TO BE PROMISING. ALTHOUGH THE ECONOMY HAS RECENTLY SLOWED, THE REPUBLIC OF KOREA REMAINS ONE OF THE REGION'S GREAT SUCCESS STORIES. INDICATIONS ARE THE ECONOMY IS NOW ON THE RISE AGAIN, AND THERE IS GREATER POLITICAL FREEDOM AND DEMOCRACY IN THE COUNTRY THAN THERE HAS BEEN SINCE THE END OF THE KOREAN WAR. ON A MORE PAROCHIAL BASIS, THE ROK DEFENSE ESTABLISHMENT IS STAYING OUT OF POLITICS AND WORKING TO IMPROVE ITS MILITARY CAPABILITIES. ALTHOUGH THE BALANCE OF FORCES STILL FAVORS THE NORTH, SEOUL IS STEADILY IMPROVING ITS RELATIVE STRENGTH. INDEED, IT IS PRECISELY BECAUSE OF THIS THAT THE UNITED STATES BELIEVES IT CAN WITHDRAWN 7000 PERSONNEL (5000-ARMY AND 2000-AIR FORCE) BY THE END OF 1992 UNDER THE TERMS OF PHASE I OF OUR STRATEGIC FRAMEWORK FOR ASIA. THE REPUBLIC OF KOREA HAS INDICATED ITS WILLINGNESS TO ASSUME THE LEADING ROLE IN ITS OWN DEFENSE FROM THE U.S., AND HAS BEGUN TO COMMIT ITSELF TO SPECIFIC ACTIONS SUCH AS KOREAN GENERAL OFFICERS ASSUMING HIGHLY VISIBLE COMMAND/LEADERSHIP POSITIONS, THE NAMING OF A KOREAN FOUR STAR GENERAL AS GROUND COMPONENT COMMANDER, THE INACTIVATION OF THE COMBINED FIELD ARMY, AND ACCEPTANCE OF A REDUCTION OF U.S. SPACES IN THE JOINT SECURITY AREA.

BESIDES ITS OWN DEFENSE BUILD UP AND ITS COMMITMENT TO ASSUME THE LEADING ROLE IN ITS OWN DEFENSE, SEOUL HAS ALSO BEEN FORTHCOMING IN TERMS OF COST SHARING SUPPORT FOR THE STATIONING

OF U.S. FORCES ON THE PENINSULA. FOR EXAMPLE, IN FY-91 THERE WILL BE A 115 PERCENT INCREASE IN COST SHARING OVER THE 70 MILLION DOLLARS OF FY-90. INDEED, SINCE 1989 THERE HAS BEEN MORE THAN A THREEFOLD INCREASE - FROM 45 MILLION DOLLARS IN FY-89 TO 150 MILLION DOLLARS IN FY-91. MOREOVER, THE KOREANS HAVE INCREASED THE NUMBER OF CATEGORIES OF SUPPORT. IN THE UPCOMING FISCAL YEAR, THE KOREANS WILL CONTRIBUTE TO INDIGENOUS LABOR COSTS, COMBINED ACTIVITIES, WAR RESERVE STOCKS, AND MILITARY CONSTRUCTION - NONE OF WHICH WERE CATEGORIES OF COST SHARING IN FY-89.

REPUBLIC OF KOREA SUPPORT FOR OPERATION DESERT STORM HAS ALSO BEEN HELPFUL, GIVEN THE STATE AND SIZE OF THE KOREAN ECONOMY. THE REPUBLIC OF KOREA WAS THE FIRST NATION TO RESPOND WITH VITAL AIRLIFT AND SEALIFT SUPPORT. SUBSEQUENT OFFERS OF ASSISTANCE HAVE INCLUDED \$500 MILLION DOLLARS TO THE ANTI-IRAQ COALITION (\$110M IN CASH TO THE U.S., 105M IN TRANSPORTATION, 100M IN ECONOMIC ASSISTANCE TO THE FRONTLINE STATES, 170M IN MILITARY EQUIPMENT AND MATERIEL, AND 15M IN AID TO THE MULTI-NATIONAL FORCES), AND CONTINUED AIRLIFT AND SEALIFT SUPPORT. THE REPUBLIC OF KOREA HAS ALSO DISPATCHED A MEDICAL SUPPORT GROUP CONSISTING OF SOME 154 PERSONNEL, AND DEPLOYED FIVE C-130 AIRCRAFT, INCLUDING 156 GROUND SUPPORT PERSONNEL TO THE GULF. THE COST OF THESE TWO UNITS IS OVER AND ABOVE THE \$500 MILLION IN CASH, TRANSPORTATION, AND ASSISTANCE-IN-KIND THAT WAS PLEDGED BY THE ROK.

CHINA

ELSEWHERE IN NORTHEAST ASIA, THE PEOPLE'S REPUBLIC OF CHINA, TOWARD THE LATTER PART OF 1990, ACHIEVED SEVERAL MAJOR DIPLOMATIC SUCCESSES INCLUDING: THE ESTABLISHMENT OF DIPLOMATIC RELATIONS WITH SAUDI ARABIA, INDONESIA, AND SINGAPORE, AND ACHIEVING A MORE CONSTRUCTIVE INFLUENCE IN RESOLVING THE CAMBODIAN ISSUE. TOGETHER THESE ALLOWED CHINA TO REGAIN SOME OF ITS INTERNATIONAL RESPECTABILITY -- WHICH HAD BEEN SO BADLY DAMAGED IN TIANANMEN. AS A RESULT, THE EUROPEAN COMMUNITY HAS MOVED TO EASE ASPECTS OF ITS SANCTIONS AGAINST CHINA.

UNFORTUNATELY, DOMESTICALLY, CHINA HAS CONTINUED ITS HARD-LINE STABILITY-FIRST POLICY. INTERNATIONAL CONCERNS ABOUT HUMAN RIGHTS CONDITIONS IN CHINA, SPEARHEADED BY U.S. ADMONITIONS, HAVE HAD SOME MODERATING EFFECT ON CHINESE BEHAVIOR. HOWEVER, CHINESE ACTIONS STILL FALL SHORT OF INTERNATIONAL STANDARDS AND U.S. EXPECTATIONS. THROUGH CONTINUED DIALOGUE, SUCH AS ASSISTANT SECRETARY OF STATE FOR HUMAN RIGHTS RICHARD SHIFTER'S VISIT TO BEIJING THREE MONTHS AGO, WE STILL HOPE FOR SUBSTANTIVE IMPROVEMENTS IN CHINA'S HUMAN RIGHTS SITUATION. MEANWHILE, OUR MILITARY ARMS SALES AND HIGH-LEVEL EXCHANGES REMAIN SUSPENDED. BECAUSE OF THE PLA'S INFLUENCE IN CHINESE DECISION MAKING, WE BELIEVE THAT, OVER TIME, IT WILL BE USEFUL TO RENEW A DEFENSE DIALOGUE WITH CHINA.

PHILIPPINES

MOVING FROM NORTHEAST ASIA TO SOUTHEAST ASIA, LET ME BEGIN WITH AN UPDATE ON SITUATION IN THE PHILIPPINES. IN THE PHILIPPINES, THE PROTRACTED SENSE OF CRISIS WHICH FOLLOWED THE DECEMBER 1989 COUP ATTEMPT HAS ABATED. ALTHOUGH FURTHER DESTABILIZING EFFORTS BY MILITARY DISSIDENTS CANNOT BE RULED OUT, IT APPEARS FOR NOW THAT CONTINUED GOVERNMENT CAPTURES OF KEY REBEL LEADERS HAVE SERIOUSLY AFFECTED THE REBEL ORGANIZATION'S CAPABILITY AND WILL TO SUSTAIN AN ANTI-GOVERNMENT CAMPAIGN. SIMILARLY, WHILE THE NEW PEOPLE'S ARMY INSURGENTS CONTINUE TO CONDUCT MILITARY SKIRMISHES AND LAUNCH SELECTED TERRORIST ATTACKS COUNTRYWIDE, THEY HAVE NOT BEEN ABLE TO INTENSIFY THEIR THREAT TO MANILA. MEASURING THE SCOPE AND DEPTH OF THE INSURGENCY REMAINS EXTREMELY DIFFICULT, BUT OVERALL, THE PICTURE IS ONE OF A SOMEWHAT REDUCED THREAT. WHILE MAJOR SEGMENTS OF THE ARMED FORCES OF THE PHILIPPINES WILL BE ENGAGED IN COUNTERINSURGENCY FOR AT LEAST SEVERAL YEARS, THE MILITARY IS INCREASINGLY FOCUSING ITS PLANNING ON A POST-INSURGENCY PHASE IN WHICH IT CAN TURN ITS ATTENTION MORE TO EXTERNAL DEFENSE.

MOST OF THE RECENT ATTENTION REGARDING OUR BILATERAL RELATIONSHIP HAS FOCUSED ON THE BASE NEGOTIATIONS AND THE FUTURE OF OUR DEFENSE RELATIONSHIP WITH MANILA. THE NEGOTIATING PROCESS, WHICH BEGAN LAST MAY, HAS BEEN LENGTHY, DIFFICULT, AND AT TIMES CONTENTIOUS. NONE OF THIS HAS BEEN SURPRISING, GIVEN THE FACT THAT OUR MILITARY PRESENCE IS A MATTER OF GREAT

CONTROVERSY IN THE PHILIPPINE BODY POLITIC. NONETHELESS, WE ARE PLEASED WITH DEVELOPMENTS THUS FAR, AND LOOK FORWARD TO CONCLUDING A NEW AGREEMENT IN THE NEAR FUTURE. AS SOME SPECIFICS ARE STILL BEING NEGOTIATED, IT WOULD BE PREMATURE FOR ME TO COMMENT ON THE PROBABLE DETAILS OF A NEW ACCORD. I CAN STATE, THOUGH, THAT THE PHILIPPINE GOVERNMENT'S REAFFIRMATION OF ITS INTEREST IN A SUSTAINED DEFENSE PARTNERSHIP WAS A PIVOTAL DEVELOPMENT WHICH SET THE STAGE FOR BOTH PARTIES TO FORMULATE ARRANGEMENTS WHICH ADDRESS PHILIPPINE NATIONAL CONCERNS AS WELL AS OUR OWN OPERATIONAL REQUIREMENTS.

THE QUESTION OF WHETHER AND/OR WHY WE DESIRE TO RETAIN A PRESENCE IN THE PHILIPPINES, ESPECIALLY IN THE ABSENCE OF ANY APPARENT THREAT IN THE REGION, REMAINS ONE FREQUENTLY POSED TO THE DEFENSE DEPARTMENT. AS I MENTIONED, A NUMBER OF POLITICAL-MILITARY FACTORS UNIQUE TO THE ASIAN-PACIFIC REGION MAKES A CONTINUED U.S. FORWARD-BASED DEFENSE STRATEGY VALID AND SENSIBLE. HOWEVER, COGNIZANT OF THE EVOLVING CHANGING POLITICAL-MILITARY LANDSCAPE IN THE REGION, AS WELL AS OUR OWN FISCAL REALITIES, WE CONCLUDED EARLY ON THAT AN ATTEMPT TO MAINTAIN THE STATUS QUO IN THE PHILIPPINES WAS NEITHER FEASIBLE NOR DESIRABLE. IN FACT, WHATEVER THE SPECIFICS OF A NEW AGREEMENT, IT WILL PROVIDE FOR A GRADUAL U.S. PHASEDOWN OF OUR FORCE LEVELS.

THE VALUE OF THE FACILITIES AT CLARK AND SUBIC IS NOT EASILY QUANTIFIED; IT IS DERIVED LARGELY FROM THE COMBINATION OF THEIR STRATEGIC LOCATION WITH THE CENTRALIZED CAPABILITY THEY AFFORD

US OF TRAINING, LOGISTICS, OPERATIONS AND MAINTENANCE AND SUPPORT FUNCTIONS. WHILE BY NO MEANS INDISPENSABLE, THE FACILITIES PLAYED A VITAL ROLE IN SUPPORTING OPERATIONS DESERT SHIELD AND DESERT STORM. MUCH OF THE SUPPORT TO THE GULF WAS ROUTED THROUGH THE ATLANTIC, BUT THE FACILITIES IN THE PHILIPPINES PERMITTED CONTINUOUS PRESENCE OF U.S. FORCES IN THE INDIAN OCEAN/PERSIAN GULF. CLARK AND SUBIC ROUTINELY PROVIDED MAINTENANCE, REPLENISHMENT/REFUELING, LOGISTICS, PERSONNEL/MAIL TRANSFER, AND TRAINING SUPPORT FOR MAC AND MARINE CORPS AIRCRAFT AS WELL AS U.S. NAVY AMPHIBIOUS TASK FORCES AND CARRIER BATTLE GROUPS IN THE REGION. HAD HOSTILITIES CONTINUED LONGER, PROBLEMS DEVELOPED AFFECTING OTHER APPROACHES, OR HAD MORE THAN TWO PACIFIC FLEET CARRIER BATTLE GROUPS BEEN USED IN DESERT SHIELD/DESERT STORM, TRANSSHIPMENT REQUIREMENTS THROUGH CLARK, SUBIC, AND CUBI POINT NAVAL AIR STATION WOULD HAVE INCREASED SIGNIFICANTLY.

IN ADDITION TO SUPPORTING OUR DEFENSE CAPABILITIES OBJECTIVES, OUR PRESENCE IN THE PHILIPPINES REMAINS WIDELY VIEWED AS A STABILIZING INFLUENCE BY MOST COUNTRIES IN THE REGION. IN THE PHILIPPINES, OUR PRESENCE HAS HELPED DEMONSTRATE OUR STRONG SUPPORT FOR DEMOCRACY, CONTRIBUTED TO THE ECONOMIC RECOVERY SO VITAL FOR DEMOCRACY TO FLOURISH, AND HAS PROVIDED A POSITIVE INFLUENCE ON FOREIGN INVESTMENT.

COMPENSATION ASSOCIATED WITH A NEW BASING AGREEMENT IS STILL UNDER NEGOTIATION AND I WOULD NOT WANT TO PREJUDGE THE OUTCOME. IT IS SAFE TO SAY, HOWEVER, THAT THE U.S. HAS CLEARLY INDICATED

TO MANILA THAT THE ALREADY IMPRESSIVE LEVELS OF U.S. ASSISTANCE WILL NOT BE INCREASED, PARTICULARLY GIVEN THAT WE WILL BE PHASING DOWN OUR PRESENCE OVER THE COURSE OF A NEW AGREEMENT. THE FMF COMPONENT OF OUR SECURITY ASSISTANCE REQUEST IS THE SAME AS THAT FOR THE LAST TWO YEARS. FROM OUR PERSPECTIVE, FMF REMAINS CRUCIALLY IMPORTANT TO CONTINUED DEVELOPMENT OF A CREDIBLE, PROFESSIONAL ARMED FORCES CAPABLE OF MANAGING PERSISTENT INTERNAL THREATS TO STABILITY WHILE AND GRADUALLY TRANSITIONING TO A FORCE THAT WILL ULTIMATELY BE CAPABLE OF PROVIDING FOR THE PHILIPPINES' EXTERNAL DEFENSE.

#### THAILAND

ON 23 FEBRUARY A GROUP OF ROYAL THAI ARMED FORCES LEADERS MOUNTED A BLOODLESS COUP AGAINST THE ROYAL THAI GOVERNMENT. THE CONSTITUTION WAS ABOLISHED AND THE NATIONAL ASSEMBLY DISSOLVED. THE COUP GROUP HAS PROMISED THE EARLY RETURN TO A CIVILIAN-LED GOVERNMENT, AND IS IN THE PROCESS OF FORMING AN INTERIM GOVERNMENT THAT WILL ORGANIZE AN ELECTION. THEY HAVE PROMULGATED A PROVISIONAL CONSTITUTION, AND INTEND TO HOLD ELECTIONS WITHIN SIX MONTHS TIME.

#### IN RESPONSE TO THE COUP:

THE DEFENSE SECURITY ASSISTANCE AGENCY (DSAA), THE DOD ELEMENT THAT ADMINISTERS SECURITY ASSISTANCE, HAS BEEN INSTRUCTED TO AUTHORIZE NO NEW RELEASES FOR SHIPMENT OF DEFENSE ARTICLES

UNDER FMF, AND TO APPROVE NO NEW SERVICES PURCHASED WITH FMF FUNDS.

- NO FURTHER THAI PERSONNEL WILL BE ACCEPTED FOR IMET TRAINING UNTIL SUCH TIME AS PRESIDENTIAL CERTIFICATION CAN BE MADE, BUT STUDENTS ALREADY IN THE U.S. WILL BE PERMITTED TO COMPLETE THEIR STUDIES
- ADDITIONALLY, ALL DEVELOPMENT ASSISTANCE AND ESF MONIES FOR THE AFFECTED THAI VILLAGE PROGRAM AND SUCH OTHER FUNDS AS ANTI-TERRORISM ASSISTANCE HAVE BEEN SUSPENDED.

IT IS IMPORTANT TO UNDERSTAND THAT WE DO NOT SEEK TO DEGRADE THE SECURITY RELATIONSHIP WITH THAILAND. OUR RELATIONSHIP IS AN OLD FRIENDSHIP BASED ON YEARS OF SHARED INTERESTS AND PARALLEL REGIONAL CONCERNS. OUR SERIOUS CONCERN FOR THAILAND'S SECURITY AND WELL-BEING IS NOT DIMINISHED. WE ARE, HOWEVER, STRONGLY CONCERNED WITH THE FUTURE OF THAILAND'S PEACEFUL, DEMOCRATIC EVOLUTION, AND WE HAVE MADE THAT CONCERN KNOWN TO THE THAI LEADERSHIP.

I'D LIKE TO MAKE SOME COMMENTS ABOUT OUR LONG-STANDING INTERESTS IN THAILAND'S SECURITY. IN OUR VIEW, WHILE THAI DEFENSE NEEDS MAY BE SIGNIFICANTLY MODIFIED BY A RESOLUTION OF THE CAMBODIA CONFLICT, THOSE CHANGES WILL NOT FACTOR THE UNITED STATES OUT OF THE EQUATION IN THAILAND'S SECURITY POLICY.

WE BELIEVE THAT THAILAND WILL RETAIN THE BASIC ASSUMPTIONS ABOUT REGIONAL SECURITY NEEDS THAT ARE AT THE HEART OF US-THAI SECURITY RELATIONSHIP. THE ENDURANCE OF THAT US-THAI TREATY RELATIONSHIP IS BASED ON OUR SHARED GOALS, OUR COMMITMENT TO THAI SECURITY, AND THE US PERCEPTION OF THAILAND'S CENTRAL IMPORTANCE TO STABILITY IN SOUTHEAST ASIA.

THE BILATERAL TIE IS BUTTRESSED BY THE STRONG JOINT EXERCISE PROGRAM, THE WAR RESERVE STOCKPILE AGREEMENT, AND A HOST OF OTHER JOINT AGREEMENTS WHICH INDICATE OUR ABILITY TO DELIVER PRACTICAL MEASURES OF OUR COMMITMENT TO THAILAND'S SECURITY. THE JOINT EXERCISE PROGRAM, A MAJOR FULCRUM OF THE RELATIONSHIP, IS A RESOUNDING SUCCESS. THE COBRA GOLD EXERCISE HAS CONSISTENTLY MADE CONSIDERABLE HEADWAY IN THE AREA OF ENHANCING U.S.-THAI INTEROPERABILITY AND DEMONSTRATING THE ABILITY OF THE THAI ARMED FORCES TO INTEGRATE A VARIETY OF U.S. WEAPONS SYSTEMS. THE IMPLEMENTATION OF THE WAR RESERVES STOCKPILE AGREEMENT IS ON SCHEDULE. FINALLY, THE US HAS BEEN ABLE TO RESPOND TO SPECIAL SECURITY-RELATED REQUESTS FOR ASSISTANCE FROM THE THAI,

THE RECENT LOWER LEVELS OF SECURITY ASSISTANCE FUNDING FOR THAILAND IS A REFLECTION OF BUDGETARY CONSTRAINTS. OUR CONCERN FOR THAI SECURITY, AND OUR COMMITMENT TO BILATERAL SECURITY PROGRAMS HAS NOT CHANGED. WHILE FLUCTUATIONS IN THE LEVEL OF US SECURITY ASSISTANCE HAVE NOT ALTERED THE NATURE OF THE US-THAI RELATIONSHIP, THE THAI MAY SEE STEADILY DECLINING LEVELS OF

ASSISTANCE AS A REFLECTION OF DIMINISHED US INTEREST IN THAI SECURITY. ALTHOUGH THIS IS NOT THE CASE, THAILAND MAY SEEK ALTERNATIVE SOURCES FOR MILITARY PRODUCTS AND SECURITY ASSURANCES. WE HAVE ALREADY SEEN THIS IN THE ACQUISITION OF EQUIPMENT WHICH IS NOT INTEROPERABLE WITH OURS.

WE RECENTLY INFORMED THE THAI THAT FY 1991 FMF WOULD GO TO ZERO. THIS ANNOUNCEMENT WAS MADE LESS THAN TWO WEEKS FOLLOWING A PUBLIC STATEMENT BY THE THAI THAT BANGKOK WOULD MAKE WHATEVER ARRANGEMENTS AND DECISIONS ARE NECESSARY TO COMPLY WITH U.S. REQUESTS FOR LOGISTICAL SUPPORT AND REFUELING NECESSARY TO SUPPORT DESERT STORM.

THE READY AVAILABILITY OF THAI FACILITIES FOR U.S. STRATEGIC NEEDS IS WHAT WE WOULD EXPECT OF A FRIEND AND ALLY. INDEED, THAILAND HAS BEEN A SOLID SUPPORTER OF OUR PERSIAN GULF POLICY SINCE THE IRAQI INVASION OF KUWAIT. THIS HAS BEEN BOTH IN THE OBSERVANCE OF UN SANCTIONS AS WELL AS IN THE AREA OF LANDING RIGHTS AND REFUELING FOR OUR TRANSITING MILITARY AIRCRAFT.

THAILAND ALSO MADE AN EARLY COMMITMENT TO PARTICIPATING IN THE UNITED NATIONS EMBARGO OF IRAQ, AND SET IN MOTION THE ADMINISTRATIVE MEASURES NECESSARY TO IMPLEMENT SUCH POLICY DECISIONS EARLY AFTER THE IRAQI INVASION OF KUWAIT.

#### AUSTRALIA

THE DEPARTMENT OF DEFENSE CONTINUES TO SEE AUSTRALIA AS THE SOUTHERN PILLAR OF THE SECURITY NETWORK IN THE EAST ASIA AND

PACIFIC REGION. IT HAS LONG BEEN OUR MOST CONSISTENT PACIFIC ALLY, AND ONE OF OUR CLOSEST, BASED UPON A COMMON HERITAGE AND WESTERN PERSPECTIVE. OUR BILATERAL DEFENSE RELATIONS HAVE NEVER BEEN STRONGER THAN DURING THE LAST FEW MONTHS, WHEN AUSTRALIA DEMONSTRATED ITS COMMITMENT TO INTERNATIONAL PEACE AND STABILITY BY JOINING IN THE ALLIED ACTION IN THE GULF. AUSTRALIA'S GULF CONTRIBUTIONS INCLUDE TWO FRIGATES AND A SUPPORT SHIP ON STATION SINCE 3 SEPTEMBER, FOUR 10-PERSON SURGICAL TEAMS SERVING ON HOSPITAL SHIPS, AND A DIVING TEAM FOR COUNTER-MINE WARFARE. APPROXIMATELY 900 AUSTRALIAN SERVICE MEMBERS HAVE BEEN DEPLOYED TO THE GULF. AUSTRALIA HAS ALSO CONTRIBUTED GENEROUSLY TO REFUGEE ASSISTANCE PROGRAMS AND AIRLIFT.

#### NEW ZEALAND

NEW ZEALAND'S BREAK WITH ITS ANZUS TREATY OBLIGATIONS, CAUSED WHEN IT ENACTED A LAW MANDATING THE CERTIFICATION OF NUCLEAR WEAPONS CARRIED ON SHIPS, CONTINUES TO STRAIN RELATIONS BETWEEN OUR COUNTRIES. THE UNITED STATES CANNOT CARRY OUT ITS ANZUS RESPONSIBILITIES UNDER SUCH RESTRICTIONS. FURTHERMORE, THE UNITED STATES CANNOT ADHERE TO RESTRICTIONS IN NEW ZEALAND THAT IT COULD NOT ACCEPT ELSEWHERE. FOR U.S. SHIPS TO BE ABLE TO VISIT NEW ZEALAND, A CHANGE IN NEW ZEALAND'S LAW WOULD BE REQUIRED, AND REGRETTABLY, WE SEE LITTLE NEAR TERM PROSPECT OF SUCH A CHANGE. DESPITE ITS ANTI-NUCLEAR POLICY, NEW ZEALAND RECOGNIZES ITS CONTINUING RESPONSIBILITIES AS A MEMBER OF THE INTERNATIONAL COMMUNITY, AND ITS ROLE IN PEACEKEEPING EFFORTS. IN THIS CONTEXT, WE HAVE WELCOMED NEW ZEALAND'S CONTRIBUTIONS TO

THE GULF CRISIS. WHILE DOMESTIC CONSIDERATIONS HAVE PRECLUDED WELLINGTON FROM SENDING TROOPS, NEW ZEALAND HAS CONTRIBUTED A MEDICAL TEAM, TWO C-130S AND FOOD AND AIRLIFT FOR REFUGEES. WE HOPE THAT NEW ZEALAND WILL BEGIN TO RE-ASSESS ITS ROLE IN REGIONAL AND INTERNATIONAL SECURITY IN LIGHT OF THE RECENT CONFLICT.

#### MALAYSIA

MALAYSIA IS AN IMPORTANT FRIEND IN SOUTHEAST ASIA. THE ELIMINATION OF MALAYSIA'S INTERNATIONAL MILITARY EDUCATION AND TRAINING PROGRAM FOR FISCAL YEAR 1991 HAS CAUSED DIFFICULTIES IN WHAT HAD BEEN A STEADILY IMPROVING DEFENSE RELATIONSHIP WITH THIS STRATEGICALLY LOCATED COUNTRY. AS AMERICAN TROOP STRENGTH IN EAST ASIA IS REDUCED, ACCESS TO ASEAN COUNTRIES FOR VISITS, REPAIRS, EXERCISES AND TRAINING, AND OTHER TEMPORARY USES IS INCREASINGLY IMPORTANT TO SUSTAINING US INTERESTS AND CAPABILITIES. IN THIS CONNECTION, WE SHOULD BE STRIVING TO STRENGTHEN OUR MODEST DEFENSE RELATIONSHIP WITH MALAYSIA. CANCELING THE FY-91 IMET FUNDING HAD THE EXACT OPPOSITE EFFECT.

PENALIZING THE DEFENSE RELATIONSHIP ON GROUNDS OF FOREIGN POLICY DIFFERENCES IS NOT, IN OUR VIEW, HELPFUL TO U.S. INTERESTS. IN SPITE OF ITS REFUGEE POLICY, THE GOVERNMENT OF MALAYSIA HAS OFTEN TAKEN DIFFICULT POSITIONS THAT STRENGTHEN INTERNATIONAL LAW AND SECURITY. FOR EXAMPLE, MALAYSIA VOTED IN FAVOR OF ALL TWELVE U.N. SECURITY COUNCIL RESOLUTIONS ON THE GULF, AND HELD MEETINGS WITH U.S. MILITARY OFFICERS DURING THE

WAR, DESPITE POPULAR SENTIMENTS UNSUPPORTIVE OF COALITION EFFORTS. THE IMET PROGRAM IN COUNTRIES LIKE MALAYSIA, SINGAPORE, AND INDONESIA, IS OFTEN THE MOST WELCOMED FACTOR IN IMPROVED MILITARY-TO-MILITARY RELATIONS. AT A TIME WHEN SECURITY ASSISTANCE FUNDING IS MINIMAL, ITS SIGNIFICANCE IS EVEN GREATER. IMET ENHANCES THESE COUNTRIES' MILITARY READINESS AT LESS COST THAN WOULD BE REQUIRED IF THEY WERE TO REPLICATE THE TRAINING PROGRAMS THEMSELVES. WE SHOULD NOT LOSE SIGHT OF THE TREMENDOUS BENEFIT THAT ACCRUES U.S. INTERESTS WHEN THE MILITARY PERSONNEL OF THESE FRIENDLY, BUT NON-ALIGNED, COUNTRIES BECOME MORE FAMILIAR WITH AMERICAN MILITARY PERSONNEL, EQUIPMENT, DEFENSE DOCTRINE AND PROFESSIONAL STANDARDS. ACCORDINGLY, THE ADMINISTRATION URGES THE REINSTATEMENT OF IMET FUNDING FOR MALAYSIA.

#### SINGAPORE

INDICATIVE OF WHERE THE UNITED STATES IS HEADED IN REGIONAL DEFENSE, AND PERHAPS MOST FORTHCOMING OF THE REGIONAL INTEREST IN CONTRIBUTING MORE TO THE COMMON DEFENSE RESPONSIBILITY HAS BEEN THE WILLINGNESS OF THE GOVERNMENT OF SINGAPORE TO PERMIT EXPANDED U.S. MILITARY ACCESS. VICE PRESIDENT QUAYLE AND THEN-PRIME MINISTER LEE SIGNED A MEMORANDUM OF UNDERSTANDING IN TOKYO ON 13 NOVEMBER 1990 WHICH PERMITS U.S. USE OF MILITARY FACILITIES IN SINGAPORE.

THE AGREEMENT ENHANCES EXISTING MILITARY ARRANGEMENTS. UNITED STATES NAVY SHIPS HAVE BEEN DOCKING IN SINGAPORE FOR MORE

THAN 25 YEARS FOR MAINTENANCE, REPAIRS, SUPPLIES, AND CREW REST AND RECREATION. UNDER THE TERMS OF THIS AGREEMENT, THERE WILL BE A MODEST INCREASE IN SUCH U.S. USE OF SINGAPORE MAINTENANCE AND REPAIR FACILITIES. THERE WILL ALSO BE SHORT-TERM ROTATIONS BY U.S. AIRCRAFT. TO SUPPORT SUCH ACTIVITIES, THE NUMBER OF U.S. SUPPORT PERSONNEL ASSIGNED TO SINGAPORE WILL INCREASE FROM ABOUT 20 TO ABOUT 95.

THE UNITED STATES IS NOT CONSTRUCTING A BASE IN SINGAPORE; RATHER, U.S. FORCES WILL MAKE USE OF EXISTING SINGAPOREAN FACILITIES, PAYA LEBAR AIRPORT AND THE SEMBAWANG PORT. THESE FACILITIES DO NOT REQUIRE SIGNIFICANT MODIFICATIONS. THE SINGAPORE FACILITIES ARE LIMITED, AND SHOULD BE VIEWED AS COMPLEMENTARY TO, NOT SUBSTITUTES FOR, OTHER U.S. FACILITIES IN THE REGION.

THE PRESENCE OF U.S. FORCES IN THE WESTERN PACIFIC HELPS FOSTER STABILITY AND REGIONAL SECURITY AND HAS CONTRIBUTED TO THE REGION'S GROWING PROSPERITY. WE BELIEVE THAT THE SINGAPORE OFFER OF INCREASED ACCESS REFLECTS THE REGION'S ACCORD WITH THAT AXIOM, AND ARE PLEASED THAT OUR DISCUSSIONS WITH SINGAPORE HAVE COME TO A MUTUALLY SATISFACTORY CONCLUSION. WE WILL CONTINUE TO CONSULT WITH ASEAN AND OTHER FRIENDS AND ALLIES AS THIS INITIATIVE IS IMPLEMENTED; WE SEE ASEAN AS THE KEY TO PEACE AND STABILITY IN SOUTHEAST ASIA.

SUMMARY

IN SUMMARY, I WOULD ONLY COMMENT THAT THE ADMINISTRATION RECOGNIZES THAT FMF AND IMET FUNDING WILL BE CONSTRAINED FOR THE FORESEEABLE FUTURE. WE REMAIN OPTIMISTIC ABOUT THE SECURITY ENVIRONMENT IN THE EAST ASIA AND PACIFIC REGION. NONETHELESS, THE WAR IN THE PERSIAN GULF STANDS AS A CLEAR REMINDER THAT WE MUST REMAIN PREPARED AND VIGILANT. DEFENSE COOPERATION WITH BOTH ALLIES AND FRIENDS IS KEY TO GREATER REGIONAL UNDERSTANDING, MUTUAL RESPECT, AND REGIONAL STABILITY. THE LIMITED FUNDS REQUESTED IN FY-92 FOR THE FMF AND IMET PROGRAMS IN THE EAST ASIA/PACIFIC REGION PAY DIVIDENDS FAR IN EXCESS OF THEIR MODEST COST. THE DEPARTMENT OF DEFENSE STRONGLY URGES THIS SUBCOMMITTEE, AND THE ENTIRE CONGRESS, TO SUPPORT OUR REQUEST.

**FY 1992 INTERNATIONAL MILITARY EDUCATION AND TRAINING PROGRAM**  
**SOUTH AND EAST ASIA/PACIFIC**  
 (\$ IN MILLIONS)

	<u>FY 90</u> <u>ACTUAL</u>	<u>FY 91</u> <u>ALLOCATION</u>	<u>FY 92</u> <u>REQUEST</u>
BANGLADESH	0.229	0.300	0.350
INDIA	0.229	0.300	0.345
NEPAL	0.100	0.125	0.185
MALDIVES	0.030	0.050	0.070
PAKISTAN	0.911	0.915	0.915
SRI LANKA	0.159	0.160	0.200
<u>SOUTH ASIA SUB-TOTAL</u>	1.658	1.850	2.065
FIJI	.025	.050	.050
INDONESIA	1.791	1.900	2.300
KOREA	1.195	1.000	.800
MALAYSIA	.946	0.000	1.100
PAPUA N.G.	.050	.075	.080
PHILIPPINES	2.588	2.600	2.800
SINGAPORE	.050	.020	.015
SOLOMON ISLANDS	.030	.050	.050
THAILAND	2.191	2.400	2.500
TONGA	.050	.050	.050
VANUATU	.030	.030	.050
<u>EAST ASIA SUB-TOTAL</u>	8.946	8.175	9.795
<u>GRAND TOTAL</u>	10.604	10.025	11.860

FMP FUNDING  
(\$ IN MILLIONS)

PAKISTAN	229.011	91.900	113.556
EAST ASIA/PACIFIC	143.4	200.3	200.3
WORLD TOTAL	4813.6	4663.0	4650.0

Mr. OBEY. Thank you.

POST-COUP FUNDING FOR THAILAND

Let me start where you almost left off, with Fiji. In 1987 there was a military coup. Under the provisions of law, we were required to cut off funding.

My understanding is that that law now applies to Thailand. How does the Administration intend to implement the requirements of law which cut off all funds to Thailand?

Mr. FORD. Mr. Chairman, we have cut off the foreign assistance, including military assistance, to Thailand.

Mr. OBEY. Was the Peace Corps cut off?

Mr. ANDERSON. No, sir.

Mr. OBEY. Why not?

Mr. ANDERSON. We cut off the two-and-a-half million—

Mr. OBEY. I don't care what you cut off. I want to talk about what you haven't cut off.

Mr. ANDERSON. The Peace Corps and the narcotics program we haven't cut off because we feel that they are part of ongoing efforts which the law doesn't require from us at this point.

And they are designated to deal with problems, such as narcotics questions, problems that are very much related to our own welfare.

In the case of the Peace Corps, we are dealing with the lowest level of the society trying to help build up—

Mr. OBEY. Why do you say it doesn't apply to Peace Corps?

Mr. ANDERSON. Well, our interpretation was that it did not, sir.

Mr. OBEY. How do you reach that interpretation?

Mr. ANDERSON. Well, the Peace Corps is not regarded as an assistance program.

Mr. OBEY. Well, it sure is from this side of the table.

Mr. ANDERSON. Well, we don't see it in that way.

Mr. OBEY. Section 513 states "none of the funds appropriated or otherwise made available pursuant to this act." Do we appropriate funds in this Committee for the Peace Corps?

Mr. ANDERSON. They don't go to the government entirely. They go to support the Peace Corps volunteers themselves.

Mr. OBEY. A lot of the aid programs go to PVOs and other participating operations.

Mr. ANDERSON. Well, in our view, this was not a program to help the Thai Government, but rather to help out the Thai people, and inasmuch as we have encouraged the authorities that have taken over, the coup authorities to move back in the direction of democracy, and they are moving in that direction—

Mr. OBEY. Do you have a legal opinion which asserts that position?

Mr. ANDERSON. Yes; yes, sir.

Mr. OBEY. I would like you to supply a copy of that to the committee.

Mr. ANDERSON. Yes, sir. Be happy to.

[The information follows:]

The Office of Legal Adviser has provided the following information.

The narcotics program managed by the Bureau for International Narcotics Matters of the Department of State is conducted under the authority of section 481 of the Foreign Assistance Act. Section 481 provides that narcotics assistance may be

provided "notwithstanding any other provision of law." Thus, section 481 assistance is exempt from the prohibition contained in section 513 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1991.

Following the coup in Thailand, the Office of the Legal Adviser was advised by the Peace Corps General Counsel's Office that Peace Corps activities were not affected by section 513. The Peace Corps provided two memoranda to the Department, which we are attaching with their permission.

[COMMITTEE NOTE.—The Department of State failed to provide the two memoranda referred to.]

Mr. OBEY. I think it is an ill-advised policy on the part of the Administration, and I really think you ought to go back and look at your legal opinion or get yourself a new lawyer.

#### CONDITIONALITY FOR THE PHILIPPINES

On the Philippines, is it true that at this point the Philippine Government is still expressing its desire for us to simply write a check without the kind of conditionality that we have been talking about as being necessary?

Mr. ANDERSON. Mr. Chairman, you are referring to the bases agreement?

Mr. OBEY. That is right. Yes.

Mr. ANDERSON. Well, we are in the middle of those negotiations, so I couldn't get into the details. But I don't think they are asking us to simply write a check. The programs that we have and already have agreed to are related to the economic policy and project aid, and we keep very close control over those programs.

So it is anything but writing a check.

Mr. OBEY. Well, I would hope that even if the Administration agrees, the Congress will not agree to any condition that eliminates conditionality and in fact results in a significant portion of aid being sent simply in the form of "no questions asked" assistance.

In my view, I think it is outrageous that we have to negotiate base rights considerations at all. In my view, if the Philippine Government doesn't think that they achieve sufficient benefit, both by way of a military umbrella and by the employment opportunities that we provide the Philippines—we could be one of the largest employers on the islands—then we ought not be located there.

So I hope the government understands that all negotiations are subject to both Congressional approval and actual Congressional appropriation. And that to the extent that those negotiations do not produce the kind of conditionality that we have come to expect, they can expect the Congress to not appropriate the funds associated with the agreement.

Mr. ANDERSON. Mr. Chairman, if I may, I think we do see it very much along the same lines.

Mr. OBEY. Well, I hope they see it that way also because, very frankly, every time I talk to somebody from the Philippine Government, they don't convey to me any sense that they understand that problem.

This year, MCI, the American communications company, came to the Committee and complained about their treatment by the tax authorities in the Philippines. Apparently we have a tax treaty with the Philippines, and apparently, Philippine officials have kept changing their reasons for the taxes that they are letting on MCI.

I know the IRS is involved in the case, and I understand that they are supporting MCI in their arguments. If that isn't correct, I would like to know about it.

And if it is, when can we expect a resolution of that issue by the Philippine Government?

Mr. ANDERSON. You are correct, sir, and in January, the Bureau of Internal Revenue, I think, in the Philippines have shifted the investigation to focus on whether MCI maintained a permanent establishment in the Philippines.

And on that question, I think that is more of a legal question. But we certainly are supporting MCI, sir.

[Information on the topic follows:]



United States Department of State

Washington, D.C. 20520

MAY 15 1991

Dear Mr. Obey:

I am writing to follow up on the testimony to your committee on March 14 by Deputy Assistant Secretary Desaix Anderson. We have additional information on the issue of the MCI firm's ongoing tax dispute with the Philippine government and the replacement of Roberto Villanueva as Chairman of the Coordinating Committee for the Philippine Assistance Program (CCPAP), as the Multilateral Assistance Initiative for the Philippines is known in that country.

The Philippine Bureau of Internal Revenue (BIR) and MCI have had a dispute over taxes for some time. The issue first came to our attention in July, 1990. The U.S. Internal Revenue Service (IRS) has been aware of and involved in BIR's investigation of MCI almost from its inception. IRS is the responsible party for issues that arise under our tax treaty with the Philippines. The BIR was alleging that MCI owed capital gains tax as a result of the sale of an MCI-owned firm in the Philippines (Philippine Global Telecommunications). In October, 1990, after an extended discussion, BIR changed the focus of its investigation to potential gift tax liability. By January, 1991, BIR had again shifted the investigation's focus to concern about whether MCI had maintained a "permanent establishment" in the Philippines. If the answer were "yes," BIR would have the right to tax the income of that "permanent establishment." The situation has not changed since then. We have remained in contact with MCI, IRS and other involved parties in pressing for a satisfactory solution.

Naming a prominent representative of the Philippine private sector to work on CCPAP issues is important because of the need to attract greater private investment inflows on which the Multilateral Assistance Initiative's success depends. Finance Secretary Estanislao assumed this role after Mr. Roberto Villanueva resigned for medical reasons in May 1990. The Philippine Government has just appointed

The Honorable  
David R. Obey  
House of Representatives.

Dr. Bernardo Villegas, a respected economist, as chairman of a newly created CCPAP private sector subcommittee. Secretary Estanislao will continue to occupy the position held by Mr. Villaneuva, and Dr. Villegas will be under Secretary Estanislao. We are pleased that the Philippine Government has acted to bring about greater private sector involvement in the Multilateral Assistance Initiative.

Again, we appreciate the opportunity, in the testimony and in this letter, to explain our views on these important issues.

Sincerely,



Janet Mullins  
Assistant Secretary  
Bureau of Legislative Affairs

**Mr. OBEY.** The Philippine Government says that they are attracting business, including American business. How do they expect to do that when they are frustrating corporations who ask to come in?

**Mr. ANDERSON.** Well, that is an excellent point.

**Mr. OBEY.** I just have to tell you, if I sound angry, it is because with respect to the Philippines, I am.

When Mrs. Aquino took power, I offered the amendment, over the objection of everybody, including the Republican floor leader in the Senate, Mr. Dole, adding a hundred million dollars, I think it was, to Philippine aid.

So, I am not opposed to aid to the Philippines. I am opposed to providing aid under conditions that simply have money going down a rat hole, and I am opposed to simply rewarding the Philippine military because they are not temporarily screwing up their own country.

I do get unhappy when it appears to me that our own government policy, with respect to debt relief, has resulted in very little real change in economic prospects in the Philippines. And I don't see why we should continue to appropriate public money for aid to the Philippines which is then rerouted, by virtue of the agreements, to help pay banks back for dumb loans they made to Mr. Marcos.

Can somebody explain to me why our taxpayers should be doing that, please?

**Mr. ANDERSON.** Well, you have raised several issues, Mr. Chairman.

If I may, the agenda that we have been working with the Philippines now on is based on the fundamental reform on the macro economic side and then on the aid side, we are looking very closely at the projects. I think they are mutually supportive.

We also, as a consequence of your interest, have tightened up the control and the scrutiny of the project.

I think there has also been some improvement in the pipeline question, which you are interested in. But basically, we are trying to attack the fundamentals so that there is an environment in which the economy can move toward development and growth; and therefore, so that the political side of the house can flourish as well.

On the military side, the focus is, of course, on trying to provide the military the equipment, so that they can sustain the constitutional government, ward off the threat from the left and from the right.

I think they have had some success. NPA, the National People's Army, has declined from that 23,000 to 17,000, and, the government has also picked up some leading figures, both on the left and the right, which shows that the government, and the military forces are being more effective in terms of dealing with those threats.

So we don't consider it a rat hole. I think it holds the promise that you supported in 1986.

**Mr. OBEY.** Yes, but my problem is I think we are helping make it a rat hole by the limited nature of the relief that commercial banks provided to the Philippines.

Mr. ANDERSON. Well, that has been just part of a much broader program. If I could mention some of the other aspects of what we have been working on—

Mr. OBEY. I understand what you have been working on. I am simply giving you my evaluation of what the package looks like.

Mr. ANDERSON. Well, the bank, in terms of the debt equity swap and the buy back, that is a very small part of the overall picture, and I understand your position on it, sir. But we think we are making a much broader, more fundamental attack both through the IMF work and the MAI.

#### DEBT RELIEF IN PHILIPPINE AID

Mr. OBEY. I am told the Philippine Government wanted a different mix of aid. That, in fact, is reflected in the Administration's budget request for this year, that they wanted a mix more heavily tilted toward economic assistance, and that we decided to keep the emphasis more on military assistance.

Mr. ANDERSON. In terms of funds, I think it clearly is still very much oriented on the economic side, and it has been.

Mr. OBEY. But with all due respect, you are avoiding my question.

Mr. FORD. Mr. Chairman, if I could simply add, I think that that was related to an earlier comment that you made. I think that what the Philippine Government had suggested informally was that they would like to move some of the military assistance to use it for debt relief.

They would have preferred this option without any particular strings attached to it; we just give them money, and they use it for debt relief. We thought that that was a bad notion, both in terms of how they wanted to go about it and the requirements that we have to follow.

It wasn't a choice between economic and military assistance. It was more a choice between what the Philippines—

Mr. OBEY. The argument is for money for debt relief. We are doing it through the international banks. We are lying about it to taxpayers.

Mr. FORD. Well, Mr. Chairman, I would not want to be a part of lying to the taxpayers. I certainly don't have any knowledge that we are allowing them to do things that would be either illegal or inappropriate.

I am just simply answering and responding to your comment, that it was not a choice between us wanting to continue to give the military assistance as opposed to additional economic assistance. That was not really the issue as we addressed it.

Mr. OBEY. My point is, if you are telling me that the Philippine Government wanted money from us to be applied directly for debt relief, and that we opposed that because we think that is a bad idea, that we shouldn't be providing money which they use for debt relief, my point is simply that we already are.

Only, the way the sophisticates who run these operations have put it together, it is simply masked. Commercial banks are being protected, not just in the Philippines but worldwide, through fund-

ing for the World Bank and other regional banks. They in turn are enabling debtor countries to stay afloat and make their repayments to commercial banks.

And if you don't want to take that from the mouth of a liberal Democrat, then take it from the mouth of the Heritage Foundation, which, the last time I looked, is on the Republican side of the spectrum.

This is one of the few occasions on which I have more than minimum high regard for the Heritage Foundation's judgments. But this is certainly what is happening. And my concern is that it seems to me that there are certain areas on the economic side where the Philippines need assistance. It seems to me that their problems are rooted more in their own economy than in the military.

Solving economic problems would reduce the threat from the military, or at least the threat from the guerrillas.

Mr. FORD. You certainly wouldn't get any disagreement from the Department of Defense. I think we happen to believe that their economic and social justice issues have to be resolved in the Philippines before the problems associated with the insurgency are going to be dealt with. And so that we have been very supportive of that.

I think that if—and "if" is important—the Philippines present ideas for projects that are directed at social justice and economic development and other sorts of project aid in various parts of the Philippines, I am sure that the State Department, AID and the Department of Defense will all look at it and be very sympathetic because in basic philosophy, we couldn't be more in agreement.

Mr. OBEY. Mr. Smith.

#### POST-COUP THAILAND

Mr. SMITH of Florida. Thank you, Mr. Chairman.

Let me talk a little bit about Thailand. We only had a modest program there to begin with. The coup has resulted in change in government and a change in attitude to some small degree.

We had a meeting here a week ago, or two weeks ago with a number of former Thai legislators, who while traveling here became former rather than current as a result of the coup.

They seemed somewhat positive in their assertion that there was going to be new elections fairly quickly.

What kind of problems or representations have been made to us by the new military rulers with reference to where they are moving and how quickly we can anticipate elections; and has anybody explored the problem dealing with the contracts that a number of the Thai families, there are seven or eight which basically control that country, have made with Burma, or the country of Myanmar, whichever you prefer, Burma is just easier on the tongue, with reference to logging in the Shan Province which provides an enormous outlet for Khun Sa to transfer opium and poppy through Thailand?

Have we talked to them about it now since we have an opportunity due to the restructuring of the government; have we cut off our aid; and have we talked about the possibility of returning to democratically elected government and cutting down on some of

what is now an increased trafficking of drugs through Thailand because of the opening of all of these logging operations in Burma?

And, of course, the fact that these logging companies pay not only the government of Burma a tithe to cut timber in the regions, in Shan, but also pay a tithe to Khun Sa himself, so that he doesn't shoot at the workers or the trucks as he is stuffing the trucks full of opium and poppy and allowing them to transfer it back through Thailand?

What have been our discussions?

Mr. ANDERSON. We have issued a statement of deep regret when the coup took place, and we have been discussing behind the scene with the military and also with the new prime minister, and virtually with the whole establishment the opposition has been made very clear.

I understand Thai authorities do not particularly like what we had to say. But we made it very clear that we hoped that they would move very rapidly back to a civilian government. In the military, the coup leaders announced that there would be elections within six months.

Since it has gotten a little fuzzier, but basically that is the framework in which they are working toward the election. They immediately put together an interim constitution, and they have appointed basically a civilian government under former Ambassador Anand.

And we have talked with him, and he very much believes that martial law should be eliminated as quickly as possible and that they should move quickly within the time frame they have talked about to having elections and a new national assembly, which is fully democratic.

So our hope is that that will happen quickly and on the schedule that they have talked about, if it cannot be done more quickly.

But both the military side, the coup leaders, and the new civilian government, which is a pretty good group of folks, all indicate that that is the direction in which they are going.

#### NARCOTICS CONTROL IN THAILAND

Now, on the question of Kun Sa and the narcotics business, unfortunately the problem immediately is that on the Burmese side of the border, the production has just grown by leaps and bounds since they have got this new government that doesn't seem to be trying to do anything about it.

And we have again now repeatedly talked with the Thai government about trying to get the matter under control. In general, the Thai government over the years has been quite cooperative, but there are individuals in the military that have cooperated on occasion, in the kind of thing you are talking about. But it is something that we are very interested in and pursue regularly trying to weed out.

Both in terms of Thailand in cutting production and switching to other crops and so forth, the Thais have been particularly constructive and worked along those lines that we have suggested.

We have also cooperated in trying to work on the whole golden triangle production with the Thais, and there again, they are quite

cooperative as a government, although there are individuals that are doing the sort of thing you are talking about.

Mr. SMITH of Florida. Well, I think we need to go further. I believe that one of the problems is that the economics of Thailand, like this logging operation, are controlled by a very few families.

And if we were to try to control the flow of drugs, we have to necessarily do something about controlling the logging flow. That would hurt the economic interests of some of the people that have an important say in the government.

Notwithstanding that, there is now an open valve and the stuff is coming out at an enormous rate. I would suggest to you that you need to redouble your efforts with reference to this new government which may provide an opening for us to be even stronger than we have been in the past.

Yes, Thailand did cooperate to a certain degree, but corruption is somewhat endemic at certain levels, and there are people involved at the higher levels as well. We just need to do something about it. It is a bad situation, and it is getting worse.

Let me ask the AID people, in Laos last year, we started a small drug project up in the northern mountain area. I am curious whether AID has any hand in it.

Ms. HOLSMAN FORE. We do not have any hand in it. A.I.D.'s only activity in Laos is a prosthetics project.

Mr. SMITH OF FLORIDA. What—I know what prosthetics are, but they opened up a manufacturing facility?

Ms. HOLSMAN FORE. It is through World Vision.

Mr. SMITH of Florida. Oh, it is through World Vision.

Ms. HOLSMAN FORE. Yes.

#### CHINESE ARMS SALES

Mr. SMITH of Florida. Let me ask you about China. Of course, we have no AID program there, but unfortunately for us, some of the actions that China takes have a significant influence on our policy and run counter to our policy in some cases.

One of the lessons that we learned from this recent Gulf crisis which we are still learning is that the need to control the flow of arms into the region is an extremely important one.

China's policy of arms export for a number of years has been completely demand driven; anybody who asks most likely could get it if they could pay for it. And that is strictly cash-on-the-barrel sellers. Even our friends, the Saudis, bought a CSS-2 nuclear capable missile system from the Chinese without telling us three years ago.

I am wondering whether or not we have opened up any discussions with the Chinese about the possibility of their slowing down the sale of arms and whether or not if we have, the sale to the Chinese themselves of the super computers which were approved in December of this year was a good idea in light of the fact that they used these super computers to upgrade the quality and the capability of their weapons systems, thereby making them even more attractive to buyers who have money.

My understanding was that the people at the upper levels of the bureaucracy of the DOD were opposed to this sale.

I am curious why we made the sale, besides the fact that the Department of Commerce probably had its tongue out panting to the floor to sell anything to anybody. Why did we make this sale, in light of the fact that we know these super computers are capable of helping the Chinese develop better weapons systems.

And what is the Administration's view now of the Chinese weapons sales into the region, and what is our view with reference to our own technological aid to a country like China who continues to sell into that region?

Mr. ANDERSON. Well, if I may comment first, China, of course, is very much engaged as you pointed out during the Iran/Iraq war period in selling arms to virtually all regions.

But after the sale to the Saudis, we did talk with them, and we have talked with them regularly, both here and in Beijing.

It is about specific sales or indications that such might be contemplated, but also about the region. And they have given us assurances a little over a year ago that they would not, for example, sell M-9s to anyone in the region.

But it is broader and deeper than that, as you have indicated.

Mr. SMITH of Florida. What is that, the Eastwind?

Mr. ANDERSON. The M-9.

Mr. SMITH of Florida. Is that the Eastwind?

Mr. FORD. The CSS2 is, I think, the—

Mr. SMITH of Florida. No, the CSS2 is a nuclear—well, that is all right.

Mr. ANDERSON. M-9 has got a range which comes within the guidelines that we are trying to avoid, and the M-11 is just slightly under it. So it is just as pernicious.

We are working with them in the bilateral context, but we also would hope to engage them in a multilateral effort in terms of the Middle East and that whole region.

Since the Iraqi invasion, we got no indication that they have violated the embargo on the arms, and no indication that they have delivered any such weapons to any of the countries in the region.

We, as I say—

Mr. SMITH of Florida. Well, of course they do it clandestinely. Even our friends the Saudis, bought it clandestinely, and we only found out about it by virtue of a NSA traffic interception. So I am curious as to how we are monitoring the fact that they haven't invaded the embargo?

Mr. ANDERSON. Well, of course we could tell that nothing has come in. There is a bigger problem which we could address in North Korea, and that could fit in with what you are saying.

Mr. SMITH of Florida. They just sold Scuds to Syria, if I understand. Well, Syria is not on the embargo list.

Mr. ANDERSON. That is a problem we have to deal with in terms of the dealing with the post Gulf War, and we have to somehow get a handle on the Korean aspect.

But in terms of our own dialog, Secretary Bartholomew regularly discusses all aspects across the board. And we have made some progress in those talks.

Dick Soloman was just in Beijing talking with the Chinese about both the problem vis-a-vis China, but also in the broader context of the Gulf.

And Under Secretary Bartholomew will be going out to Beijing within the next couple of months to pursue this dialog. So it is a major item on our agenda with the Chinese.

Mr. SMITH of Florida. Two things with reference to China. What, if anything, do we know about the possibility of their helping Pakistan develop their own nuclear weapon, and do we have any evidence of cooperation between China and Pakistan on that issue?

Mrs. SCHAFFER. China has a longstanding involvement in Pakistan's nuclear program. The most recent development was a Chinese decision in principle to sell the Pakistanis a small power reactor.

Your second question about proof, sir?

Mr. SMITH of Florida. Yes. Do we see any evidence of any other cooperation? Shipment of any materials that would be capable of making weapons grade?

Mrs. SCHAFFER. Well, beyond saying that they have a longstanding relationship, I think any more specifics I would have to get into in closed session.

Mr. SMITH of Florida. All right.

#### HUMAN RIGHTS IN CHINA

The other thing is, what are we doing with reference to their human rights policy, which is very much at odds with ours?

Mrs. SCHAFFER. The Chinese?

Mr. SMITH of Florida. Yes.

Mr. ANDERSON. Well, the human rights policy and the question of the people who are espousing Democracy in 1989 has been right at the top of our agenda.

We, obviously, are not satisfied with where they are now, but they have done a number of things along the lines that we have been discussing with them over the past year and a half.

I mean, they have released the—by their count, we don't really dispute it, over 900 or so of the people that were imprisoned at the time of the demonstrations.

They just tried 30 some odd, and even though we would not welcome any jail sentence for any espousing democratic views and not doing anything beyond that, in their view, they gave them relatively lenient sentences.

But these are the two questions that we have got right at the top of our agenda; the question of proliferation of weapons, missiles and so forth, and human rights.

Foreign Minister Qian was here in January, and the President and Secretary Baker spent a considerable amount of their time talking about this problem of human rights and pointing out that that is one of the pillars of our foreign policy.

Mr. SMITH of Florida. Well, do we view the continuing occupation of Tibet by Chinese troops as being somewhat equal, and that was by force and not by any other method, to Iraq having invaded Kuwait; or do we not?

Mr. ANDERSON. No, sir. Historically, the takeover of Tibet in the early 1950s was not opposed by the governments around the world, and it was essentially accepted as a historical claim which the gov-

ernments around the world clearly would not accept in the case of Kuwait.

Mr. SMITH of Florida. Iraq had established an historical claim in the 1950s and 1960s; and, in fact, attempted to annex Kuwait once before, didn't they?

Mr. ANDERSON. That is correct. They have made those claims.

In the case of Tibet, I am sorry, that happened a long time ago the world accepted it: That doesn't mean that we are not interested in the welfare of those people.

And we spend a lot of time on the subject of Tibet. That was one of the things we asked the Chinese very much to do was to lift martial law there. And they did, and they have recently let our consular officers go and visit the prisons, which was quite remarkable.

So it is very much on our minds, but not in terms of independence but rather the human rights and the conditions of the people in Tibet.

#### HUMAN RIGHTS AND TRADE WITH CHINA

Mr. SMITH of Florida. There are other states in the region and other states in our hemisphere that produce rather inexpensive, some would call them cheap, textiles, with cheap labor. They are to some degree less capable of exporting from their countries to here than is China currently.

We seem to be encouraging the flow of these cheap imported textiles and finished goods both into this country. Is the Administration still encouraging this kind of trade? Are we looking at the possibility that we should leverage a little bit on trade in this hemisphere and other countries in that region to help benefit them instead of the Chinese who, even over our insistence on some human rights issues, have gone their own way?

I mean, we don't regard what they have done recently as being in compliance with what the United States claims as a standard for human rights.

Mr. ANDERSON. No, we do not consider their behavior at that standard.

Mr. SMITH of Florida. Well, then, are we trying to leverage some of this kind of activity? We do with the Soviet Union.

The President temporarily waived Jackson-Vanik, because of what happened a few months ago when the Soviet Union went in again to the Baltic states.

Are we trying to encourage compliance by reducing, rather than opening, trade with China?

Mr. ANDERSON. We have felt like that the trade with China, and we do look at it obviously in the broader context of where the textiles should come from, but trade with China was one of the vehicles for improving the economy and the human rights situation because most of the trade that we conduct with China is with the more reformist oriented part of China and not with the state side.

So virtually every Chinese dissident would, or most of them, would agree that what they don't want us to do is to cut off those kinds of contacts because that is what is leading to reform in the longer run, hopefully, will lead to political reform as well.

Mr. SMITH of Florida. Gee, that is amazing. I don't remember too many people coming to see me, Mr. Chairman, particularly the Chinese dissidents in this country, asking me to help give China more of a slice of our trade.

It would seem to me just the opposite.

Mr. ANDERSON. Well, most of the ones I have talked with in this country and in China, as well, think that the trade is something that bolsters the reformist side of the society there, and they would not want to see it cut. That is not specifically textile trade, but trade in general.

That comes across quite strongly.

Mr. SMITH of Florida. So the Administration at this point doesn't have any real plans to do anything about trade except trying to continue to entice China to make human rights reforms, based upon their access to our markets, in that particular aspect?

Mr. ANDERSON. We have certainly made clear that human rights is right at the top of our agenda and can affect everything across the board, including ability to maintain a trading relationship.

Mr. SMITH of Florida. Then what are we willing to use as a stick on human rights, besides expressing the fact that human rights is at the top of our agenda. What is it that is going to create a situation that will make them change their human rights policies within any time frame that would be reasonable?

Mr. ANDERSON. I think that the things that they have done over the past year and a half show that they let us intrude into their domestic matters, human rights front. They don't want to, and their predilection would be to tell us to go to hell and away from that situation.

Mr. SMITH of Florida. Well, they did with their actions. They did just as they damned please.

Mr. ANDERSON. Well, they lifted martial law in both Beijing and Tibet.

Mr. SMITH of Florida. You know that was for domestic consumption and had nothing to do with what the United States asked them to do.

Mr. ANDERSON. Well, it was not the easiest thing for them to do at all. I mean, it is easier for them to keep the martial law in place, and so the atmosphere has improved somewhat based on that.

As I said, approximately 900 people who had been put in jail as a result of the demonstration have been released, and there are still two or three hundred that are in jail. And we still raise that with them constantly.

But I would say that China's behavior has not been what they normally would have done over the past year and a half, and it is largely because of U.S. and associated countries' influence in that whole area.

Mr. SMITH of Florida. Well, the Chairman has been very kind with his time.

Let me just close by saying that while I understand the policy you are pursuing, in trying to get them to change the human rights policy. Certainly it is something we all want.

By the same token, I think that the United States is being a little too kind, a little too differential. I think that the Chinese would do more if they were pushed more.

They still have a need to export to the United States. They have a great capability that needs to be harnessed by virtue of capital flow from the United States. They know that. And I think we could push a little bit harder.

I am afraid that what has happened is that after Tiananmen Square, we were so grateful that they were backing up from what they had done, which was so outrageous, that we are now giving them credit for backing up from where they had been.

It is kind of like the analogy that if somebody pushes you down a 50-foot black hole, when you hit the bottom, you hate their guts. A day later they start to pull you up, and as you begin to see the sunlight, you begin to get more grateful. You seem to forget at least for a period of time that they were the ones that pushed you down there in the first place.

I think we ought to be a little bit more strict in terms of the kind of friendship we are extending to China until it straightens out—there has been no punishment meted out to the Chinese for what they do.

It was cruel, inexcusable, and a horrendous violation of human rights; and I would hope the Administration doesn't forget that and look only at the good side that they backed away from this moral abyss.

They were better before they started.

Thank you, Mr. Chairman.

Mr. ANDERSON. Could I just say one more thing, please. We still have sanctions on them, and it is largely because of human rights.

Mr. SMITH of Florida. What are we sanctioning, Mr. Anderson?

Mr. ANDERSON. No military deliveries.

Mr. SMITH of Florida. They are shipping equipment to other people.

Mr. ANDERSON. It is extremely important to them. So that aspect is cut off.

Mr. SMITH of Florida. What about the dual use computer we gave them? Is that part of the nonsanction, also?

Mr. ANDERSON. That we regarded as not—that was dual use and therefore it was not. We thought that was to our longer term advantage to be able to cooperate in that area; and I think it has a favorable impact on the ability to work with them on the arms control, the missile proliferation, as well.

Mr. SMITH of Florida. Thank you.

#### ARMS CONTROL

Mr. OBEY. Well, let me follow up on that.

You say you think this would enable us to work with them on arms control. Let us assume, and I don't have much faith this is going to happen, but let us assume that we were able to reach an agreement with the Soviets on an arms limitation or arms denial policy toward the Persian Gulf region. What is our best estimate at this point of our ability to get the Chinese to cooperate fully in any such effort?

Mr. ANDERSON. Working through the Perm-5 and the U.N. is one component. But then in a broader context, a multilateral context to bring the Chinese into such agreements, and we will make absolutely utmost effort to do it.

And my guess is that they will cooperate, and maybe not totally in the way we would like to, but I think the odds are that we can bring them in if we can make a multilateral effort of it.

Mr. OBEY. Okay.

Let's turn back to the Philippines. On July 17, the Philippines had a major earthquake. The Administration, on September 20, sent Congress a notification of their intent to use 106 AID draw-down authority for \$10 million, explaining that the disaster assistance account had been already exhausted for the year.

Would you tell us in detail what emergency assistance the U.S. gave the Philippines in response to that earthquake, both from the disaster assistance account and from the 106 AID draw-down authority?

Mrs. ADELMAN. Mr. Chairman, We provided through our regular program significant amounts of disaster relief assistance, and I am not sure whether that was our account.

Mr. ANDERSON. Mr. Chairman, could I ask Director Nach—yes. I think he could give you an answer to that.

Mr. NACH. Mr. Chairman, the first 106 AID equipment is already—

Mr. OBEY. Why aren't you in Jamaica?

Mr. NACH. Well, it is too hot there.

But the 106 AID equipment is already enroute. In fact, the first equipment on the earth-moving equipment has arrived at Subic, and we are preparing it for turnover. And the rest is being found.

Part of the problem is because of our own effort in the Gulf, getting the equipment. But the program is underway.

Mr. OBEY. Well, let me ask you this: Why did it take over two months for the Administration to even request from the Congress the \$10 million? I mean, you regarded it as an emergency, so that you could use the draw-down authority, but it took some 60 days before we responded, which doesn't seem like an emergency response to me.

Why was there such a lag?

Mr. NACH. Well, it was important to find out, to assess what had happened in a systematic way, and also to find out what we had as we got the program on the tracks.

Mr. FORD. Mr. Chairman, I would also like to add that there was a portion of this that was the most immediate assistance that DoD provided was done by CINPAC out of its own resources, so that people were on the scene very quickly, and flights went into the Philippines.

There was every effort to try to provide whatever assistance we could within a matter of days or weeks. And the other things are simply things that are still needed to be used for the cleanup in terms of the damage that was done. And we quite frankly, one of the problems for us at least was Desert Shield/Desert Storm. We simply didn't have the lift capability to get the equipment there.

Mr. OBEY. Well there had been some scuttlebutt that the Philippine Government at first was reluctant to accept help from the U.S. military. Is that true?

Mr. FORD. Mr. Chairman, I have not heard that. I would be very surprised if that was the case.

Mr. OBEY. I would be, too, but that is what I heard.

Mr. FORD. Certainly CINPAC's assets were almost immediately in the country helping in various ways. And my knowledge, although it may not be complete, is that we got very high marks from everybody we dealt with. And they were very much appreciative of whatever the U.S. Government could provide.

Mr. OBEY. All right.

#### SUPPORT TO THE CAMBODIAN RESISTANCE FORCES

Cambodia. Does the Administration intend, despite the veto of the intelligence bill, to abide by Congressional intents to shift from covert to overt assistance to the Cambodian noncommunist resistance forces?

Frankly, given your administrative structure, it is hard for me to know to whom I am supposed to ask these questions.

Mr. FORD. Yes, sir.

Mr. ANDERSON. Yes, sir. We intend to follow the law as you have passed. No problem with doing so.

Mr. OBEY. When does the Administration believe it will exhaust the initial \$75 million outlay for the resistance, and how does the Administration envision using the remaining funds during the remainder of the fiscal year, and how much money was carried over from the previous fiscal year?

Mrs. ADELMAN. I will start with the last one first. About 900,000 was carried over from the last year. That has been expended. That has been exhausted, according to our field sources.

Currently we plan to use—we will be planning to authorize seven million to the NCR for food, training, medicines, and for limited amount within Cambodia irrigation equipment and well digging things, agriculture inputs, and that we will be moving forward on, after some continued consultations that the State Department is having with the Congress now.

It is not authorized yet, the seven million. We are in the process of getting that paperwork ready.

Mr. OBEY. How much of the money earmarked for children in Cambodia has been obligated?

Mrs. ADELMAN. There was two million last year that was obligated, from fiscal year 1990 it was obligated. And those programs, in fact, are just now starting up.

The five million now for this year we are going to be doing solicitations for competition. I have authorized that money; that money is authorized already. We are now requesting proposals, and we hope to have those done by the end of April for this year's money.

Mr. OBEY. How about the rest of the money, in response to my first question?

Mrs. ADELMAN. Excuse me. I need to get to the end of that.

We expect this seven million to last until about May or June for the NCR; and at that point, we would be coming back to the Con-

gress for, depending on the peace process and depending on our assessment of needs in Cambodia and the peace process, then deciding what we would be requesting that for.

Right now, it is planned for a split between the NCR and for development needs within Cambodia.

Mr. OBEY. In what circumstances would the Administration support a larger program through PVO's, outside of the liberated areas?

Mrs. ADELMAN. Well, we, right now, are supporting the \$5 million that is earmarked already, and our policy is and Mr. Anderson can add to this—

Mr. OBEY. Do you understand the concern about where the money is or is not going.

Mrs. ADELMAN. Yes, yes. At this point, our policy has been, and I will let Mr. Anderson talk about this more, is to begin development programs of reconstruction and any other activities in Cambodia after a comprehensive peace settlement.

So we are not supporting that now. We would support further development, reconstruction of other programs after that time.

Mr. ANDERSON. If I may add, Mr. Chairman, we are moving ahead to undertake the assessment that was called for. And so we will be in a position to move ahead, and we hope that the peace process is going to move ahead rapidly.

Mr. OBEY. You say that you are moving ahead with the assessment. The requirement was for onsite assessment.

Mr. ANDERSON. We will undertake that, sir.

Mr. OBEY. Despite the President's comments when he signed—

Mr. ANDERSON. Despite the President's comments, we are planning to move ahead with an assessment, and in time to respond in May.

Mr. OBEY. But where will this take place, in addition to the liberated zones?

Mr. ANDERSON. Oh, inside Cambodia. We will send someone in, and they will travel around.

#### COOPERATION WITH THE KHMER ROUGE

Mr. OBEY. The Administration's February 26 report on military cooperation with the Khmer Rouge conceded reports of tactical cooperation between noncommunist forces and the Khmer Rouge, including coordinated attacks.

In light of that report, how has the Administration reached the conclusion that none of the equipment provided by the U.S. to the NCR has reached Khmer Rouge hands?

Mr. ANDERSON. Well, we have—that is one of the reasons that our report was delayed, because we got some reports in December, and we had to study those very carefully.

And we are continuing to review all these reports, and I think you have seen the report that we have sent over to the Congress. And it covers our point of view on the subject.

Mr. OBEY. What is the monitoring process that you use in reaching that determination?

Mr. ANDERSON. We get reports from intelligence and other sources, and we try to track them down.

Assistant Secretary Soloman is going to Bangkok next week, and he will talk directly to the Prince Ranariddh, and with General Son Sann about this matter. And so we are both indirectly, in terms of any reports that we get, and directly we are trying to monitor what is actually going on.

Mr. OBEY. Well, I don't understand the Administration's interpretation, because based on the standard of cooperation that was in this year's appropriation, it did not include an integration of forces. It was the cooperation in any meaningful way with them.

And I don't understand under the circumstances determining the legality for the continuation of funding.

Mr. ANDERSON. Well, Mr. Chairman, we are keenly aware of the language, both tactical and, strategic cooperation, and the question is whether or not the reliability of the reports that have come in, and what they mean and whether they are episodic or the kind that is referred to in the law.

So as I say, we have studied it very carefully, and we will continue to do so, Mr. Soloman's visit to Thailand to the border is part of that process.

But we have not reached the conclusion at this point that the—that we must make the change contemplated in the law.

Mr. FORD. Mr. Chairman, may I ask a question? In your view—I know when you introduced this subject, you said that materially assist or assist the Khmer Rouge. One of the difficulties for us, of course, is that on occasion, some of the sorts of activities that we have noted between the noncommunist resistance and the Khmer Rouge has been what I would define as survival actions on the part of the noncommunist resistance, rather than things that have materially helped the Khmer Rouge.

And I think that in developing our threshold, we were trying to determine the Congressional intent that it should help the Khmer Rouge, and that if it was something that the noncommunists benefit from, and it was not at their instigation, that it was something that the Khmer Rouge, either imposed on them or in the heat of battle insisted upon, or happened to be fighting in the same area, then such circumstances were acceptable.

We took that to mean that that was not the sort of activity that had been talked about in the law.

Now, obviously if you feel differently about it, we will have to—

Mr. OBEY. Well, the issue isn't how I feel. The issue is how the House is going to feel. And, as Chairman, I have an institutional desire to reach a compromise on this issue because I don't like controversies surrounding this bill, unless I make them.

My frustration here is that I was trying to negotiate last year between Mr. Solarz on one side, Mr. Atkins on the other side, the Administration and a couple of other groups on the other side of the aisle. Mr. Atkins lost last year.

But in light of the Administration's own report, I am not at all convinced he is going to lose this year. My problem is that I think the Administration has an institutional interest in doing whatever it wants in order to keep the money going.

I am concerned that the reports on your activities are going to have consequences which are going to mess up this bill, as well as your policy.

It seems to me that the Administration is meeting itself coming back on this one.

Mr. FORD. Mr. Chairman, if I might just comment, I think that our effort has been trying to be as straightforward and detailed in responding to this provision as well as we can, and our difficulty has been trying to determine what is significant under the law in the cooperation area.

And I think that we are not trying to draw a fine line and quibble with the law. One of our obvious difficulties is that the most significant assistance to the Khmer Rouge would be the cutoff of the funding to the NCR. I mean, the people that gain the most from this are the Khmer Rouge.

And since the intent of the law is clearly both in its language and its legislative history because of our great concern and effort toward the Khmer Rouge, we are caught on the horns of a dilemma.

And so that in our mind, in my mind, as I have looked at it very closely, no significant cooperation between the Khmer Rouge and the NCR has occurred that helps the Khmer Rouge and that those cases of activities that have occurred have been either individuals who were unauthorized in doing these things or they were things that were most important to the NCR survival.

And so our report indicated all of those kinds of activities, and I admit that there are questionable—

Mr. OBEY. That is a distinction, and I understand. But the fact is that there are people showing up at the same time shooting at the same people in the same place. It is not exactly believable.

Mr. FORD. I understand your point, Mr. Chairman, and part of the problem is it is a relatively small area. And they are both fighting the same enemy.

And so that in a number of cases, the noncommunists have chosen to be in an area so that the Khmer Rouge don't gain total control and don't—aren't able to intimidate the population.

Mr. OBEY. I would appreciate it if you would sit down directly with Mr. Atkins and discuss this issue. If we cannot reach a common understanding of what is happening, confusion alone is going to lead to unnecessary hassle when this bill gets to the Floor. And, this year there is going to be a lot of hassle.

Mr. FORD. I appreciate your guidance, Mr. Chairman.

Mr. ANDERSON. Mr. Chairman, I agree with what Mr. Ford has just said. But if we conclude, and again we will look at it very carefully, if we conclude there is tactical or strategical cooperation, we will comply with the law. There is no question about that.

Mr. FORD. Certainly.

Mr. OBEY. I have a number of questions on Cambodia which I will submit for the record at this point.

### Questions From Chairman Obey Submitted to Agency for International Development

#### CAMBODIA

#### CHILDREN

*Question.* Can you explain how much of the money earmarked for children in Cambodia has been obligated and to how many organizations and for what purposes?

Answer. For FY 1991 funds (\$5 million), A.I.D. has invited international relief agencies and U.S. private voluntary organizations to submit concept papers on how they would assist children and victims of war within Cambodia. These papers are to be submitted to A.I.D. by April 12th.

The concept papers will be reviewed by A.I.D. and decisions will be made on which organizations to fund. A.I.D. fully expect these grants to be made in late June.

Two million dollars was obligated last fiscal year to meet the needs of Cambodian children. UNICEF and World Vision were recipients of these grants. UNICEF's grant support expanded immunization programs for children; World Vision's grant supports Cambodia's only pediatrics hospital.

#### NEEDS ASSESSMENT

*Question.* As the Administration well knows, the Congress expanded on previous designs for the Cambodian program and intended that this year's funds should be available for humanitarian purposes throughout Cambodia. In this regard, Congress required that A.I.D. prepare a needs assessment to be submitted to Congress by May 1, 1991. The Congress did not make this report contingent on a peace settlement, and, therefore, intended that regardless of ongoing political events, this needs assessment was to proceed.

How has the Administration proceeded with this needs assessment for development throughout Cambodia?

Answer. We share Congressional concern about humanitarian conditions in Cambodia and we intend to meet the Congressional requirement and submit a report that assesses humanitarian and development assistance priorities in Cambodia.

The assessment will give priority to identifying immediate and pressing needs in health and education services as well as access to safe water and food, and it will look at the nutritional status of the population.

The assessment will rely heavily on the expertise of private and voluntary and international organizations which have ongoing programs in Cambodia. The team will make on-site visits to development programs and projects in the country.

### Questions for the Record Submitted to Department of State

#### ASSISTANCE

*Question.* With the funds appropriated for the current year, how many Cambodians, either in the resistance forces or in existing villages in or adjacent to the liberated zones do we believe we are serving? How much land compared to the rest of Cambodia does the non-communist resistance actually control and how do they administer this territory?

Answer. We estimate that in excess of 125,000 people would be served through our assistance to the Non-Communists during FY 1991. The major categories of direct support would include the NCR medical training and treatment programs benefiting up to 100,000 people as well as food assistance for as many as 45,000 NCR soldiers, their dependents, and civilians—many of whom would also benefit from the medical programs. An unknown number of people would also be assisted through programs for community development, agricultural extension, animal vaccination, school rehabilitation, and democratic pluralism activities.

The liberated zone under the direct control of the KPNLF is approximately 100 square miles in area, a small portion of Cambodia's approximately 69,900 square miles. Both Non-Communist organizations are active in much of western and central Cambodia in areas other than the liberated zone.

We understand that the NCR has either held elections or worked through the existing local civil authorities in the areas in which they are present.

#### UNITED NATIONS

*Question.* What is the intended value or purpose in building up these areas and what would happen in these areas in the event that the United Nations, in conjunction with those ministries under Hun Sen still permitted to operate, began to govern the entire country? Would those areas remain under the auspices of the non-governmental factions?

Answer. There is no plan for the United Nations to "govern" Cambodia. According to the proposed settlement agreement, the United Nations Transitional Authority in Cambodia (UNTAC) "will exercise the powers necessary to ensure the implementation of this agreement, including those relating to the organization and conduct of free and fair elections and the relevant aspects of the administration of Cambodia."

According to the Explanatory Note drafted by Under Secretary-General Ahmed in December which helps elaborate this concept, the interaction of UNTAC with exist-

ing administrative structures "will be limited to those functions and activities of the existing administrative structures, be they at the national, provincial, district or village level, which could directly influence the holding of free and fair elections in a neutral political environment. Other functions and activities will remain unaffected."

We would thus expect that the "existing administrative structures" would include those established by any of the four parties involved, including the Phnom Penh regime for most of the country and the resistance parties in the areas they control.

The assistance we have provided to the Cambodian Non-Communists has enhanced the political strength and credibility of these groups in preparation for their participation in the elections to be organized and conducted by the United Nations. We believe the Non-Communists deserve the opportunity to test their popular appeal as alternatives to both Communist factions: the Vietnamese imposed Phnom Penh regime and the abhorrent Khmer Rouge.

#### DISPLACED CAMBODIANS

*Question.* Are the factions moving civilians out of the refugee camps to settle their liberated zones? Is anyone being moved forcibly?

*Answer.* The movement of displaced Cambodians from Khmer Rouge camps into Cambodia has been a concern for more than a year. Our best estimates are that 30-35,000 displaced people have been moved from the border area to the interior during 1990. Some of those moved have subsequently returned to the border, to seek medical assistance or because of other difficulties they have faced within Cambodia.

Most of this movement involved displaced persons from camps under the authority of the Khmer Rouge. A number of the Khmer Rouge camps and other KR-controlled areas in Thailand have not been open to access by international organizations. We have joined the United Nations Border Relief Organization, the International Committee of the Red Cross, and international voluntary agencies in repeatedly pressing the Royal Thai Government for access to Khmer Rouge controlled areas along the border. Without such access, it has been difficult to confirm reports of forced movements by the Khmer Rouge of the displaced persons under its control.

We do not have information showing forced movements of displaced persons by the Non-Communist groups. The Non-Communist camps are open to the international assistance agencies. Voluntary movement of people from the Non-Communist camps to Cambodia has occurred, but this has not added a significant number of people to the population within the Non-Communist "liberated zone."

#### SUBMITTED TO DEPARTMENT OF DEFENSE

##### EXPENDITURE OF FUNDS

*Question.* When does the Administration believe it will exhaust the initial \$7.5 million outlay for the resistance and how does the Administration envision using the remaining funds in the remainder of this fiscal year? (Also, how much money was carried over from the previous fiscal year?)

*Answer.* This question is more appropriately directed to the Agency for International Development who manages the aid to Cambodia. However, the circumstances as understood by DoD are as follows. No funds have been expended to date in this fiscal year. AID has sent a team to Cambodia and Thailand to assess humanitarian and development needs. The team's assessment will be used by AID to determine assistance funding priorities. We expect AID to complete this assessment by early May, as required in the FY 1991 Appropriations legislation.

Under the \$20 million program authorized, AID will continue its support for the Cambodian Non-Communist Resistance and initiate programs to meet humanitarian and development needs in Cambodia. The Administration recognizes that assistance over \$7.5 million is subject to Congressional notification procedures.

##### AID TO AFGHANISTAN

**Mr. OBEY.** What is the status of the bilateral A.I.D. program with Afghanistan?

**Mrs. ADELMAN.** It is, as I mentioned, slightly reduced from \$70 million to \$60 million. And basically right now, the same types of programs are going on in cross-border programs i.e., agriculture, education, health, and food.

We are, though, reexamining that this year in close consultation with the State Department.

Mr. OBEY. How do you plan to deal with resistance from commanders who are drug traffickers?

Mrs. ADELMAN. I don't plan to deal with them.

Mrs. SCHAFFER. No. There is a very firm policy that we will not deal with any drug leaders that we know—sorry, resistance leaders whom we know to be involved with narcotics.

Mr. OBEY. Do we rely on the Pakistani Secret Service to make those determinations, or do we make them ourselves? How do we go about that?

Mrs. SCHAFFER. We make our own judgments based on the best information available to us, Mr. Chairman.

Mr. OBEY. I have got three other questions on that for the record. [The information follows:]

## Questions From Chairman Obey Submitted to Agency for International Development

### AFGHANISTAN

#### AID PROGRAM STATUS

*Question.* The war drags on in Afghanistan. Our bilateral aid program has been reduced from \$70 million in 1990 to \$60 million in 1991, and \$60 million requested in 1992. Afghanistan was one of four countries not certified by the President as having fully cooperated with the U.S. narcotics matters.

What is the status of our bilateral aid program with Afghanistan?

*Answer.* A.I.D.'s cross-border, humanitarian assistance program for Afghanistan complements the U.S. Government's objective of supporting self determination for the Afghan people. The program serves the dual purposes of: (1) relieving the suffering of Afghans unwilling or unable to leave their war-torn country, and (2) helping to ensure that conditions inside Afghanistan are such that refugees can return to their country as soon as security conditions permit. A key element of the program is support of U.N. reconstruction and development efforts which will lead the rehabilitation of a post-war Afghanistan.

With A.I.D. assistance, agriculture, health and education services, equipment, food and essential commodities have been provided to targeted areas throughout Afghanistan. A.I.D. has made involvement of Afghans in managing and implementing the program a high priority. Increasingly, A.I.D. is focusing on human capital development and increased reliance on Afghan private sector, nongovernmental delivery mechanisms.

#### AGRICULTURE

*Question.* What progress has been made towards reviving the agricultural sector of the country?

*Answer.* The A.I.D. program has focused on improving the nutritional needs of the Afghan people through P.L. 480 food assistance, as well as rehabilitation of the Afghan farm sector in liberated areas of Afghanistan. The latter includes not only rehabilitating rural infrastructure but also supporting the role of the private sector, i.e., commercial traders, in delivering agricultural supplies and inputs from Pakistan to Afghanistan.

Since 1986, over 1,600 small irrigation systems providing water for approximately 250,000 acres have been rehabilitated. In addition, more than 1,400 metric tons of improved wheat seed and 16,600 metric tons of fertilizer have been sold or distributed to farmers inside Afghanistan. The program is expanding indigenous capacity to produce seed, tree replacements and other food crops. While it is difficult to quantify the exact impact of our agricultural programs, all available evidence including direct visits by contractors and other forms of sophisticated monitoring techniques indicate that the program is having a substantial impact on improving agricultural production.

#### DRUG ERADICATION

*Question.* Afghanistan remains the world's second largest producer of opium, and the central government of that country has little or no control in many areas. Also, there is a split among the commanders of the mujaheddin resistance forces. Some are drug traffickers, some oppose continued opium production. What is the status of the much maligned drug education and crop substitution program the U.S. has proposed?

**Answer:** Until now, the activity has been limited to narcotics awareness and analysis. We plan to begin a pilot income substitution component in the near future. Given the project's experimental nature, we decided during the A.I.D. Washington review of the implementation plan to reduce the project's scope. We are now planning to undertake pilot income substitution programs in three to four geographic areas, yet to be selected, rather than the eight to twelve geographic areas originally planned.

We are very concerned about monitoring and enforcement issues. Accordingly, we have established a monitoring system which meets FA Section 487 requirements. An inter-agency narcotics committee in the Embassy in Islamabad will review all assistance requests under the NACP and ensure that assistance does not go to someone ineligible under Section 487. Furthermore, this assessment will be reviewed by a second interagency committee here in Washington, before assistance is authorized.

We realize that conditions in Afghanistan are not ideal to undertake an anti-narcotics project. But given the choice between taking no anti-narcotics program at all in the world's second largest poppy producer, or taking a calculated risk and undertaking a small, pilot effort, we believe that the latter approach is preferable.

We are not counting on the NACP, by itself, to have a significant impact on poppy production. The project's importance is in giving the U.S. Government, and interested Afghans, a better understanding of what works and what doesn't in combatting narcotics production.

#### THAILAND

**Mr. OBEY.** I have some questions with respect to Thailand which I will insert in the record.  
[The information follows:]

### Questions From Chairman Obey Submitted to Agency for International Development

#### THAILAND

##### DIRECTION OF PROGRAM

**Question.** In the late 1970s the A.I.D. program in Thailand was winding down and it seemed that we were going to phase it out entirely. Then apparently the State Department decided to change course and assistance was increased for several years. Recently, A.I.D. was trying to craft a program which has been characterized as science and technology related, and to a lesser extent trade and export oriented. Now, assistance has been cut off.

It seems to me that now is a good time to reconsider the Thai assistance program in its entirety. Thailand is clearly booming economically with a 9 percent annual growth over the last four years. Why couldn't the US decide that while there are significant development needs in Thailand that the country as a whole is capable of providing for its needs particularly if it chooses to direct some of its growth toward rural areas?

If we have a political decision for an A.I.D. program, why doesn't A.I.D. focus on the rural and agricultural development because about 75 percent of Thais live in the rural areas instead of focusing on technology transfer which is predominantly in the Bangkok area and which is already facing severe urban problems?

**Answer.** While Thailand has indeed been successful in achieving rapid growth, it is not clear that Thailand has the institutional and human resources to meet all its development needs. In our view it is very much in the U.S. interest to continue a development assistance relationship in advanced countries such as Thailand, but such programs should differ significantly in terms of focus, content, modes of delivery, and levels from traditional A.I.D. programs.

Thailand's success in achieving rapid economic growth in recent years stems from favorable external developments, namely the emergence of huge surpluses in Japan and the maturation of the NICs, particularly with respect to labor markets have created great opportunities for the next tier of developing Asian countries, such as Thailand. At the same time sound economic management has enabled Thailand in particular to take advantage of these opportunities. Together these have produced an economic boom based on direct foreign investment, exports, and labor-intensive industry. With continued good economic policies and assuming continued dynamism in the Asia region, Thailand's growth prospects are excellent. While growth may slow, it can be expected to average above five or six percent for the foreseeable future.

Achieving the capacity to sustain growth, as Thailand apparently has, is a major development accomplishment. But, this does not mean that the development task in

Thailand is completed, or even assured. Thailand's growth has raised incomes and employment and alleviated poverty. Achieving such growth on a sustained basis indicates a substantial degree of progress and momentum in institutional development. But rapid growth has also put severe strains on some institutions, and does not guarantee the emergence of others. For instance, there are clear signs that rapid growth in Thailand is outstripping Thailand's capacity to manage the environmental consequences of such growth; and to meet the sharply increasing demands on physical infrastructure, financial markets, and the education and training system. Rapid growth has not also been matched by progress in terms of democratic institutions. And, rapid growth does not guarantee that a country such as Thailand will advance to the point where it plays a constructive, cooperative, enlightened role in the community of nations, on issues pertaining to international trade and finance (e.g. intellectual property rights, GATT); the global environment and natural resources; AIDS, narcotics, international peacekeeping, etc.

Accordingly, apart from achieving sustainable growth, there are dimensions of development, including the capacity to manage the impacts and fruits of growth; improve the spatial pattern of growth; strengthen democratic institutions; and play a positive role in the international community where a modest A.I.D. program can make a significant contribution of direct interest not only to Thailand but to the United States.

This suggests the focus that we envision in a more mature developing country such as Thailand. In terms of content and modes of delivery, such a program takes account of the greater institutional capabilities and resources of a country like Thailand, with correspondingly fewer demands on U.S. resources and capabilities. Further the program stresses technical or organizational capabilities in which the United States has a comparative advantage. The aim is to stimulate institutional linkages that will endure and multiply in the absence of A.I.D. support.

Accordingly, the areas in which we have focused our program are: (1) human resource development (including vocational training, cooperative education; and education and training in technology); (2) environment and natural resources management; (3) mobilization of domestic capital for investment and business management training; and (4) transnational issues such as AIDS and democracy. Assistance in these areas will not only foster sustainable growth but will provide assistance to rural areas. The transition from basic agriculture to an outward-oriented, economy will help reduce poverty. So also will assistance in improving Thailand's capacity to mobilize domestic capital for investment. This will help rural cities and municipalities finance improvements for basic services like water, waste water, and solid waste. Ultimately, it will also increase the development potential in rural areas and lessen the need for migration to Bangkok.

With respect to levels, we have significantly lowered levels of A.I.D. financial and personnel resources in Thailand, in acknowledgement of the greater financial and institutional resources available domestically.

The key to an improved spatial pattern of growth in Thailand is improved functioning and integration of markets, which in turn depends on the pattern of investment in infrastructure. A.I.D. has been working to improve the capacity of rural cities and municipalities in Thailand to mobilize capital to finance improvements in basic services such as water, waste water, and solid waste. With a more integrated network of financial markets and infrastructure, we expect the spatial pattern of growth to improve.

#### JAPANESE AID TO THAILAND

**Question.** The U.S. assistance program in Thailand is small compared to the Japanese effort—I understand they gave \$361 million in 1988 and the United States gave \$22 million. That is the nature of their aid and is it tied to Japanese business?

**Answer.** According to Thailand's Directorate of Technical and Economic Cooperation, Japan provided \$148 million of loan funds and \$299 million of loan guarantees to Thailand through the Overseas Economic Cooperation Fund (OECF) in 1988. In addition, the Japanese International Cooperation Agency (JICA) provided Thailand with \$115 million of grant funds in 1988. The majority of the JICA assistance was used for the provision of engineering and feasibility studies and for training. The OECF funding was used for the provision of equipment and commodities which contribute to Thailand's electric power, telecommunications, ports and industrial development zones. Some Japanese funds are also used for provincial or rural programs.

It is difficult to determine exactly the extent to which Japanese aid is directly tied. For example, loans and loan guarantees can be for projects which are submitted to international tender, but the funding is in areas where Japan has made a

considerable international commitment, such as power generation and telecommunications equipment. In many instances, grant funds have been used to prepare feasibility reports and develop equipment specifications. In essence, there appears to be excellent interagency coordination and an effort to follow through over a complete project cycle. Is this tied aid? Not by the usual definition but clearly this pattern suggests linkages akin to tied aid.

#### RECENT THAI COUP AND AID SUSPENSION

*Question.* Has the coup in Thailand, where the Prime Minister was decidedly more flexible than the Thai military in relation to both the Hun Sen government in Cambodia and to a settlement of the Cambodia problem, in any way affected our ability to administer our program of assistance to the resistance or the refugee camps?

*Answer.* The coup in Thailand has not affected our ability to manage our program of assistance to the Cambodian resistance.

### Questions Submitted to Department of State

#### RESTORING AID TO THAILAND

*Question.* What requirements must the Thai government meet before the United States will restore aid?

What information do you have on a time table for the restoration of democratic government to Thailand?

*Answer.* Section 513 of the FAA states that assistance may be resumed to Thailand when the President determines that a democratically-elected government has taken office. The Thai leadership has stated that a new permanent constitution providing for elections will be drafted and approved within nine months at most, and that this will be followed by a three month campaign period before the democratic election.

#### COUP IN THAILAND

*Question.* It is my understanding that the military leader of the Thai coup visited Burma and met with the Burmese military literally the day before the coup. Is that true? If so, what do you make of that trip—was there complicity or advice or assistance from the Burmese military which is suppressing the elected government of Burma in some way?

*Answer.* General Sunthorn Kongsompong, who was a leader of the coup, did visit Burma shortly before the coup took place. Such Thai military-to-military contacts with the Burmese are fairly routine. We have no reason to believe that the Burmese provided any advice or assistance to the Thai military in the coup, nor that the Burmese were in any way involved.

#### HMONG REFUGEES

**Mr. OBEY.** And then let me ask you something closer to home. I represent a lot of Hmong. Most people in this country have never heard of Hmong. They did our dirty work in Laos, and they have gotten precious little thanks for it.

An awful lot of them happen to have settled in my home town. We have a problem because the Hmong engaged in actions which assisted U.S. policy in Vietnam at the time. They were then criticized for it.

They came to this country. When they settled in an initial refugee site, their costs were paid for for a short period of time. But then when they became secondary refugees by moving some place else in the country, Uncle Sam pulled the plug on them.

So I have one request of the White House and the State Department and anybody involved in foreign aid. Don't get us involved in any foreign policy hassles unless the Administration is willing to support the domestic cost of those hassles afterwards, because there is no reason in the world why my local school boards and

my local mayors ought to get stuck with the cost of helping them to learn the language.

They didn't even have a written language until just a short time ago. Local communities are getting stuck in the crunch. And I think people from the State Department have an obligation, if they expect the country to follow Administration foreign policies, to meet the domestic costs that flow from those policies afterwards.

That is the end of my speech. Now I have some questions. My office has received a letter from Wisconsin representatives of the Highland Laos Hmong people in my area, and it reads as follows: "Many people in our refugee community have expressed grave concern for the well being of relatives located in camps in Thailand. This concern is centered on the repatriation of Laos and Hmong refugees to Laos, voluntary or otherwise.

"The decision to return people to a regime that has questionable motives is ill-advised, from the Hmong American perspective. People who are repatriated may well face persecution and death at the hands of the Laos Communist government. We ask for support in finding more appropriate solutions for this ongoing problem. We want solutions that protect human rights, individual and personal, as outlined in the United Nations charter for refugees."

I have two questions. What is the situation between the Thai Government; and with the Laos Hmong. What were—I mean, there were indications last year that the situation had improved. Was that true, and what is happening now?

Mr. ANDERSON. Well, Mr. Chairman, you know that UNHCR worked out an agreement with the Thai Government and also with the Laos Government and did return 650 people back to Laos. And among those were 400 Hmong but also other highland people.

And they have followed up on this inside Laos, and in their view, the people have not been mistreated. And they have been reintegrated into the society the best they could be, and there was no particular discrimination or persecution of these people.

We don't follow that ourselves. We follow it through the UNHCR. But if there are problems that your constituents are coming upon, it would be helpful if we could know about those and try to pursue them with the UNHCR and with the Thai Government and Laos, as well.

Our impression from the UNHCR and what we have heard from the local governments was that the program had worked pretty well.

Mr. OBEY. Let me ask two other questions. I know this is not in your direct area of responsibility.

The policy which lead to my concern was under the previous administration. The Hmong did perform an invaluable service to our government in our military effort, didn't they?

Mr. ANDERSON. Absolutely.

Mr. OBEY. It is the most amazing thing. I was at a Labor Day parade a couple of years ago. We walked the parade route afterwards and went over to the labor tent afterwards, where everybody was drinking beer.

There were Veterans of Foreign Wars guys off in the corner wearing their service hats. They were all complaining about the Hmong. They grabbed me and said what the hell are these people doing here? Look at what they are doing to the tax burden. Look at what they are doing to the schools. We've got enough Hmong in my own community to make up a complete middle school.

Yet, under the rules, we don't get any Federal aid for that, at least not until I bent the rules a couple of years ago in the appropriations process. This highly offended the Washington Post, but I was happy to do it.

I said, do you have any idea what they have done for us? When I explained the story, it had a totally different effect. They were surprised. They then felt a little chagrined about their previous comments.

I would just appreciate it if you would indicate through your channels to the powers that be in the White House and especially the powers that be in OMB, that I would like to see two things.

First of all, I would like to know if the administration thinks that they performed valuable service to this country. And, if so, why isn't the administration helping communities to provide the social services needed to rehabilitate those people in our own society? That is number one.

Number two, I think it would be very valuable if officials right on up to the President simply state publicly what groups like that have done for us, and why we have an obligation to help them.

It would be a little embarrassing for him to do that if he recognized that obligation without recognizing the budgetary obligation that falls on the Federal Government. I think there is a moral responsibility that settles squarely in the White House on this.

Unless they do something, you are going to continue to have racist attitudes directed at people like that based, in part, on justifiable frustrations about local units of government having to bear the costs which are the result of a foreign policy decision about which they were never consulted and which many of them never supported in the first place.

I know it is not your responsibility, but it is mine to raise it with anybody I can get my hands on. You are the only people available this morning.

Mr. ANDERSON. I certainly hear your plea and having been associated with what is going on down there, understand the dilemma. I will talk with the White House and see if there is anything that can be done.

I don't think anybody at the time would have denied the obligation to the Hmong people themselves. They thought by bringing them to this country and a limited program they could be integrated. Clearly the program has not been as successful as we hoped.

Mr. OBEY. That is the problem. There is no program. They get three months of assistance at the site of initial settlement and then the local governments get stuck with the tab.

#### PAKISTANI ELECTIONS

Concerning Pakistan, you say that the Pakistani elections were free and fair. I don't remember if you said that or if you said that.

Mrs. SCHAFFER. That was me, sir.

Mr. OBEY. Maybe that was in the narrow sense. Isn't it true that accusers of Prime Minister Bhutto's husband have recently recanted the significant portion of their testimony against him?

Mrs. SCHAFFER. Mr. Chairman, you are raising an issue which I think is not an election issue, but which is a very important human rights and due process issue.

Mr. OBEY. If I am John Q. Citizen, whether I am in Athens, Wisconsin or in Athens, Greece or in Pakistan, and somebody starts an election campaign by saying the spouse of the President of the country is a damned crook and a murderer, I would say that that is an election issue. It is their version of the Willie Horton ad.

Mrs. SCHAFFER. The murder charge arose after the election. Having said that, what would have been—

Mr. OBEY. The corruption charges didn't.

Mrs. SCHAFFER. The case you have cited, which is a very disturbing one, has to do fundamentally with the issue of human rights and due process. We have seen the reports for the four witnesses in the Asif Zardari case recanting their testimony. We have heard credible reports of President sympathizers and activists being detained and tortured by the government of Sindh.

This is something we have taken up with the government of Pakistan and the provincial government in Sindh. It is a very disturbing picture.

Mr. OBEY. I have a rather confused and unique response to our situation with Pakistan. I support the concept of cutting off aid if they are not cooperating with respect to nuclear proliferation.

At the same time I, frankly, have trouble intellectually understanding how we can apply that principle to Pakistan when we have several notable countries, including India and Israel, who have possession of nuclear weapons.

So while I think that the goal of the policy is laudable, it does create some problems with respect to intellectual consistency.

My problem with respect to any aid to Pakistan is that I regard the election that took place as being a cleverly disguised coup. That is really my problem in providing any assistance to Pakistan, even if they were meeting, at this point, the requirements of the various amendments with respect to nuclear proliferation.

This is not really in the form of a question. It is just a confession that I don't quite know what we ought to do about Pakistan. I would be interested in your observations about what you think we ought to do.

Mrs. SCHAFFER. Well, let me start with the place where you started out. I can give you—you probably don't need a historical explanation of how our law got to the place it is.

Mr. OBEY. I understand.

Mrs. SCHAFFER. It is a Pakistan specific piece of legislation. It was part of the package deal. It was the price for the authority to waive another piece of legislation. We are where we are. It is not going to make it any more intellectually satisfying for you, but we do have an important policy interest.

As far as the election—and I assume you were also referring to the process leading up to it, the dismissal of the Bhutto government—it followed institutional procedures. Those procedures were challenged in the Pakistan courts.

And of the courts which ruled on the propriety of the government, the President's action dismissing the parliament and the prime minister, one found in favor of the prime minister and the other three found in favor of the President.

Once they got to the point of calling the elections, I think the important issue was how the elections were conducted. As you

know, there were a large number of international officials who went to Pakistan. We, of course, also had our embassy there.

Mr. OBEY. I am not arguing about the relativeness of the formal event. The context in which the event occurs was fouled, in my view.

Mrs. SCHAFFER. Well, I understand your view. Where we have come out is that we really were looking at the elections as the key point in determining how the Democratic processes in Pakistan were going to go forward.

We reached the judgment that I have described. At this point we hope the circumstances will permit us to resume aid, but that depends primarily on the nuclear issue.

Mr. OBEY. Two suspected drug traffickers were, as I understand it, elected to the Pakistan National Assembly in October. One had an outstanding drug warrant against him. What is the Pakistan government doing to prevent drug lords from increasing political influence in Pakistan?

Mrs. SCHAFFER. You are correct. Two accused drug traffickers, one with a warrant out for his arrest, have been elected to the national assembly from the Federally administered tribal areas.

It is my understanding they have not taken their seats, largely because in order to do so, they would have to leave the Federally administered tribal areas and come within the jurisdiction and normal operating range of the Pakistani authorities.

We have urged the Pakistan government to go after these accused offenders as they would after anyone else and been very forthright on the bad message that that gives the world.

At this point, there hasn't really been any result.

Mr. OBEY. I have a number of other questions on Pakistan I will put in the record. We are running out of time.

### Questions for the Record From Chairman Obey Submitted to the Department of State

#### PAKISTAN

*Question.* Was the removal of the Foreign Minister in Pakistan related to the Gulf Crisis—I'm told that he was criticized as being to (sic) pro western in outlook—and, that the Defense Minister publicly criticized the Pakistani troop development—is that true?

*Answer.* Foreign Minister Sahabzada Yaqub Khan left office on March 20, 1991, the end of his term in the Pakistani Senate. Pakistani law requires that cabinet members be sitting members of the National Assembly or Senate. Yaqub Khan effectively resigned from office when he decided not to contest the Senate seat he held prior to the March 14 Senate elections. A nine year veteran in office, Yaqub's decision was accepted "with profound regret" and a "deep sense of loss" by Prime Minister Nawaz Sharif.

The cabinet portfolio of Defense Minister is held by Prime Minister Nawaz Sharif. The Chief of Army Staff, General Mirza Aslam Beg, made a number of negative statements about the Allies' war aims, but publicly insisted that he supported the Pakistan government's policy on the Gulf War and the presence of Pakistani troops in Saudi Arabia for defensive purposes.

#### PAKISTAN AND NONPROLIFERATION

*Question.* What are the prospects for a regional nonproliferation accord with Pakistan? What is the status of negotiations or discussions with the government on this issue?

*Answer.* The United States has encouraged Pakistan and India to pursue a regional framework regarding nonproliferation in South Asia. The January exchange of

instruments of ratification by Indian and Pakistan of a 1988 agreement not to attack each other's nuclear facilities was a step in the right direction. We hope they will be able to build on this approach.

We are continuing regular discussions with the government of Pakistan on the nuclear issue. We will also continue to pursue ideas on a regional framework for nonproliferation with other governments as well. The Indian nuclear program, for example, remains a source of concern.

## **Questions Submitted to the Agency for International Development**

### **PAKISTANI ISI**

*Question.* Now that aid to Pakistan has been cut off, how are we able to administer the program through the Pakistani ISI?

*Answer.* The termination of the Pakistan program does not have any direct impact on our Afghan program. Nonetheless, the Afghan program is implemented from Pakistan and, accordingly, depends on the goodwill of the Pakistani government. The Afghan program could, therefore, be indirectly affected by any cutoff of U.S. aid to Pakistan. ISI involvement in the program was for many years necessary due to the unusual cross-border nature of the program. For some time, however, A.I.D. has sought to shift the program to a more traditional A.I.D. program relying on contractors and grantees. This has included eliminating direct ISI involvement in the program. The ISI has objected to this A.I.D. strategy but, given no other alternative, has permitted us to continue with the program. We cannot be sure of what efforts have been made by ISI to influence the program from behind the scenes. We are continually striving to ensure, however, that there is full accountability for our resources. We will continue on this path.

*Question.* What legal authority do you have to continue to operate the program?

*Answer.* Section 536 of the Foreign Assistance Appropriations Act for FY 1991 provides authority for A.I.D. to use up to \$70 million of Development Assistance and ESF for humanitarian aid to the Afghan people. A similar request (without specifying a dollar ceiling) is contained in the President's Budget for FY 1992.

*Mr. OBEY:* Provide for the record a breakdown of actual and proposed expenditures for FY 1990, 1991, and 1992 for the Afghan bilateral aid program.

*Answer.* See attached.

AFGHANISTAN - U.S. BILATERAL AND MULTILATERAL ASSISTANCE									
ACTIVITY/FISCAL YEAR	FY 1983	FY 1984	FY 1987	FY 1988	FY 1989	FY 1990	Total 83-90	Planned FY 1991	Planned FY 1992
<b>BILATERAL (Total)</b>	<b>3.9</b>	<b>32.8</b>	<b>44.1</b>	<b>77.0</b>	<b>113.3</b>	<b>79.3</b>	<b>307.4</b>	<b>74.8</b>	<b>68.0</b>
<b>Cross Border Programs</b>	<b>3.9</b>	<b>18.9</b>	<b>29.9</b>	<b>49.8</b>	<b>68.1</b>	<b>89.9</b>	<b>239.5</b>	<b>68.8</b>	
Health Sector	-	3.3	5.0	7.2	13.8	8.1	38.0	8.0	
Education Sector	-	1.1	3.0	6.4	7.0	8.7	26.0	7.8	
Agriculture Sector	-	0.6	1.5	4.3	14.7	19.0	40.8	16.3	
Commodity Export	-	3.8	10.1	14.2	17.9	14.6	62.6	11.5	
PVO Co-Financing (1)	3.9	9.4	9.1	6.4	7.0	9.0	43.4	7.6	
Rural Sector Assistance	-	-	-	3.0	7.0	6.1	16.1	5.3	
USIA Afghan Media (2)	-	-	0.6	-	-	-	0.6	-	
Tech Services Support	-	0.5	0.8	1.4	0.8	1.4	4.8	1.3	
Narration	-	-	-	-	-	3.0	3.3	2.9	
Emergency Assistance	-	-	-	4.0	-	-	4.0	-	
<b>PL480 Title II (3)</b>	<b>0.0</b>	<b>18.9</b>	<b>4.7</b>	<b>18.0</b>	<b>34.1</b>	<b>-</b>	<b>67.7</b>	<b>4.8</b>	<b>8.0</b>
Commodity	-	8.9	2.4	7.5	20.6	-	-	-	
Ocean Freight	-	2.0	2.1	3.9	6.1	-	-	-	
Internal Transport	-	-	-	8.0	6.0	-	-	-	
<b>McClellan Program</b>	<b>0.0</b>	<b>3.0</b>	<b>9.3</b>	<b>10.0</b>	<b>10.0</b>	<b>18.0</b>	<b>42.3</b>	<b>10.0</b>	
Afghan Homeless/Refugee Relief Admin.	-	0.3	2.0	2.5	2.5	2.5	9.8	2.5	
Transport (DOD)	-	2.7	7.3	7.5	7.5	7.5	32.7	7.5	
<b>MULTILATERAL (Total)</b>	<b>67.8</b>	<b>49.5</b>	<b>67.9</b>	<b>68.7</b>	<b>93.7</b>	<b>81.0</b>	<b>398.7</b>	<b>47.0</b>	
<b>Refugee Programs in Pakistan</b>	<b>67.8</b>	<b>49.5</b>	<b>67.9</b>	<b>68.7</b>	<b>64.7</b>	<b>37.3</b>	<b>356.3</b>	<b>46.8</b>	
UNHCR	22.0	19.0	21.6	16.0	20.0	19.0	117.6	20.0	
WFP (4)	40.2	23.3	37.3	33.0	39.2	14.5	191.7	13.8	
Volage and Other	5.6	5.5	8.8	3.8	5.5	2.0	30.2	5.0	
UN 648 Append (2)	-	-	-	14.7	-	-	14.7	-	
<b>WFP Cross Border</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14.5</b>	<b>-</b>	<b>14.5</b>	<b>-</b>	
<b>Other UN</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>14.5</b>	<b>15.3</b>	<b>28.0</b>	<b>4.2</b>	
Mine Clearing	-	-	-	-	12.0	-	12.0	-	
Coordinator's Trust Fund	-	-	-	-	2.5	13.3	14.0	4.2	
<b>GRAND TOTAL</b>	<b>71.7</b>	<b>82.4</b>	<b>112.8</b>	<b>145.7</b>	<b>208.9</b>	<b>160.9</b>	<b>706.1</b>	<b>121.8</b>	

1. \$8 million in FY 83, \$4.1 million of which was carried over to FY 1984.
  2. \$2,000 MT of wheat and 3,000 MT of non-fat dried milk was approved in an advance against the USG's pledge to WFP for refugees in Pakistan.
  3. Estimate from P.I. 400 Reserve.
  4. For FY 1989, this figure represents 180,000 MT. However, only 40,000 MT has actually been committed.
  5. Now completed.
  6. FY 1980-84 contributions to UN refugee programs totaled \$169.2 million.
- \* \$19.4 million authorized in FY89 but not obligated or delivered.

## REALLOCATION OF FUNDS FOR PAKISTAN

Mr. OBEY. I have one last question. Assuming for the moment that conditions would not change in a way which would allow us to provide that aid to Pakistan during the remainder of this fiscal year, what are the administration's plans for reallocating those funds?

Mrs. SCHAFFER. Mr. Chairman, if we are not able to use the funds for Pakistan, we will have to reallocate them. I can't, at this point, give you a timetable because we are hoping very much that we will be able to change the circumstances and not have to go through that process.

Mr. OBEY. Where would that money be likely to go?

Mrs. SCHAFFER. There has not been any decision on that, sir.

Mr. OBEY. What are the possibilities?

Mrs. SCHAFFER. There are a lot of claimants. All of these ventures are gathering above my head.

Mr. OBEY. I am sure. That is the way we felt with the supplemental last week. I see the Senate added one, or Mr. Byrd succeeded in adding one yesterday.

## HUMAN RIGHTS VIOLATIONS IN SRI LANKA

According to Human Rights Watch, Sri Lanka has the highest rate in the world of disappearances after detention by security forces, with 4000 since 1991 alone. Has the U.S. ever voted against a loan to Sri Lanka in the World Bank or the Asian Development Bank?

Mrs. SCHAFFER. I don't believe so, Mr. Chairman.

Mr. OBEY. On human rights counts?

Mrs. SCHAFFER. I don't believe so.

Mr. OBEY. Why not?

Mrs. SCHAFFER. We did not feel that would be an effective tactic. Human rights has been a major issue on our agenda with the Sri Lankans. We have in our statement to the U.N. Human Rights Commission discussed their activities. It is a very troubling situation in which the government, but also the two different distinct groups that they are combatting, are all in various ways committing human rights violations, and in many cases very serious ones.

We have tried to focus our approach on the most important violations, including disappearances, including extradition killings and including pushing the government to investigate and bring to justice those responsible for these actions.

We have seen some progress over the past year. There are major regulations which the Sri Lankans have removed. The most important was a regulation which had permitted the disposal of bodies without inquest. That is now off. There is a lot that still needs to be done.

Mr. OBEY. Well, here is my concern. I have to bring a bill to the floor which includes funding for those institutions. Nine times out of ten, amendments that we get in committee on the floor to go after the IFI's come from the administration side of the aisle.

Two years ago, for instance, Mr. Lewis offered an amendment with respect to China. It is not just the Nancy Pelosis of this world who are unhappy with China. There are also a lot of Republicans.

My problem is if we don't start finding new solutions on some of these issues, we are going to get some amendments the administration doesn't like. Those amendments are going to pass. Those amendments might not be as carefully targeted as administration actions might be.

I really think that in this case, there comes a time when you have to say to hell with your influence. There is just a moral imperative here that requires somebody to say baloney, no more. It seem to me that if ever there was a clear case, this is one.

Mrs. SCHAFFER. Mr. Chairman, I appreciate that the influence argument is often overblown, that you try to protect influence that you don't really have.

In this case, I believe that we can show that we have achieved some results, not sufficient ones to be sure, by trying to work in concert with the other donors, by raising the issue when the Sri Lanka aid group got together and by focusing on human rights violations which the government itself is embarrassed by.

They have a tradition of judicial independence which they are proud of. They like to think of themselves as a member of the society of nations that observes human rights. They are uncomfortable with this situation. Not uncomfortable enough at this point. But I think we can show we have done something with our effort to work through other means.

Mr. OBEY. Let me suggest that you are going to have to make that case because if somebody offers amendments to limit funding in cases like this, I don't intend to fight them. I intend to accept them.

You are going to have to do a good enough sales job on the people around here who might be offering those amendments so that they don't get offered. At least if they are offered from the administration side of the aisle, I can try to do something on my side of the aisle if I think it is responsible, but I have little control over what happens on this side.

Any amendments offered from the Republican side of the aisle, I am going to accept. If the administration hasn't been able to persuade its own troops on these issues, there is no way I am going to be able to. I appreciate your dilemma, but we have got a problem.

#### HUMAN RIGHTS GROUPS IN INDIA

Member of the House recently introduced a bill which seeks to terminate providing development systems to India unless the government gives access to international human rights groups.

What is the situation in India regarding the access of human rights groups and what is the administration's position on that bill? What will the administration's position be when that bill is transformed into an amendment on our bill by Mr. Burton from Indiana?

Mrs. SCHAFFER. As far as the access for human rights groups is concerned, this is something the administration has been working on with the government of India. Asia Watch had a delegation in India which visited both Kashmir and Punjab, which are the principal problem areas from a human rights point of view in, I believe it was November they returned.

I am told they have a report coming out soon which I have not seen yet. But, they did travel extensively in both of those areas. Amnesty International has not sent a delegation into visit Punjab and Kashmir.

They have been working with the government to arrange a mutually acceptable time. We thought that this was on the verge of happening. Unfortunately, since that time there have been two resignations of governments, and so nothing further has happened on that.

That is a source of some frustration to Amnesty. It is a source of some frustration to us.

Domestic human rights groups, however, also report extensively on the problem areas and very frankly, so that there is an international human rights groups that has been there and there are a number of domestic ones.

The administration opposed the Burton bill last year. I would expect us to oppose the Burton bill again this year because we don't believe that this is an effective approach for accomplishing a goal which we basically support.

Mr. OBEY. Again, I believe in doing my duty, but I don't believe in being a political punching bag. I don't care who introduces what bill. The only thing I care about is when people start to attach amendments to this bill.

I would urge the administration to sit down with people in their own party who they know are offering these amendments and I think on this one they better sit down with Mr. Wilson as well.

I expect that we will get amendments from either of those corridors on this issue if the administration cannot convince them to withhold. It is going to take more than a speech by Mr. Solarz to stop this.

#### DEBT REDUCTION FOR BANGLADESH

Mr. OBEY. If Mr. McHugh were here, and he usually is, he would ask this question. Elections followed the recent coup in Bangladesh. The Committee has been told the U.S. decided to act on Committee report language urging the use of Section 572 debt reduction authority for Bangladesh.

Where do we stand on that matter? Will debt actually be forgiven? How much? What categories? Are there any administration plans to request appropriations authority to deal with Bangladesh's PL-480 debt, which I understand is much higher?

Mrs. SCHAFFER. What happened in Bangladesh I would not describe as a coup. The President resigned in the midst of political turmoil. He was replaced in institutional fashion by the acting president who was the chief justice. There has since been an election which was the most free and fairest Bangladesh ever held.

We expect a new government to be appointed relatively shortly, probably headed by Begum Khaleda Zia, a leader of one of the former opposition parties. Her party won a plurality of the seats in the national assembly, but has put together a coalition with another party to produce a majority.

As far as the debt forgiveness is concerned, you are correct. The administration has announced its intent to move forward with debt

forgiveness under Section 572 of the Foreign Assistance Act. I believe the amount involved is \$292 million in aid debt. As far as PL 480 debt is concerned, that is under consideration.

#### PHILIPPINE COORDINATOR FOR THE MAI

Mr. OBEY. I have one last question for Ms. Adelman. I understand the Philippine coordinator for the MAI had to step down due to legislative problems. Everyone judged him as being uniquely qualified to cut through the bureaucracy and politics and actually get something done.

Is he going to be replaced by anybody who will have his skills or his reputation in dealing with that government or are we going to see this program bogged because no productive agitator is squeezing the system?

Mrs. ADELMAN. At present, there are no plans to replace him. We believe he should be replaced for exactly the reasons that you cited, to keep the process moving, keep the projects going and move that pipeline along. We raised that with—

Mr. OBEY. Why aren't there plans to replace him?

Mrs. ADELMAN. Currently, the government in the Philippines has not made plans. I don't know exactly why not. We have been encouraging them to do it. I think it is just a normal process.

I don't know if I have anything to add. I think they have not replaced him. They have their finance minister and their head of national economic development administration doing that.

Mr. OBEY. Why is the finance minister resisting?

Mrs. ADELMAN. I don't know that he is resisting. I don't know that for a fact. I think it is just not happening because of other priorities and other reasons. I don't know the basic reasons why it is not happening. We are encouraging it.

Mr. OBEY. The Philippines have a history of incredibly long pipelines. Now, we have got a new program. That program is supposed to be able to cut through the red tape and money there quickly. I would hate to see the usual pattern develop.

Mrs. ADELMAN. I agree with you. We will continue to raise it, too.

Mr. OBEY. I have a number of other questions, but no more minutes to ask them.

Thank you all for coming. We appreciate it.

#### Questions for the Record From Chairman Obey Submitted to the Department of State

##### PHILIPPINE ECONOMY

*Question.* Would you describe for the record the economic actions that the Administration believes that the Philippine Government must take in order to improve its recent economic performance?

*Answer.* The Philippine Government is taking steps aimed at fostering sustained economic growth. These steps fall into several categories. Some are longer term than others.

The most important areas for the Philippine Government to address are macro-economic. The Government has already begun steps to control its spending and raise revenues by improving tax and customs collection efficiency. High interest rates and inflation need to be reduced. In addition, the Government needs to continue to liberalize the foreign exchange market. In the past year, the Central Bank has allowed the peso to float downward to a more realistic exchange rate.

Other reforms are being considered. Legislation is pending in the Philippine Congress to liberalize foreign investment regulations. The Government is working to finalize a new tariff reform package that would reduce tariff levels. Privatizing a significant amount of the remaining government-owned corporate assets is underway. Sales arrangements for the Philippine Plaza Hotel are being finalized. Other major items such as Philippine Airlines are being prepared for sale. The Government increased oil prices twice in late 1990 as steps towards oil price deregulation.

Finally, increasing taxes on those most able to afford them is a longer-term undertaking requiring legislation, which has been held up in the House of Representatives since its introduction by the Aquino administration in mid-1989. With national elections scheduled in May 1992, sentiment in Congress is running against tax increases despite their obvious economic benefits.

*Question.* What has the Philippine Government promised the IMF in the way of economic reforms in its recent negotiations?

*Answer.* The principal object of the Philippines' new IMF agreement is to support Philippine Government efforts to reduce the fiscal deficit through action in the following areas: raise revenues; reduce spending; and eliminate the deficit in the Oil Price Stabilization Fund.

Among steps the Philippine Government has taken are to: impose a temporary nine percent levy on imports to raise revenues; increase the price of gasoline to the equivalent of \$2.00 per gallon; and closely monitor money supply, foreign exchange reserves, public sector borrowing, and inflation.

*Question.* Can we expect that the Filipinos will fall out of compliance with this IMF accord just like they did the last one or can we be more optimistic? Why?

*Answer.* We can be more optimistic because the current agreement sets out less stringent conditions on the Philippines than the previous one did. Furthermore, the Philippine Government remains committed to making this agreement work and to continuing to implement its reform agenda. There is a fundamental difference between an Extended Fund Facility (the old Philippine IMF agreement) and a Stand-by Facility (the new agreement). A Stand-by is more narrowly focused on basic macroeconomic issues while an Extended Fund Facility covers a broader set of economic reforms.

Difficulties that could arise for the present agreement may center around alternation or removal of the nine percent import levy without making up the lost revenues this would cause, or failure to meet money supply targets.

#### PHILIPPINES: EARTHQUAKE ASSISTANCE

*Question.* On July 17, 1990, the Philippines experienced a major earthquake and strong aftershocks. Over 100,000 were left homeless and over 5,000 were left dead. Bridges, highways, powerlines, and buildings were damaged throughout the central Luzon region.

The Administration on September 20th sent the Congress a notification of its use of the 506(a)(2) military drawdown authority for \$10 million, explaining that the Disaster Assistance Account had been already exhausted for the year.

Would you tell us in detail what emergency assistance the U.S. gave the Philippines in response to the earthquake, both from the Disaster Assistance Account and from the 506(a)(2) drawdown authority?

Why did it take over two months for the Administration to even request from the Congress the \$10 million? After two months, it hardly seems like an emergency response.

*Answer.* Assistance provided by the United States to the Philippines after the July 17, 1990 earthquake from governmental and private sources was extensive and timely.

Ambassador Platt contacted President Aquino soon after the earthquake struck and coordinated communications with her government's disaster officials and the U.S. military facilities in the Philippines. He also issued a disaster declaration the same day to make \$25,000 available from his disaster assistance authority. The check was presented to the Philippine Red Cross.

The Embassy set up a crisis management center in Manila and an Embassy team was dispatched to Baguio to assess damage and evaluate relief requirements. The team also helped locate Americans and arrange for the evacuation of the injured and other survivors.

A summary of the United States government assistance is provided below:

## Summary of USG Assistance

	Amount
FY 1990:	
Ambassador's authority.....	25,000
DOD airlift of DART team.....	25,000
DOD airlift of stockpile commodities.....	00,000
Return airfare of DART team technical expert.....	1,635
Travel expenses of consultant Paul Bell.....	3,530
Reimbursement for travel of USGS team.....	23,140
Reimbursement for expenses of Fairfax County Fire Department (DART team).....	13,086
Purchase of medicine for medical component of DART team.....	903
Local procurement of 70 water jugs.....	101
Replacement to stockpile of 700 pairs of gloves, 32 individual support kits, 4 intermediate support kits, 5,000 face masks, and 500 hard hats.....	18,428
Replacement to stockpile of 102 rolls of plastic sheeting (cost and freight).....	80,988
Replacement to stockpile of 3,150 blankets.....	12,758
Value of 98 tents (stockpile item not to be replaced; in-kind donation).....	41,136
Value of P.L. 480 Title II food.....	255,476
Value of DOD assistance (from U.S. military facilities in the Philippines).....	2,450,123
FY 1991:	
Cost of shipping replacement items in stock pile.....	18,700

In addition, \$20 million of economic assistance in the AID's Regional Development Fund for the Philippines was reprogrammed for earthquake-related reconstruction.

## 506(a)(2)

The Philippine earthquake provided the first case in which the U.S. Government used section 506(a)(2) of the Foreign Assistance Act for disaster relief and longer-term disaster rehabilitation.

As soon as possible after the July earthquake, the President authorized DOD to draw down \$10 million worth of equipment and services.

By the time a thorough assessment of earthquake-related needs could be compared with existing excess DOD stocks, operations Desert Shield and Desert Storm were taking up not only the identified equipment, but all available transportation as well.

New equipment—primarily road-building equipment—was subsequently identified, reconditioned and sent into the pipeline. Much of this equipment is now on its way, and some may already have arrived in the Philippines.

Most of the roads and bridges damaged in the earthquake are still awaiting rehabilitation, so this equipment will be used in direct response to the earthquake damage despite unavoidable delays resulting from Desert Shield-Desert Storm logistics demands.

## LOANS TO CHINA

*Question.* What is US official policy on IDA/World Bank lending to China at this time?

Are we considering doing Eximbank or TDP activities? Why?

*Answer.* US policy is to support only those multilateral development bank loans to China that serve basic human needs. The US will only vote in favor of those loans which meet this objective.

Withholding of US support for a loan, however, will not prevent the loan from being approved if other executive board members favor it. The US voting power in the World Bank amounts to only 16 percent of the total.

Since June 1989, Eximbank has been approving loans to China on a case-by-case basis where project decisions are imminent and where US business would lose out if Eximbank support were not provided. On December 19, 1989, the President made a national interest determination that waived prohibitions imposed by the International Development and Finance Act of 1989 on Eximbank activities in China. The waiver preserves a level playing field for US business in China.

Since June 1989, TDP has suspended all new obligations in China but has continued to fulfill previous commitments on contracted projects. Pursuant to a provision

of the Foreign Relations Authorization Act, Fiscal Years 1990 and 1991, this suspension for all new activities remains in effect.

The provision prohibits the TDP from undertaking any obligation for new activities unless the President reports Chinese progress on a variety of political reform measures or makes a national interest determination. No such determination has been made.

#### TIBET

*Question.* I understand that a Tibetan monk, Ngawang Buchung, was arrested in 1987 and sentenced to 17 years in prison for translating the Universal Declaration of Human Rights and other documents into Tibetan. Two weeks ago, without notice, his sentence was changed to execution. The execution has not yet taken place.

This is just one example of the ongoing Chinese campaign to obliterate Tibetan society and culture. Monks and nuns have been targeted since the Chinese invaded in 1959 because they represent Tibetan culture and life and are the torchbearers of Tibetan traditions. Up to 1.2 million Tibetans have been killed since the invasion and thousands of refugees flee southward to Nepal and India every year.

I would like to ask our friends from the State Department what type of pressure we are putting on China to address the Tibet issue and the horrible human rights situation that exists under the Chinese occupation.

*Answer.* Ngawang Buchung (or Phulchung), formerly a monk at Drepung Monastery in Lhasa, was arrested in 1989 and sentenced on November 30, 1989 to 19 years' imprisonment on charges that in 1988 he organized a "counterrevolutionary clique," spread "counterrvolutionary propaganda," and engaged in espionage. He had previously been detained for several months for participation in a violent demonstration in September 1987. We have no information to indicate that his sentence has been changed.

The claim that 1.2 million Tibetans have died since the incorporation of Tibet into the PRC has been cited frequently, but we have little information to substantiate it. We know that nearly 100,000 Tibetans were killed in the course of the 1959 armed rebellion against Chinese rule. Some tens of thousands more may have died in earlier rebellions in Tibetan areas of Qinghai and Sichuan provinces. It is likely that a large number died in the mass famine that swept China in the early 1960's and killed as many as 25 million nationwide. During the 1966-76 Cultural Revolution, millions were persecuted nationwide and at least tens of thousands died. Tibetans suffered at least as badly as others in China, and thousands may have been killed or hounded to death. Since 1980, as many as several hundred may have died in the course of violent demonstrations or in prison. Thus, based on what we know, the overall toll of untimely deaths among Tibetans throughout China since 1950 may reach the low hundreds of thousands. At the same time, however, the Tibetan population as a whole has increased rapidly. The estimated number of Tibetans in what is now the Tibet Autonomous Region had held steady at around one million for centuries, but since 1951 has grown to more than two million despite conflicts, deprivations and the departure of some 100,000 followers of the Dalai Lama.

The Department of State remains deeply concerned about the human rights situation in Tibet, including the incarceration of Tibetans for nonviolent political activities. Our diplomats in China visit Tibet frequently, and invariably raise our human rights concerns with Chinese authorities there. Ambassador Lilley raised the case of Ngawang Buchung with the Chairman of the Tibet Autonomous Region government in March. Assistant Secretary Schifter devoted a significant portion of this talks on human rights issues in China in December 1990 to Tibet, and the list of prisoners of special concern that he presented to Chinese authorities contained a number of Tibetans including Ngawang Buchung. Assistant Secretary Solomon raised our concerns about Tibet during his visit to Beijing in March 1991, as did Under Secretary Kimmitt in May. We have urged the Chinese government to consider an amnesty for all those—including Tibetans—incarcerated for nonviolent political activities.

#### EFFECTS OF THE PERSIAN GULF CRISIS

*Question.* Would you briefly describe the major economic effects of the Persian Gulf crisis on the countries in Asia focusing particularly on those with whom we have—or until recently have had—assistance programs? The loss of worker remittances has been talked about a lot, but didn't a lot of those workers stay in the region and find jobs in Saudi Arabia instead, for instance?

*Answer. India.*—The Gulf crisis seriously worsened India's already weak balance of payments situation. Increased oil prices have cost India about \$1 billion, loss of worker remittances to between \$400 and \$500 million, and loss of Iraqi debt repay-

ments to the equivalent of \$800 million, according to Indian government estimates. To deal with this India departed from past practice and requested and obtained \$1.8 billion in assistance from the International Monetary Fund. This may not be sufficient to bridge the payments gap in the coming year.

A few thousand Indians chose to remain in Kuwait and Iraq or were unable to leave, but over 100 thousand returned home at Indian government expense at a cost estimated at nearly \$500 million.

*Sri Lanka*—Shortly after the Iraqi invasion, the World Bank cited Sri Lanka as a country "most immediately impacted" by the Gulf crisis. However, the actual costs of the crisis may be much less than anticipated, given reduced oil prices and the brevity of the fighting. Many of the 100,000 Sri Lankan workers who evacuated Kuwait may be able to return, restoring an important source of remittances. Although Iraq was an important export market for Sri Lankan tea, world price and demand have remained relatively stable, lessening the impact of the lost market.

*Question.* Would you briefly describe the political effect of the Gulf crisis on U.S. relations with the major countries in the region—it is my sense that in several instances support was lukewarm.

*Answer.* With few exceptions, the Gulf crisis has strengthened US relations with its allies and other friends in the East Asia-Pacific region. Iraqi aggression demonstrated to many East Asian countries the indivisible link between their own security and that of strategic regions of the world far from their shores. This was responsible for the strong support we received from the region as a whole.

My testimony on Japan and Korea speaks for itself. I would like to add that since the end of Operation Desert Storm the Japanese have dispatched four minesweepers to the Persian Gulf and have contributed \$83 million for Kurdish refugees and other displaced persons. This brings Japan's total contributions for refugee relief in the Mid-east to over \$140 million.

That the Gulf crisis and our request for substantial assistance engendered a debate among the Japanese on their proper role in the crisis is undeniable. It is understandable that members of a democratic society such as Japan's would want a full airing of views on a decision of such importance. We view such debate as healthy and effective as well, inasmuch as Japan's contributions to date leave no doubt about its commitment to an effective partnership with the U.S. in dealing with international crises.

In Australia, New Zealand, and Singapore support for our efforts to beat back Saddam "came from the heart," i.e., from a shared belief that larger countries should not be allowed to eliminate their smaller neighbors. No pressure was needed to convince these three countries of the importance of coalition efforts in the Gulf. Australia expressed support for the U.S. early on in the crisis and dispatched two warships and four medical teams to the Gulf. New Zealand expressed support early on and sent medical teams to the Gulf. Singapore also dispatched a medical team.

China called for Iraq's immediate and unconditional withdrawal from Kuwait throughout the crisis. The PRC fully supports the embargo against Iraq both of military and non-military goods. Despite some press reports alleging Chinese sales to Iraq, we have no evidence to suggest that China carried out such sales. The PRC also voted for twelve of fourteen UN Security Council resolutions on the crisis. It abstained on resolution 678 which authorized the use of force. Chinese officials explained that although they agreed with the resolution's objective, they disagreed with the use of force.

The Chinese also have agreed to provide 20 military officers to UNIKOM. In addition, China has provided emergency relief assistance for Kurdish and Shiite refugees.

In the Philippines, the crisis engendered genuine support, strong, positive public statements, and welcome counter-terrorist action. The Thai government was also very supportive in backing us diplomatically, enforcing sanctions, and dispatching medical teams to the Gulf. The Thai also provided police assets to counter Iraqi security threats to U.S. personnel in Thailand.

As a member of the UN Security Council in 1990, Malaysia voted for all twelve UNSC resolutions on the Gulf. It condemned Iraq's invasion, firmly called for Iraqi withdrawal, and continues to enforce sanctions. Southeast Asian countries with large Muslim populations were a special case. However, more than half of Malaysia's population is Muslim, and Malaysian public opinion generally favored Iraq. This put the Malaysian government in a difficult position.

Indonesia, with the world's largest Muslim population nevertheless supported all UNSC resolutions and actions. It condemned Iraq's invasion and called for withdrawal, and has offered funds to the International Red Cross for Gulf-related needs.

Indonesia, Malaysia, and Singapore have contributed small contingents to UNIKOM; Indonesia and Malaysia had declined requests for military support from members of the coalition during the conflict, on the ground that they only participate in international military efforts under the UN flag.

*Question.* Indonesia is the largest Muslim country in the world, what was Indonesian reaction generally and will the war on balance hurt our relations with them?

*Answer.* The Indonesian Government condemned Iraq's invasion of Kuwait and, throughout, has supported the United Nations resolutions and sanctions.

As the U.S. force level in Saudi Arabia grew, and particularly as the air war caused world media attention to concentrate on the bombing of Islamic Iraq, the Indonesian press and public expressed strong sympathy for the Iraqis. The Government of Indonesia effectively balanced the pressures upon it by continuing to support the U.N. efforts while at the same time refusing requests by the victims of the invasion to take part in the conflict.

With cessation of hostilities, the GOI has announced its willingness to contribute troops to a United Nations peace-keeping force. Indonesian media coverage has become more balanced, and public pressures on the government to "do something" have waned. We predict that the long-term effect of the Persian Gulf war on U.S.-Indonesian relations will be negligible.

## Questions for the Record From Mr. McHugh Submitted to the Department of State

### THAILAND

*Question.* We just had a coup in Thailand. Am I correct in assuming that all U.S. military and economic aid to that nation has been suspended?

*Under what conditions would we consider resuming U.S. assistance?*

*Answer.* Consistent with U.S. policy and Section 513 of the Foreign Operations, Export Financing and Related Programs Appropriations Act for FY 1991, we suspended economic and military assistance to Thailand. This suspension includes Economic Support Funds (ESF), International Military Education and Training (IMET), Foreign Military Financing (FMF), Development Assistance, Anti-Terrorism Assistance, Overseas Private Investment Corporation (OPIC) funding, and the Trade Development Program administered by the Department of Commerce. Pursuant to the FAA, this assistance may not be resumed until a democratically-elected government has taken office in Thailand.

### AID TO KOREA

*Question.* Last year this committee included language in our report stating that Korea, as a high income country, was not to receive more than \$300,000 in fiscal year 1993. You are asking for \$800,000 in fiscal year 1992. Are you going to be able to get down to \$300,000 in fiscal year 1993 without any problem?

*Answer.* The United States has a vital interest in maintaining peace and stability on the Korean peninsula and in supporting the process of democratization in the Republic of Korea. The maintenance of peace in Korea contributes to security throughout Northeast Asia. A continued IMET program will help the ROK assume the lead in its own defense and deter North Korean aggression.

Korea is unique in that it is the only foreign country in the world today where U.S. troops are permanently stationed facing a significant and volatile military threat. We participate in many joint military activities and maintain considerable influence in that area as a result. The military to military relationship is one of our very best.

Our IMET program focuses on professional military education, management and technical training. It promotes interoperability, a crucial factor in the common defense of South Korea. It also increases Korean understanding of civilian-military relationships in the U.S., important given Korea's young democracy.

Korea pays all travel and living allowance costs for its IMET students, an average expense of 100-150 percent of IMET tuition costs paid by the U.S.

We are aware that Congress believes the IMET program should be reduced and we have made reductions since FY 1989. We have progressively restricted the amount of post graduate training in favor of professional military education and resource management training. Our present rate might not meet the goal set by the Committee last year, but we believe a gradual reduction of IMET, rather than a precipitous drop in funding, is crucial as we move from a leading to a supporting role in our bilateral security relationship. IMET will, as noted above, make a positive contribution to the ROKG military as it assumes new and important responsibilities which are integral to our common defense.

## BANGLADESH

*Question.* I understand that you have decided in principle to use Section 572 authority to forgive debt owed by Bangladesh to the United States. Is that correct?

*Answer.* Yes, the Administration intends to negotiate a Section 572 debt relief agreement with Bangladesh during Fiscal Year 1991 to free up more of Bangladesh's resources for high-priority programs that stimulate development and improve the lives of people, strengthen the partnership between business and development and promote and consolidate democracy.

*Question.* How much debt is involved and what types?

*Answer.* The debt to be forgiven is all Development Assistance (DA) debt accumulated prior to about 1983. Since then all Development Assistance has been provided on a grant basis. The stock of debt totals \$292.3 million, but the net present value of estimated repayment is about \$175 million.

*Question.* What is the expected revenue loss to the Treasury on an annual basis?

*Answer.* The effect of this debt forgiveness on the budget will be to reduce estimated annual receipts by \$14 million.

*Question.* When section 572 authority was used in sub-Saharan Africa, the forgiveness for some countries with considerably less debt than Bangladesh was tranced over three years in order to insure that those countries continued to adhere to their economic reform programs. Do you plan to do that with Bangladesh? If not, why not?

*Answer.* We are working out the modalities of implementing Section 572 for Bangladesh now.

*Question.* Did you consult with anyone on Capitol Hill before reaching this decision? Could you explain why you did not bother to consult with me since I was the author of Section 572?

*Answer.* The Administration consulted with staff of members of key authorization and appropriation subcommittees including the House Foreign Operations Appropriations Subcommittee, and the House Foreign Affairs Committee and the Senate Foreign Relations Committee.

## Questions for the Record From Mr. Wilson Submitted to the Department of State

### PAKISTAN

*Question.* (1) How important to the U.S. is the strategic entity known as Pakistan?

*Answer.* A democratic, stable Pakistan, with firm political and economic ties to the United States, is a key element in our regional interest in South Asia. Our long-standing partnership with Pakistan has been a cornerstone of U.S. South Asia policy. We hope to maintain that partnership, and resolve the admittedly difficult issues we now face.

*Question.* (2) Does the decline of the Soviet Union automatically translate into a decline in U.S. strategic interests in South Asia, or are those interests as strong as before?

*Answer.* The United States' strategic interests in South Asia have been influenced by the activities of the Soviet Union in the region—especially by the 1979 invasion and occupation of Afghanistan. Although the Soviet forces are now out of Afghanistan and the USSR itself is experiencing difficulties, we remain strongly committed to fostering regional stability and nonproliferation, the strengthening of democratic institutions, and contributing to economic development in the region.

*Question.* (3) Can any country in the region replace the strategic role that Pakistan has played in support of U.S. interests in the last several years, with Iran, in Afghanistan and in general?

*Answer.* We greatly value our strategic relationship with Pakistan, and hope that it can continue. We want to improve relations with all countries in the region; for example, we believe we can continue to improve our relationship with India without hurting our traditional friendship with Pakistan.

## Questions for the Record From Mr. Porter Submitted to the Department of State

### AFGHANISTAN

*Question.* It is my understanding that the Afghan Mujahideen leaders in Afghanistan and Pakistan took very different positions on the Gulf war against Iraq. Some leaders, including Gulbidin Hekmatyar and Sayyaf, openly questioned the motives of the allied forces and sided ideologically with Saddam Hussein in the war. Other Mujahideen leaders, including Pir Gailani, strongly supported the U.S. effort even went so far as to send several hundred Mujahidin troops to the Gulf in support of the allies.

I have several questions, the first of which is for our friends from the State Department. Clearly, the various Mujahideen groups have very different policies and ideologies. We've known that all along. In what ways will U.S. policy toward the different Mujahideen groups take into account the tremendous differences in levels of support for U.S. objectives during the Gulf war?

*Answer.* Our long-standing policy is not to favor particular individuals or groups within the Afghanistan Resistance. We do not believe that outsiders can or should try to prescribe Afghan leadership.

The U.S. however will not support Resistance leaders who publicly expressed their opposition to the Security Council Resolutions on Kuwait and stated their support for Iraq in opposition to the multi-national coalition.

### TIBET

*Question.* I understand that a Tibetan monk, Ngawang Buchung, was arrested in 1987 and sentenced to 17 years in prison for translating the Universal Declaration of Human Rights and other documents into Tibetan. Two weeks ago, without notice, his sentence was changed to execution. This execution has not yet taken place.

This is just one example of the ongoing Chinese campaign to obliterate Tibetan society and culture. Monks and nuns have been targeted since the Chinese invaded in 1959 because they represent Tibetan culture and life and are the torchbearers of Tibetan traditions. Up to 1.2 million Tibetans have been killed since the invasion and thousands of refugees flee southward to Nepal and India every year.

I would like to ask our friends from the State Department what type of pressure we are putting on China to address the Tibet issue and the horrible human rights situation that exists under the Chinese occupation.

*Answer.* According to information compiled by several human rights groups, Ngawang Buchung was one of ten monks arrested in 1989 and sentenced in November of that year to prison terms raising from five to nineteen years for having organized a Tibetan independence group, distributing "counterrevolutionary propaganda," and spying. Ngawang Buchung, the leader of the group, drew the longest sentence. We have heard rumors that he might be executed, but cannot confirm them. Under Chinese law, once a sentence has been confirmed by the appellate court it cannot be extended unless the prisoner commits a new serious crime while imprisoned. We are not aware of any new charges against Ngawang Buchung.

The Administration has raised concerns about reported human rights abuses in Tibet with Chinese authorities, publicly and through diplomatic channels, on numerous occasions. Assistant Secretary Schifter devoted a substantial portion of his sixteen hours of human rights discussions in China in December to Tibetan issues, and a number of Tibetan prisoners were among the 151 cases on which he specifically requested information from the Chinese. Most recently, Assistant Secretary Solomon also raised human rights issues in Tibet during his trip to Beijing in March. We have advised the Chinese government that human rights abuses in Tibet, and elsewhere in China, would seriously constrain our ability to work together on issues of mutual concern. Officials from the State Department, our Embassy in Beijing, and our Consulate General in Chengdu have visited Tibet on at least half a dozen occasions in the past year and discussed reported human rights violations with local officials in very frank terms.

We will continue to press the Chinese to release all those in Tibet and elsewhere in China who are incarcerated for nonviolent political activity, to punish those who mistreat prisoners and suspects, and to enable Tibetans to preserve their unique religious and cultural traditions.

## BURMESE REFUGEES IN THAILAND

*Question.* As you may know, there are currently several thousand Burmese refugees in Thailand. How will the change in political leadership in Thailand affect these students?

*Answer.* We do not know what the impact may be. However, senior officials of the new leadership have stated that the Royal Thai Government (RTG) intends to follow the previous general outlines of Thai foreign policy and meet all RTG international obligations. We therefore do not expect to see major changes in Thai refugee policy.

## HUMAN RIGHTS IN KASHMIR

*Question.* I am very concerned about the situation in the Kashmir region in India. I understand that the Indian government continues to be very reluctant to give free access to the region to outsiders including respected Human Rights monitoring organizations and the international press. Meanwhile, there are reports that the local Kashmiri population is being brutally repressed by Indian government forces.

It seems to me very peculiar that this type of repression is taking place in the country that bills itself as the world's largest democracy. How is the situation in Kashmir reflected in U.S. dealings with the Indian Government and are there any plans to condition aid on improvement of the human rights situation in Kashmir.

*Answer.* The human rights dimension of the Kashmir problem is of concern to us and remains an important part of our ongoing dialogue with the Indian Government. We have deplored loss of life and expressed our concern publicly at the rising number of casualties. We have also urged the GOI strongly to restrain its security forces from using deadly force and collective punishment against unarmed people, and to ensure that those forces observe the universally recognized principles of human rights.

At the same time, we oppose terrorist acts by armed Kashmiri militants. We urge all parties to the dispute to enter into a dialogue. We think any resolution of the Kashmir problem must take into consideration the needs of all affected parties, including India, Pakistan, Muslim Kashmiris, and non-Muslim Kashmiris. To this end, we continue to urge the Indian Government to seek a formula for reestablishing a political process and addressing the popular grievances of the people of Kashmir.

We agree that it is important (and in keeping with India's proud democratic traditions) that foreign human rights organizations be permitted to visit troubled areas. We have consistently supported Amnesty International's request for access to Punjab and Kashmir. The recent visit by two American representatives of Asia Watch to Punjab and Kashmir was a welcome development, and we will continue to urge the Government to grant access to other foreign organizations. However, the Administration strongly objects to legislation such as H.R. 953, which proposes to condition aid on access by Amnesty International and other groups, as a means of accomplishing this goal. We believe legislation would be unhelpful in improving human rights observance in India and counterproductive in obtaining access for AI. Given India's sensitivity to outside influence, legislation is likely to focus on perceived foreign interference and draw attention away from the real issue, which is the need to improve human rights observance and to permit access by international human rights groups.

It is also important to recognize that India is a functioning democracy with legal human rights safeguards, an independent judiciary, a vigorous free press, and an active local human rights community which monitors conditions and publishes reports. The public has regular opportunities to choose national, state, and local officials in elections. In addition, all of India (including Kashmir and Punjab) is open to foreigners. Foreign media representatives from the BBC, VOA, and the Australian Broadcasting System recently visited the Kupwara area of Kashmir to investigate allegations of rape by security forces last February.

## KOREA

*Question.* Are there any lessons we can learn from the way we assisted Korea in developing into a regional economic power as that assistance relates to Korea's aggressive trade stance now?

*Answer.* Korea has grown dramatically through export-led development strategies, hard work, access to substantial U.S. and multilateral aid, and bountiful commercial lending. We can be proud of our role in assisting Korea's development. Our policy of assisting Korea and furthering its development. Our policy of assisting Korea and furthering its development help turn a country which lay in ruins 40

years ago into the world's sixteenth largest economy today. As any country develops, with or without our financial assistance, we must continually insist on the long-range economic benefits of free trade. Thus, along with its success, Korea must accept new responsibilities, including support of the open multilateral trading system on which its prosperity depends.

*Question.* What is the current status of Korea's Anti-American Products campaign?

*Answer.* In 1990 U.S.-Korean trade relations were contentious due to a Korean anti-import campaign and other problems concerning trade liberalization commitments. In November 1990, the ROK began to address U.S. trade concerns, including the anti-import campaign, which the Korean Government said was an based not on anti-imports, but on "austerity." The tone of the relationship has since improved, largely due to positive statements by senior ROKG officials, including President Roh Tae Woo. We are assessing whether these statements are being translated into actions to remove impediments to imports.

## Questions for the Record From Chairman Obey Submitted to the Agency for International Development

### PHILIPPINE PRIVATIZATION

*Question.* Would you bring the Committee up to date on the Philippine privatization efforts?

Do you believe that the Philippine privatization is uniquely slow because of their reluctance to get rid of these state-owned enterprises, or do you believe that privatization efforts are of their nature slow and that therefore we can expect that privatization in Eastern Europe, specifically in Poland, will also be very slow?

It seems to me that the Philippines has had many advantages over the East Germans and the Poles in trying to get rid of State enterprises—at least they don't have old claims on the property and they don't have to replace a Communist government. Why are they so slow in acting when it would help lower their deficit by bringing in revenues and by removing expenditures for enterprises which are losing money?

*Answer.* While privatization is proceeding slowly in the Philippines, there has been progress. The pace of progress, however, should not be used as the basis for predicting what will happen in Eastern Europe, which has had a totally different economic history.

Of the 123 Government of Philippines (GOP) owned and controlled corporations (GOCCs) approved for privatization, 52 have been fully sold, and 9 dissolved.

There has been some movement on the sale of the Philippine Plaza Hotel. An agreement has been reached on the sale of the hotel by Japanese investors (Fujima) for \$52 million dollars, contingent upon obtaining financing.

On the Philippines Airlines, the GOP has announced the sale of 60 percent of the airline by spring 1991. A number of planes have already been sold to improve the financial structure of the company.

Besides the Philippine Plaza Hotel, there are 39 other assets for sale with estimated total value of \$1.1 billion.

The five unsold big ticket items excluding the Philippine Plaza are: the Philippine Phosphate Fertilizer Corporation; Philippine Airlines; Philippine Associated Smelting and Refining Corporation; National Steel Corporation; and Republic Planters Bank.

Another big ticket item offered for sale was the Manila Hotel. However, the GOP was not very successful in their first attempt to auction the property. Offers were not forthcoming because of issues related to financing and unsatisfactory land-lease agreements. The GOP has proposed some changes in the land-lease agreements which hopefully will facilitate the sale of the hotel.

Privatization is proceeding slowly because of the complex economic, legal, bureaucratic, and technical issues involved. Major issues constraining progress are as follows:

The economic outlook is uncertain, interest rates are high, and most big ticket items have negative net worth.

Legally, the law gives substantial rights to original owners to block sales even after foreclosure. At least 50 non-performing assets are presently under litigation.

There are significant financial gains and patronage opportunities associated with the disposition of assets.

Technically there are problems related to valuation, especially when liabilities exceed market value making it difficult to unload the properties.

## PIPELINE

**Question.** Would you tell us where the Philippine-U.S. project pipeline stands now? Has it increased?

**Answer.** As of December 31, 1990, the end of the FY 1991 first quarter, the A.I.D. pipeline was \$428.4 million, down from \$490.6 million at the end of FY 1990, but up from \$413.3 million at the end of FY 1989.

Total Official Development Assistance (ODA) pipeline for the Philippines as of March 1990, the latest available figures from the World Bank, was \$5 billion, up from \$3.9 billion in 1986. A.I.D.'s pipeline is approximately 10 percent of the overall donor pipeline.

Based on an FY 1990 analysis, it would take about 3.0 years to spend the existing pipeline in the Philippines. For example, this compares to 3.04 years for the Thailand program and 1.84 years for the Egypt program.

Although in absolute numbers, the pipeline has increased for both A.I.D. and all donors, the utilization of available funds has also increased.

## PIPELINE EXPENDITURES

**Question.** How much of a gap between planned project expenditures and actual expenditures are you seeing now? What more improvements can we see? How are the programs of other donors faring—are they bogged down?

**Answer.** Comparing actual to planned expenditures during any given year does not necessarily present a valid picture because the planned figures are estimated 12-18 months in advance. A more detailed picture can be seen, however, when looking at cumulative figures over time.

In the case of the Philippines, planned expenditures over the period FY 1986—FY 1990 totaled approximately \$763 million while actual expenditures over the same period was approximately \$955 million. This means actual expenditures over a five year period exceeded planned expenditures by 25 percent.

Expenditures for the first quarter of FY 1991 were \$62.26 million, or 30 percent of those in FY 1990.

The proportion of program assistance will increase, somewhat reducing pipeline as expenditures increase.

Total donor ODA pipeline as of March 1990 was approximately \$5 billion, which is the latest figure available from the World Bank. During the first four months of CY 1990, the Philippines expended \$494.8 million, an increase of 73 percent over the same four month period in 1989.

**Question.** Will you submit for the record assistance pipeline records both for the MAI and the DA and ESF programs, and those of other countries which are in the consultative group?

**Answer.** As of December 31, 1990, the total A.I.D. pipeline was estimated at \$428.4 million, broken down as follows: Development Assistance (DA): \$115.4 million; Economic Support Fund (ESF): \$210.0 million; Special Assistance Initiative (MAI): \$103.0 million; and Total Official Development Assistance (ODA) pipeline for the Philippines as of March 1990 was estimated by the World Bank at \$5 billion.

## MAI APPROPRIATIONS

**Question.** How has the Administration made it clear to the GOP that continuing high levels of MAI appropriations in future years and other economic assistance levels in no small part depend on their serious economic reform actions?

**Answer.** A.I.D. has energetically pursued economic reforms with the GOP in a variety of fora. These include negotiations for annual MAI and ESF programs, in bilateral meetings with members of the Philippine economic team, and in multilateral meetings such as at the February 1991 World Bank-led Consultative Group (CG) meeting on the MAI.

At the CG meeting the senior A.I.D. delegate stressed that the United States would closely monitor economic reform progress and that this would influence the size and nature of future U.S. aid levels. Subsequently, this point was covered explicitly in the Philippine press and highlighted in Senator Paterno's report on the CG to the Philippine Senate.

**Question.** Would you summarize A.I.D.'s activities in the Philippines on environmental programs, and policies including the deforestation problem and the fisheries areas?

**Answer.** USAID/Manila has obligated \$30.0 million under its \$125.0 million MAI-funded Natural Resources Management Program. This five-year initiative will:

Develop a wide range of measures to support GOP efforts to implement policy changes (e.g., banning timber harvesting on old growth forests, controlling illegal logging, tenure reform of property rights and reform of timber pricing policies);

Support technical assistance and training to feed into the analyses and implementation of these policy changes, support that will lead to a more effectively managed natural resource base for sustainable economic growth, particularly in forest and wood products production and processing; and

Fund specific resource protection activities carried out primarily by nongovernmental organizations including \$25.0 million in debt-for-nature-swaps.

A new activity, the \$20.0 million Urban and Industrial Management Project scheduled for implementation in FY 1991, will address the severe urban and industrial environmental problem faced by urban Filipino people. As part of the design effort, A.I.D. is now identifying major constraints and problems in water quantity and quality, air pollution and solid/industrial wastes.

Finally, through the Enterprise in Community Development Project, A.I.D. is co-financing with Dole Philippines, Inc., a \$500,000 effort to restore and conserve the fishery habitat in Sarangani Bay and to conduct a scientific baseline study.

#### U.S. ASSISTANCE TO THE MARSHALL ISLANDS AND MICRONESIA

*Question.* U.S. Official Development Assistance (ODA) to Fiji in 1988 (last year for which comparative other donor-nation data are available) totaled \$3.6 million, roughly half the amount (\$7.1 million U.S.) given Papua New Guinea (PNG) and only a fraction of what the United States gave to the Federated States of Micronesia (FSM) (\$103.4 million U.S.) and to the Marshall Islands (\$48.3 million U.S.) that same year. U.S. assistance to Fiji in 1988 was also less than one-third of the amount given by Japan (\$10.3 million U.S.) and an even smaller proportion of the contribution by Australia (\$13.9 million U.S.). Finally, France has recently joined the aid flow to Fiji as a promising substantial donor.

What U.S. interests, strategic or other, in the Marshall Islands and, especially, the Federated States of Micronesia underlie the greater attention placed on aid to those two countries, relative to Fiji?

*Answer.* Economic assistance to the Marshall Islands and Micronesia is handled by the Department of the Interior under the Compact of Free Association Act (P.L. 99-239). By comparison, A.I.D. administers foreign assistance to Fiji. When discussing assistance levels to areas under P.L. 99-239, therefore, responsibility for specific levels to the Marshall Islands and Micronesia lies with the Department of Interior and not with A.I.D.

#### U.S. ASSISTANCE TO FIJI

*Question.* Several of the initiatives put forth by President Bush at the Honolulu Summit focused on environment, marine resources, trade and investment, and commercial and agricultural development. What A.I.D. projects in these areas exist in Fiji and will they be expanded?

*Answer.* A.I.D. has identified four new projects that either have Fiji components or will benefit Fiji in a regional sense. President Bush announced these initiatives at the South Pacific summit. The projects are briefly described as follows:

The Market Access and Regional Cooperation project will provide export promotion activities in the South Pacific concentrating on high value "niche" market opportunities. Under this project, a trade/investment support services office would be set up in Fiji. The Commercial Agricultural Development project will provide technical assistance and training to private sector producers, export associations, and agroprocessing firms to improve the handling and marketing of agricultural commodities. A.I.D. plans to work with a non-governmental exporters association made up of a wide cross-section of Fiji's ethnic groups. The Pacific Island Marine Resources project will increase incomes through new, environmentally-sound marine resource development technologies and strategies. This A.I.D. activity will be directed toward support of small and medium scale commercial fishing and marketing, including export fisheries. The Profitable Environmental Protection project will identify and support enterprises that conserve the region's natural resources.

In addition to these activities funded through Development Assistance, we will be providing an additional \$300,000 in ESF funds to Fiji in FY 1991. These funds will be used to develop a new Fiji component in the Pacific Island Marine resources project.

*Question.* I note from your budget submission that we are initiating a new development program in Mongolia in fiscal year 1991 at a level of \$2 million. That would increase to \$4 million in fiscal year 1992. I recognize that there are many poor

people in Mongolia (and in many other countries as well). But why do we have to have a development aid program in Mongolia when so many other country programs are clearly underfunded and A.I.D. is stretched so thin?

Answer. Mongolia, a former Soviet satellite with two million people is undergoing a dramatic political and economic transition. The Government is moving from a centrally-planned economy to one which is largely market driven. Concurrently, it is putting democratic institutions into place. Although Mongolia is strongly committed to a market economy, virtually no one truly realizes the high costs involved or the countries where help may be obtained.

Mongolia faces massive economic dislocation following a sudden move from almost complete reliance on the Soviet Union to the virtual elimination of Soviet aid and trade, the abandonment of central planning, the sobering effects of the introduction of world prices—with the need for hard currency of international transactions—and finally a bad harvest in 1990.

Significant transitional problems are already becoming evident and pose a significant short term threat to the reform process. They include severe food and petroleum shortages, food distribution problems, deteriorating health conditions, energy outages, and increasing incidents of crime. The Mongolians are seeking assistance in a wide variety of areas, from advice on the legal and regulatory policies related to a market economy, to requests for food aid and training in market techniques, to expanded ties in animal husbandry and biotechnology.

Mongolia is clearly at a critical juncture in its development. The choices are clear. It can press ahead with the kind of market oriented reforms which will make it a model of democracy and free enterprise in central Asia. It can also return to an economically inefficient and undemocratic system. As the harsh reality of the transition is felt, there will be increasing pressure to revert back to this unrepresentative but seemingly more comfortable system. A.I.D. can play a major role in easing the effects of the transition, thereby reducing the possibility of such a reversal. Aid is thus critical to helping Mongolia remain on the path of market reform and democratization and become the model of free enterprise and democracy in central Asia.

#### MONGOLIA

*Question.* Please explain your program. How, concretely, will it help poor people in Mongolia?

Answer. Following elections last July, Mongolia began a transition from a centrally planned economy to one based on market forces and democratic processes. The transition to a market economy, sufficiently difficult by itself, was made more difficult by the virtual elimination of Soviet trade and aid (formerly \$900 million per year).

If economic reforms result in economic growth, all will benefit indirectly, including the poor. In addition, we expect many of the poor to become actively engaged in the new economy. Despite difficulties, now that free enterprise is permitted, we anticipate a large number of small businesses to develop, with the poor participating directly in many of them. The ability of the poor to do this will depend on the nature of the rules and regulations developed by the government and the ability of the private sector to understand and follow new government regulations and competitive business practices. A.I.D.'s program strives to help Mongolia address the problems related to this difficult transition in such a way that the poor will be able to participate and benefit. We expect our program to help establish a solid framework for free enterprise activities.

A.I.D.'s first significant activity in Mongolia occurred last January, when we sponsored a workshop in Ulaanbaatar focusing on such topics as private property laws, price reforms, privatization, trade laws, investment, and financial markets. A.I.D.'s DA program will continue this assistance by providing (a) short-term technical advisory services to public and private sector institutions, (b) short-term technical training of Mongolian nationals in the U.S. and third countries, and (c) long-term academic training of Mongolian nationals in the United States, in fields such as economics and business.

Anticipated legal and regulatory changes are many. In the near future, labor and tax laws must be enacted, and the banking system must be restructured, with the new structure having a direct impact on the ability of small businesses or farms to obtain loans. Land, previously centrally owned, must be registered and procedures for privatization developed. Foreign almost all trade in the past was with the Soviet Union—in soft currency—foreign exchange and trade regulations must be almost completely revised. Thus Mongolia must re-examine its foreign exchange regime

and trade laws. The A.I.D. program will provide assistance in some of the above areas.

The technical advisory services to the government should help the poor directly. We anticipate that the training will eventually improve the climate for all business. We are also providing emergency food aid of approximately 30,000 tons of wheat.

## Questions for the Record From Mr. McHugh Submitted to the Agency for International Development

### A.I.D. GRADUATION POLICY AND THAILAND

*Question.* The World Bank and the regional development banks have graduation policies in place which are designed to insure that countries no longer receive concessional development aid when they have reached certain per capita income levels.

A.I.D. used to have a graduation policy—in the 1970s we graduated a number of countries such as Brazil, Mexico and Tunisia. However, I cannot recall A.I.D. graduating any country in the last decade. Indeed, it seems as if some countries that had been graduated have been brought back into the development aid program. And, of course, new recipients seem to be added all of the time.

Does A.I.D. have a policy in place to graduate countries from the development aid program at some point in time. If so, could you please explain it?

*Answer.* Rather than developing a single model for dealing with middle-income countries (MCs) on a uniform basis, A.I.D. in recent times has taken a country-specific approach to "graduation." In Latin America, we have successfully employed a phase-down model that is appropriate to countries in that region. In Thailand, our approach is to develop private sector linkages that build upon and that will largely supplant our A.I.D. mission by the mid-1990s.

This strategy being employed currently by A.I.D. supports our traditional development goal of broadly based sustainable growth. We tailor our approach to take advantage of the more advanced level of development in middle-income countries, while assuring that we maintain the strong relationships that serve U.S. political, strategic, and economic interests. Our strategy is to gradually wean MCs from A.I.D. funding to free funds for more needy countries or to lessen U.S. budgetary pressures. This approach avoids abrupt graduation before important ties can be established with other U.S. public and private entities, and thus avoids creating political and economic gaps that could weaken the MC economies or the U.S. position abroad. We believe that applying these criteria on a country-specific basis is an appropriate strategy for graduation or phase-down of A.I.D.'s presence in middle-income countries.

### DEVELOPMENT AID TO THAILAND

*Question.* Why should we be giving development aid to a country like Thailand given the real success it has enjoyed in recent years?

I am not suggesting, of course, that we provide no economic aid to a country once it reaches a certain level of development. We may have political interests that would justify providing ESF (but not development) assistance. But a development program in which no one ever graduates hardly makes sense.

*Answer.* A.I.D. has been concerned for several years with the issue of whether to maintain a development assistance relationship with a country like Thailand, and if so in what form. Indeed, Thailand and the Thai program have served as prototypes that have helped us formulate a more general approach to more mature, developing countries. In our view it is very much in the U.S. interest to continue a development assistance relationship in countries such as Thailand. But such programs should differ significantly in terms of focus, content, modes of delivery, and levels from traditional A.I.D. programs.

Thailand has been very successful in achieving rapid economic growth in recent years. Favorable external developments, namely the emergence of huge surpluses in Japan and the maturation of the NICs, particularly with respect to labor markets have created great opportunities for the next tier of developing Asian countries such as Thailand. At the same time sound economic management has enabled Thailand in particular to take advantage of these opportunities. The result has been a boom based on direct foreign investment, exports, and labor-intensive industry. With continued good economic policies and assuming continued dynamism in the Asia region, Thailand's growth prospects are excellent. While growth may slow, it can be expected to average above five or six per cent for the foreseeable future.

Achieving the capacity to sustain growth is a major development accomplishment. But it does not mean that the development task in Thailand is completed, or even assured. Rapid growth such as in Thailand generates resources, alleviates poverty, and bespeaks certain degree of progress and momentum in institutional development. But it also puts severe strains on some institutions, and cannot guarantee the emergence of others. For instance, there are clear signs that rapid growth in Thailand is outstripping Thailand's capacity to manage the environmental consequences of such growth; and to meet the sharply increasing demands on physical infrastructure, financial markets, and the education and training system. Rapid growth has not also been matched by progress in terms of democratic institutions. And, rapid growth does not guarantee that a country such as Thailand will move sufficiently beyond a narrowly self-interested approach to international issues to play a constructive, cooperative, enlightened role in the community of nations, on issues pertaining to international trade and finance (e.g. intellectual property rights, GATT); the global environment and natural resources; AIDS, narcotics, international peace keeping, etc.

While achieving sustainable broadly-based growth is A.I.D.'s primary development goal, there are other dimensions of development including the capacity to manage the impacts and fruits of growth; strengthen democratic institutions; and play a positive role in the international community where a modest A.I.D. program can make a significant contribution of direct interest not only to Thailand but to the United States.

The preceding suggests the change in focus that we envision in more mature, developing country such as Thailand. In terms of content and modes of delivery, such a program takes account of the greater institutional capabilities and resources of a country like Thailand, with correspondingly fewer demands on U.S. resources and capabilities. Further, the program stresses technical or organizational capabilities in which the U.S. has a comparative advantage. The aim is to stimulate institutional linkages that will endure and multiply in the absence of A.I.D. support.

At the same time, as has already occurred in Thailand we expect to see significantly lower levels of A.I.D. financial and personnel resources in such countries, in acknowledgement of the greater financial and institutional resources available domestically.

This A.I.D. approach does not represent graduation in the sense of a cutoff of foreign assistance on the basis that development has been fully accomplished or at least assured. It does certainly represent a sharply reduced degree of dependence on foreign assistance—a recognition that certain developmental tasks have been accomplished successfully—and a significant, positive change in our aid relationship in the direction of increased mutuality and a mature partnership. That is what graduation is generally all about.

#### PHILIPPINES

*Question.* As part of A.I.D.'s effort to promote greater flexibility, you are again proposing to abolish the functional development assistance accounts in favor of a single lump-sum appropriation for development assistance. Whether Congress will approve that request remains to be seen.

One of the concerns that some of us have is that we will no longer have a clear picture of what development funds are being used for and what results they are achieving. As you know, we have experimented with a number of lump-sum appropriations in recent years.

For example, the Multilateral Assistance Initiative (MAI) is essentially a lump-sum appropriation for the Philippines. I know we are providing you with a lot of money for that program. But I do not really know how you are using it or what it is accomplishing.

Could you tell me as specifically as possible what kinds of programs and activities the MAI is supporting in the Philippines? And could you give us a progress report on what specific success we have had under this program?

*Answer.* A total of \$119.5 million, or 37 percent of total U.S. provided MAI funds have been obligated to five different projects.

**Rural Infrastructure Fund:** \$20 million was obligated in late 1990 for 158 kilometers of road construction to stimulate economic expansion and growth of rural areas. Bids for a design-construct contract have been received, and a selection will be made by April 1991. The contractor will be in place by summer 1991 and actual road construction will begin in September, 1991.

**Natural Resources Management:** \$30 million was obligated in 1990 in support of policy reform that will protect tropical forests, promote biodiversity, and increase

efficiency in the forest products industries. Contract awards for technical services will be made in April, and a cooperative agreement with an environmental nongovernmental organization to acquire \$5.0 million in sovereign debt will be awarded in April of this year. The proceeds of this swap will support the creation of an endowment fund for sustained support of these activities, as well as be used for the improved management of two nature reserves on the island of Palawan.

**Philippine Assistance Program Support:** \$25 million was obligated in FY 1990. The project is designed to accelerate project preparation activities including pre-feasibility studies for private sector investors, as well as for MAI projects. Studies underway include feasibility and environment studies for airport renovation, wharf expansion, and for an agro-processing facility. Additional pre-feasibility studies will soon begin on water resources and telecommunications.

**Mindanao Development Project:** \$14.5 million has been obligated to support private sector led growth in General Santos City and to provide funding for the airport (new site or renovated), expanded wharf, and agro-processing facility mentioned above.

**Philippines Capital Infrastructure Support:** \$30 million has been obligated thus far to mobilize private and public sector resources for priority infrastructure needs through a concessional financing facility, i.e., mixed credits. Details between A.I.D. and the Export-Import Bank are being worked out and project selection on a fast-track basis by the Government of the Philippines will be completed by June 15.

Overall, the MAI has served to enhance donor coordination and burden sharing.

The July 1989 and February 1991 World Bank Consultative Group (CG) meetings have resulted in pledges of \$3.5 and \$3.3 billion, respectively. This compares to only \$1.6 billion pledged at the 1987 CG prior to the MAI.

Increasingly, donors are in agreement that the GOP must undertake macro-economic structural reforms to achieve private sector-led economic growth.

The MAI has also resulted in more frequent and meaningful dialogue among the donors on the progress of reform as evidenced by frequent meetings of key donors including the World Bank, the International Monetary Fund, Japan, the United States, and the Philippines. Bilateral meetings between various donors such as the U.S. and Japan, and between the individual donors and the Philippines are also common place. Moreover, mini-CGs focusing on specific areas such as the environment and project implementation have been held in 1989 and again in 1990.

To date detailed feasibility studies have been completed for most of the roads and environmental assessments are underway for the airport, seaport and processing center. Construction is expected to begin late in 1991.

#### TIED-AID CREDITS

**Question.** We have had a number of discussions regarding tied-aid credits. Last year Congress prohibited using development assistance funds for tied-aid credits.

Could you bring me up to date on the current status of the initiative that A.I.D. and the Export-Import Bank announced last year, particularly since the intended focus was to be countries in Asia?

**Answer.** Progress has been made toward implementing the A.I.D./Eximbank mixed credit facility. As you know, the facility contemplated \$125 million in mixed credits for each of Indonesia, the Philippines, Thailand and Pakistan. A team from the Eximbank has reached agreement with the Indonesian National Planning Board on the final list of projects to be financed under the facility. They are working toward signing the necessary documents toward the end of May.

In the Philippines, A.I.D., Eximbank and the Philippine National Economic and Development Authority are reviewing a list of projects for the facility. Progress was slowed as we addressed some of the differences among the procedures of the U.S. and Philippine agencies. We expect to sign the facility document in June. Because of the Pressler Amendment, we do not expect the facility to go forward in Pakistan at this time. Similarly, despite early progress, work on the facility has been suspended in Thailand as a result of the recent coup and the requirements of section 513 of the foreign assistance appropriations act. We note that the A.I.D.-Eximbank assistance package related to the AT&T transaction in Indonesia has resulted in a \$102 million contract for AT&T. AT&T expects approximately \$390 million in U.S. export follow-on work through the year 2004.

*Question.* We were told at that time that we would be notified of any intent to use funds for tied-aid credits. But my staff indicates that we have not received any notifications to date. Is nothing happening?

*Answer.* Tied-aid credits for the Philippines will fall under the ongoing Philippine Capital Infrastructure Support project. A.I.D. forwarded an Advice of Program Change to the Congress on July 30, 1990. The project was authorized and obligated in September, 1990. Funds have yet to be disbursed for tied-aid credits under this activity. A.I.D. and the Export-Import Bank are still working out details for implementing the project.

## **Questions for the Record From Mr. McHugh Submitted to the Agency for International Development**

### **AID TO AFGHAN REFUGEES**

*Question.* And for our friends from A.I.D. and the Department of Defense, I would like to know what type of programs we currently operate to assist both the people in Afghanistan and Afghan refugees in Pakistan. I have heard that the situation of the three million Afghan refugees in Pakistan has gone from bad to worse in the last several months and that no U.S. aid has been distributed to these people since October 1990. If there is assistance going to the Mujahideen, exactly how is the assistance distributed? Also, what is the approximate breakdown of humanitarian and refugee assistance compared to military aid?

*Answer.* A.I.D.'s cross-border, humanitarian assistance program for Afghanistan complements the U.S. Government's objective of supporting self determination for the Afghan people. The program serves the dual purposes of: (1) relieving the suffering of Afghans unwilling or unable to leave their war-torn country, and (2) helping to ensure that conditions inside Afghanistan are such that refugees can return to their country as soon as security conditions permit.

Since 1985, over \$380 million in assistance, primarily in agriculture, health and education services, equipment, food and essential commodities have been provided to targeted areas throughout Afghanistan. Funds available from the McCollum Program have been used to transport some of the commodities from the United States to Pakistan for distribution to war-affected Afghans. A.I.D. assistance is not provided to the mujahedeem.

Refugee assistance has flowed continuously since 1989 up to the present time (there was no break in October 1990). To date, the United States has committed over \$700 million for Afghan refugee relief programs. Over \$400 million has been in the form of P.L. 480 food commodities. Much of this aid has been channelled through the UNHCR, the World Food Program (WFP) and European and American PVOs in support of their programs to assist Afghan refugees in Pakistan. These programs include food-for-work and income generation activities for women, and support for schools and medical clinics. Assistance in the camps is directed at civilians, not the mujahedeem. Recent nutritional and health surveys have found that the Afghan refugees living in Pakistan are in generally better shape than their Pakistani hosts.

### **TIBETAN REFUGEES**

*Question.* I would also like to ask Ms. Adelman what types of programs A.I.D. is currently administering or plans to begin to meet the needs of the Tibetan refugees that flow through Nepal and into India every year.

*Answer.* A.I.D. has and plans no programs of assistance to Tibetan refugees. Assistance for these refugees is handled by the Department of State's Office of Refugee Programs.

## **Questions for the Record From Chairman Obey Submitted to the Department of Defense**

### **THAI MILITARY**

*Question.* In light of our previous problems with corruption in the Thai military and our assistance program, I find it almost humorous that one of the public explanations of the Thai coup was because of corruption in the Prime Minister's government.

How do you explain what events led up to the military coup in Thailand?

How much of a corruption problem existed in the previous government? Wasn't it cleaner than the Thai military?

Answer. This question was more appropriately under the cognizance of the State Department which took it for action and responded.

#### CHINA

*Question.* Last year in response to the Tiananmen Square crackdown in China, this Committee required that the U.S. contribution to IDA should be reduced by the US proportionate share of non-basic human needs loans from IDA to China. Apparently, while IDA lending to China has been curtailed somewhat, the IDA has gone beyond providing only basic human needs loans, and has been supported in their actions by most of our western allies. Despite Western concern and criticism, China has continued its crackdown through rounding up and trying many dissidents. Now, we hear reports that China has sold over \$1 billion in arms to the Burmese military which has refused to allow duly elected officials to run the country and which holds many of those officials in jail even today. We also know that to a degree China has cooperated in the UN with the US in the response to the Iraqi invasions of Kuwait.

Can you confirm that China has made a large military sale to Burma? If so, what arms did they provide? What has the Administration done in response to this sale? Has it communicated any displeasure or concern for Chinese support of the military dictatorship that is violently ruling Burma?

Answer. Yes, such a sale is confirmed by intelligence reporting. China is to provide Burma with a variety of ground force equipment, fighter aircraft, and naval patrol craft. The agreement also provides for Chinese military training on some of the equipment. Specifics of the transactions are classified. The U.S. Government has raised the arms sales issue with the Chinese Government, and Beijing has stated it will follow a "prudent and responsible attitude" in its arms sales policy. The State Department should be consulted if more detailed information is required.

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