PN-ABC-994
ISN 62087

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

A Report to Congress for 1987/88

United States Agency for International Development
Department of State
Washington, D.C. 20523

May, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

June 2, 1989

THE ADMINISTRATOR

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

Dear Mr. Chairman:

In accordance with Section 620(s) of the Foreign Assistance Act of 1961, as amended, I am pleased to transmit for the President the annual report for 1987/88 on the implementation of this provision.

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

Sincerely,

Alan Woods

Enclosure: a/s

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

June 2, 1989

THE ADMINISTRATOR

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

Dear Mr. Speaker:

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

June 2, 1989

THE ADMINISTRATOR

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

Dear Senator Helms:

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Washington, D.C. 20523

May, 1989

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Extract

Foreign Assistance Act of 1961, as Amended

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

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

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

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

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

Introduction

Section 620(s) of the Foreign Assistance Act (FAA) of 1961, as amended, requires the President to report annually to the Speaker of the House of Representatives and the committee on Foreign Relations of the Senate on his actions in carrying out this requirement. The President's authority to administer this provision has been delegated through the Secretary of State and the Director of the International Development Cooperation Agency to the Administrator of the Agency for International Development (A.I.D.). The Administrator coordinates his report with other interested executive agencies which participate in the annual analyses of the nature of military expenditures by countries receiving assistance under the economic aid programs described herein.

In implementing Section 620(s), the executive agencies involved, including the Agency for International Development, the Departments of State and Defense, and the Arms Control and Disarmament Agency, examine the pattern of defense expenditures and military imports for each aid recipient country. To provide cross country comparability, defense expenditures are expressed as a percentage of gross national produce (GNP) and of central government expenditures, and military import figures are expressed as a percentage of total imports. These three measures and their rankings are shown in the regional and worldwide tables included in this report. Statistical data used in the report are from 1985 and 1986, the most recent years for which the most complete statistics were available for preparing the 1987/88 report.

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

The report for 1987/88 cites the following eighteen countries which appeared to have exceeded the norm for military expenditures as compared to other countries regionally and worldwide. Political, economic and security considerations were taken into account in this analysis. Based on this review, it was concluded that considerations under Section 620(s) do not rule out assistance for these cited countries.

620(s) Countries

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

Africa	Europe, Asia, and Near East	Latin America
Burundi	Egypt	El Salvador
Chad	*India	*Guyana
*Liberia	Israel	*Honduras
*Mauritania	Jordan	Peru
*Mozambique	*Morocco	
	Oman	
	Pakistan	
	*Turkey	
	Yemen Arab Republic	

Country Summaries

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

Africa

Burundi

Burundi has experienced outbreaks of ethnic violence since 1965, between the majority Hutus and minority Tutsis, who have maintained control of the government. Serious attempts at ethnic reconciliation have been made by the Buyoya government since 1987, notwithstanding the eruption of ethnic violence in August, 1988. Since 1986, military expenditures have been concentrated on military salaries and on measures for maintaining calm in areas for potential ethnic violence.

Chad

Chad has been in conflict with Libya since 1973. Continuing Libyan aggression and an unexpected loss of cotton export earnings have seriously hurt Chad's fragile economy. The Government of Chad must continue to deal with the threat posed by Libyan forces occupying northern Chad.

Liberia

Liberia faces a threat from Liberian exiles being harbored in neighboring countries; thus it maintains a military readiness capability. Liberia's public sector economic situation has deteriorated such that government spending on development is low. U.S. economic assistance has been oriented toward the expanding private sector.

Mauritania

Mauritania's stability is threatened by the conflict in the neighboring Western Sahara, which requires continuous Mauritanian patrolling of the northern border area. Also, the country has had to upgrade its naval capability to curb illegal fishing in its territorial waters.

Mozambique

Mozambique has faced a major insurgency since 1980, which has severely damaged the country's economic and social infrastructure. A major effort has been required to strengthen military capability for combatting the RENAMO guerrillas and protecting the civilian population. Serious efforts at economic reform are being undertaken. U.S. economic assistance has been concentrated largely on relief efforts and strengthening the private sector.

Europe, Asia, and Near East

Egypt

Egypt is threatened by a hostile Libyan government on its western border. The security of the Suez Canal depends on Egypt's ability to respond effectively to outside force. To assure its own defense Egypt has been revamping its defense capability in cooperation with the U.S. and other western nations.

India

India's maintenance of a strong defense capability reflects the historical tensions between that country and Pakistan and China. Having experienced an arms embargo in the past by suppliers, India has developed a policy of military self-sufficiency. India also has made impressive strides toward economic self-sufficiency.

Israel

Israel's defense spending reflects its concern over potential threat it faces from its neighbors. Israel has significantly expanded and modernized its military forces to maintain a qualitative edge over the numerically larger forces it confronts.

Jordan

Jordan is surrounded by larger, more powerful states and has been subjected to threats and acts of violence by radical groups, opposed to Jordan's moderate policies. Jordan must have sufficient defensive strength to counter these potential threats.

Morocco

Morocco had to finance expenses required by the war in the Sahara and the modernization of its military. Drought-related constraints and structural economic reforms required curtailment of other government expenditures.

Oman

Oman's economy and security interests are threatened by proximity to Iran, a border with Marxist Yemen, and a faltering economy. The continued instability in the region has resulted in a high level of defense expenditures and Oman, like other Persian Gulf states, began developing a high-tech military capability only recently with associated costs.

Pakistan

Pakistan's security is threatened by a deteriorating defensive capability in the face of major arms build-ups by its neighbors. Pakistan's sizeable defense budget reflects its determination to modernize its aging and increasingly obsolescent military inventory. In addition, there is a heavy financial burden imposed by the presence of more than three million Afghan refugees.

Turkey

Turkey is a key NATO ally of the U.S., strategically located between Europe and the Middle East, and bordering the Soviet Union. The U.S. continues to provide material and encouragement for Turkey to maintain a strong national defense.

Yemen Arab Republic

The Yemen Arab Republic borders the Red Sea entrance, Saudi Arabia and the Marxist-dominated People's Democratic Republic of Yemen. A history of internal friction and recent clashes with South Yemen result in continued emphasis on national defense spending.

Latin America and the Caribbean

El Salvador

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

Guyana

Guyana maintains a professional, well-disciplined, but poorly-equipped military force numbering about 3,000 personnel. Military spending has declined under the current government, due to fiscal austerity requirements. U.S. assistance currently is precluded due to 620(q) of the FAA and Brooke/Alexander Amendment restrictions.

Honduras

Honduras faces a serious threat from the military buildup in neighboring Nicaragua. In response, Honduras has modernized its military forces, increased firepower and mobility and improved command, control and communication in the attempt to preserve the regional balance of power.

Peru

Peru's military spending levels are rooted in its concern for regional security, due to historical border disputes with Ecuador and Chile. Increasingly, however, military expenditures have been directed toward combatting the leftist insurgency, terrorist movement, and drug trafficking.

Country Narratives

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

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Africa

Burundi

Burundi is a small country (27,900 km^2) with a population of about 5 million and a per capita income of $240. The country is landlocked, densely populated (the second highest population density in Africa), and with scarce natural resources other than its relatively fertile agricultural land. The society is primarily rural, with only 5 percent of the population living in urban centers. Agriculture (commercialized and subsistence) accounts for approximately 50 percent of GDP and provides employment and income for about 85 percent of the population. Coffee is the main export, generating four-fifths of total export earnings.

After a period of relatively good performance during the late 1970s, Burundi's economic and financial situation took a turn for the worse in the early 1980s, as a result of a substantial deterioration of the terms of trade, expansionary fiscal and monetary policies, and adverse climatic conditions. Real GDP growth, which had averaged 5.1 percent per year during 1978-81, declined to less than one percent per year during 1982-84. In 1984, the external current account deficit reached a record high of 16 percent of GDP and the overall fiscal deficit rose to 12 percent of GDP. Inflation ran at 14 percent a year, leading to a rapid appreciation for the Burundi franc. In response to these problems, the Government of Burundi, with the cooperation of the IMF and the World Bank, undertook an economic stabilization and structural reform program in 1986 that continues to be among the most effective in Sub-Saharan Africa.

For most of Burundi's recorded history, political power has been held by the minority Tutsi ethnic group which exercised its sovereignty over the majority Hutu (85% of the population) group through a feudal-type relationship. While Hutus have always enjoyed some possibilities for upward mobility, their socio-economic status has historically been inferior to the Tutsis. This situation was exacerbated by the colonial regime's policy of giving opportunities for higher education and civil service almost exclusively to Tutsis. Ethnic consciousness increased in the years before independence, particularly with the outbreak of the first tribal violence in Rwanda in 1959.

Hutu awareness of, and frustration with, discrimination was heightened by independence in 1962 which, unlike in Rwanda where the Hutu gained control of the government, provided them only expanded political power within the context of a Tutsi constitutional monarchy. The inability of the Hutus to wield real power despite a majority in the National Assembly caused their frustrations to erupt into violence in 1965. This uprising was met with bloody repression, inaugurating a pattern that was repeated in 1969, 1972, and again in much-modified form, in 1988.

Since the overthrow of the monarchy by the Tutsi-dominated army, in 1966, successive military leaders have pledged themselves to ease ethnic tensions. However, it was not until September, 1987, with the coming to power (by bloodless coup) of Major Pierre Buyoya that the Burundi Government made ethnic reconciliation its top priority. The eruption of ethnic violence in August 1988 served to accelerate the process of ethnic reconciliation as the Buyoya Government moved rapidly to restore peace and to address long festering tribal differences. It appointed an ethnically-balanced cabinet as well as a Commission for National Unity composed of Hutu and Tutsi leaders to study ways to resolve the ethnic problem in Burundi. The voluntary return to their homes by December of the overwhelming majority of the 50,000 refugees who had fled the August violence indicates that the Burundi people support the government's reconciliation efforts.

Most of the increased military expenditures since 1986 were the result of the change in Government that took place in 1987 which resulted in increased military salaries. Other causes were extensive government efforts to defuse the ethnic violence that erupted in August 1988 and large scale GOB efforts, often utilizing military equipment and resources, to resettle repatriated refugees and ensure that areas of potential ethnic tension remain calm.

Conclusion: Given the favorable policy orientation of the Buyoya government and the fact that it is making a genuine effort to resolve Burundi's long standing ethnic problems, considerations under Section 620(s) do not exclude continued U.S. economic assistance.

Chad

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

Chad's defense expenditures in 1985, the latest year available, are estimated at 1.9% of gross national product (GNP). In 1984, Libya's defense expenditures were estimated at 17.8% of GNP. The statistical data for 1984 show that Libya (40%) ranked higher than Chad (22%) in defense expenditures as a percentage of central government expenditures. Libya's military imports as a percentage of total imports was 25.9% in 1985. The Government of Chad (GOC) must continue to deal with the threat to its national security which is posed by occupying Libyan forces in northern Chad. In this case, increased military spending is warranted.

Libyan aggression and an unexpected loss of cotton export earnings (50% decrease in world market price for cotton in 1985) have seriously hurt Chad's fragile economy. The GOC relies upon cotton export earnings for 25% of its revenues. To assist in redressing Chad's severe public sector deficit (estimated at $26 million in 1987), A.I.D. provided $10 million in Economic Support Funds (ESF), $7 million for budgetary support and $3 million to support road maintenance project activities in FY 1988. Including the P.L. 480 Title II program, total U.S. economic assistance to Chad in FYs 1987 and 1988 was $10 million and $16.6 million respectively.

Given the good harvests since 1986, the emphasis of U.S. development assistance to Chad has shifted from drought relief to longer-term economic development based on improved productivity and market access in the agricultural sector, and a comprehensive child survival program in health. A.I.D. is supporting numerous private and voluntary organizations (PVOs) which have designed and are now transferring small-scale appropriate technologies to small farmers. Farm-to-market access is being improved through a $27.5 million effort to strengthen road maintenance and rehabilitation capacities in the Ministry of Public Works. Based on the new Program Rationale Statement which was approved in FY 1988, USAID is designing two new projects in the areas of agricultural marketing and child survival/health.

Chad did not receive P.L. 480 Title I commodities during FYs 1987 or 1988. The P.L. 480 Title II program has shifted from an emergency relief to a Food for Development phase.

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

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

Liberia

The 1980 coup in Liberia brought a military man, Master Sergeant Samuel K. Doe, to power. Although Doe was subsequently elected President in 1985, the military remains a bulwark of his rule. Liberia does not face any serious, organized, threat from a country on its borders; however, neighboring countries have harbored Liberian exiles. In the past four years, two coup plots were launched from bases in these countries. Thus, the Government of Liberia places considerable emphasis on maintaining a military force capable of dealing with incursions from neighboring countries.

Recent figures indicate that Liberia is 47th in the world in terms of defense expenditures as a percentage of central government expenditures and 49th in terms of defense expenditures as a percentage of gross national product. In relative terms, these figures are approximately 17% and 6% respectively of those of the highest spending country, Qatar. Liberia's 19th ranking of military imports as a percentage of total imports includes a one-time purchase of armored equipment in 1986 that is not reflective of a long-term trend in defense spending. As can be seen from these figures, Liberia is not a major importer of defense goods or services.

Liberia's public sector economic situation has deteriorated significantly over the last several years. Government spending on development needs is low and unlikely to increase in the next few years. The private sector, on the other hand, has been growing in recent years and promises to continue to grow for the foreseeable future. As a result, A.I.D. assistance is increasingly being targeted away from public sector activities and toward basic human needs and economic growth activities implemented by private voluntary and other non-governmental organizations.

The United States has considerable interests in Liberia. In addition to the long-standing historical relationship, Liberia houses the largest concentration of U.S. government assets in Sub-Saharan Africa. Externally, Liberian foreign policy has traditionally been supportive of U.S. goals.

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

Mauritania

For 1985, the largest year for which figures are available, Mauritania's defense expenditures were 6.6% of its GNP, i.e., about $47 million. Defense expenditures for 1987 and 1988 are expected to be in the same range. These expenditures are necessary in part for two reasons. One, although Mauritania is neutral in the ongoing Western Sahara conflict, it nevertheless threatens Mauritania's stability and requires continuous patrolling of its northern border. Two, in 1985 as part of an economic reform program Mauritania's Navy began to build a coastal security force, and in 1986 launched an aggressive surveillance program to curb illegal fishing in its territorial waters. Boats and aircraft now patrol Mauritanian waters much more frequently than in the recent past. It was essential for Mauritania to do this as part of its 1985 Structural Adjustment Program. The country is attempting to more efficiently exploit its fisheries resources which as the largest source of foreign exchange, are considered in the short and medium term the most significant impetus to the economy.

Mauritania over the last decade has experienced severe economic difficulties due to falling iron ore prices, increasing external debt servicing, and the continuing effects of drought and pest infestations. In 1985, the Government of Mauritania embarked upon a comprehensive program of economic adjustment with substantial financial and technical support from bilateral and multi-lateral creditors and donors. Since 1985, the GDP has expanded by an average of 3.5% annually (the reform target was 4%) as compared to 2% annually during the 1980-1984 period. Despite this accomplishment growth has barely kept pace with the increase in population (estimated at 3% for 1988) while new sources of growth have yet to be fully exploited.

A.I.D.'s program strategy is focused on two sectoral priorities: food security and human resources development. As the Government continues to encourage the participation of the private sector to stimulate growth in the economy, new emphasis will be placed on training to the private sector. Continued support for health and population activities will also be provided.

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

Mozambique

Since 1980, the government of Mozambique has faced a major armed uprising involving RENAMO (Mozambique National Resistance) guerrillas. The insurgency has severely damaged the nation's economic and social infrastructure. The situation has been compounded by drought.

Primarily as a result of civil conflict, over two million Mozambicans have been internally dislocated from their homes and another one million have fled to neighboring countries as refugees. Civilians are a primary RENAMO target; tens of thousands of innocent citizens have died in the conflict. Altogether close to six million persons out of a population of fourteen million are affected by the emergency. A massive international relief effort has been mounted to feed those facing food shortages.

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

To counter the active insurgency and restore stability, President Chissano has mounted a major effort to increase the nation's military capabilities. This effort involves reorganizing military and securing additional military equipment to protect food convoys. At present, the Mozambican military cannot guarantee the safety of civilians in the countryside. Mozambique's neighbors and European allies have been increasing military aid to Mozambique, and at present Western advisors outnumber those of the Soviet bloc. At the same time the government is attempting to secure a peaceful end to the conflict. President Chissano has maintained diplomatic contact with the Republic of South Africa and has offered a total amnesty program for RENAMO fighters. The government has made significant human rights progress over the past two years.

Despite the insurgency, Mozambique is making economic progress and achieved a 4.5 percent GDP rate of growth last year. Through the Program for Economic Rehabilitation (PRE), the government decisively set about the task of dismantling the centralized economic apparatus of the socialist state. The PRE included several devaluations, wage and price increases, layoff of government workers, and investments in smaller private economic units. Mozambique has agreed with the IMF and World Bank on a structural adjustment program and sold off many state farms and enterprises. Both the IMF and World Bank are very pleased with the seriousness of Mozambican economic reform efforts.

Because of Mozambique's key position in the region, the success of our efforts to promote peace and stability in southern Africa depends importantly on how we handle our relations with Mozambique and respond to its needs. The Administration's policy of constructive relations with Mozambique and our bilateral humanitarian and development assistance has bolstered a conscious decision by the government to have peaceful accommodation with its neighbors, move toward genuine non-alignment on international issues, and pursue difficult internal reforms. By encouraging these steps through our diplomacy and economic assistance, we have advanced prospects for regional peace and stability.

Additional assistance to Mozambique is consistent with our broader objective of promoting economic progress in the region. Mozambique has been a key supporter of U.S. efforts to promote regional peace and stability and has embarked on diplomatic initiatives to expand ties with South Africa. This moderating role among the Front Line States establishes a useful model of regional cooperation.

U.S. military assistance to Mozambique is prohibited by law. The United States assistance program in Mozambique in FY 1988 consisted of $59.5 million in humanitarian and food relief, $27.5 million for a regional rail project, and $15 million in development assistance, keyed to the private sector. Our efforts are designed to improve private agricultural production and implement economic reforms.

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

Europe, Asia, and Near East

Egypt

The statistical data for 1986 show that Egypt spent 28.1 percent of its government budget on defense. This was equivalent to 14.2 percent of GNP. Approximately 9.2 percent of the country's imports were military.

Egypt's strategic location and its willingness to assume the role of a stabilizing force in the region place a relatively heavy defense burden upon it. The security of the Suez Canal depends upon Egypt's ability to respond effectively to outside force. A threat exists from a hostile Libyan government on its western border. A possible threat also exists from Iran due to Egypt's support of more moderate regimes in the Persian Gulf area. To assure its own defense, and meet its responsibilities as a stable force in the region, Egypt has embarked on a program to replace outmoded Soviet defense equipment with modern Western weapons. This accounts for the relatively high proportion of imports of military materials. Even with substantial assistance from the U.S., this revamping and upgrading of defense capability continued to place a heavy financial responsibility on the government of Egypt.

Over the past four years, Egyptian economic growth slowed due largely to inefficient use of its considerable economic resources and a decline in the growth of external resources. Rigidities in the prices of energy, utilities, food and other commodities and extensive government controls over production activities have caused major imbalances in the structure of the economy as investors and decision makers reacted to improper signals. Until the mid-1980's, the deleterious effects of these policies were largely masked by strong increases in the inflows of external resources. During the last four years, however, stagnant or declining levels of external inflows, coupled with rising debt service obligations, are placing substantial pressure on Egypt's budget, balance of payments, and economic growth performance.

Egypt's debt servicing burden was temporarily alleviated over the 1987-88 period through a generous multilateral Paris Club rescheduling exercise facilitated by an IMF stand-by arrangement. As part of the IMF stand-by arrangement, Egypt began a phased program to merge the multiple exchange rates and implemented a significant increase in energy prices. Reforms in food and agriculture pricing and liberalization of controls in agriculture, have continued, but the overall pace of other reforms has slowed and donor funds have not flowed as anticipated. With the IMF agreement and Paris Club rescheduling having expired, Egypt has again returned to the original payment schedules on its external debts. In the meantime, however, the country's fundamental balance of payments and budgetary disequilibria remain. A more rapid pace of economic reform is needed to restore equilibrium and economic growth. To the extent that economic adjustments succeed in stimulating the economy, probable levels of defense spending need not interfere with economic development objectives. Still, budget austerity remains a part of the IMF economic reform program strategy. Egypt has been forced to keep all new defense purchases made with hard currency of foreign loans to an absolute minimum, relying predominantly on grants of U.S. Foreign Military Sales equipment.

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

India

India is a country faced with serious security concerns. Its long coast line alone requires investment in a sizeable Navy to patrol its borders. Since independence, when the country was partitioned, India has been involved in three wars with Pakistan, and tension between the two states has been an endemic condition. Each country is pursuing a nuclear program which increases the suspicions of the other. India also has stationed troops on its northern border with China. The memory of the 1962 war with China is strong and tension along this border remains a political issue.

Despite a lack of political consensus on many national issues, the Indian political elites are united in the belief that India must be a regional military power and are willing to pay. The consensus among its policy-makers that India must be militarily strong and able to defend itself fuels the fear that it may have to rely on other countries for its military equipment. Having experienced an arms embargo during one of its wars with Pakistan, India now has a declared policy to become militarily self-sufficient.

In 1987, India weathered one of its worst droughts, an event which just 20 years ago would have spelled economic and human disaster on a massive scale. India's resilience in the face of the drought is the best recent evidence we have of the remarkable development progress it has made since Independence. This includes virtual self-sufficiency in food grain production and the improvement of socio-economic conditions with life expectancy increasing by 33 percent, literacy by nearly 90 percent and infant mortality declining from 146 per thousand to 90 per thousand. Macroeconomic performance improved to 4.9 percent per year in the 1980's—particularly unfavorable years for LDC growth globally. The deepening of its institutional and human resource base and the increasing sophistication of India's response to many of its most pressing development problems are critical factors underlying these achievements. As a sign of its commitment to the country's development India has budgeted $273 billion in its current 5-year plan. India will cover 90 percent of these development costs from internal resources.

Notwithstanding these achievements, India remains one of the world's poorest countries with 40 percent of its people below the poverty line, a stubbornly persistent population growth rate above 2.0 percent and an increasing strain on its natural resources.

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

Israel

While the Egypt-Israeli peace treaty brought peace between Egypt and Israel, Israel's high levels of defense expenditures reflect its continuing concern over the potential threat posed by its neighbors, particularly Syria. The Intifada has caused some minor increase in Israeli defense expenditures, predominately manpower related.

Through high levels of investment and with a highly skilled labor force, Israel has developed a modern industrial state whose citizens enjoy a standard of living comparable to that of southern Europe. Since the Arab-Israeli war of 1973, Israel has continued to maintain both a large defense establishment and high levels of private consumption.

From early in the 1980's high levels of defense spending coupled with high levels of private consumption led to increased demands for goods and services. Since inadequate savings and investment could not satisfy the demands for these services domestically, the unsatisfied domestic demand led to increased imports and deficits in the goods and services accounts. These deficits have been financed by large U.S. assistance flows, private transfers, concessional lending, and foreign commercial borrowing. In 1984, the deficit totalled $3.5 billion, equivalent to some 12 percent of GDP. After declining in 1985 and in 1986 the trade deficit increased to $3.8 billion in 1987, approximately 11% of GDP. External foreign debt reached $25.8 billion in 1987 and has plateaued at that level.

The serious economic problems of the early 1980s have been successfully overcome by an economic stabilization program, begun in 1985, which cut government spending and brought inflation under control. Inflation decreased from 445% in 1984 to 16.4% in 1988. Israel plans to build on the accomplishments of the stabilization program by privatizing certain government enterprises, reforming the tax system and implementing structural reforms of the capital market. Plans to lessen government regulation of the economy will complement the above planned structural reforms.

The United States maintains close security ties with Israel, and the U.S. assistance program is designed to help Israel deal with both its economic and military problems. In recent years, Foreign Military Sales credits and economic assistance have increased in amount, and beginning in FY 1985, all such assistance has been provided as grants. U.S.

economic assistance cannot, however, substitute for continuation and strengthening of the stabilization program Israel initiated in 1985, and for policies and programs designed to establish conditions conductive to self-sustaining growth.

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

Jordan

Jordan, a friend of the U.S. and a force for moderation and stability in the Middle East, is a key player in the search for progress towards resolution of the Arab-Israeli conflict. Jordan has played a vital role in the effort to curb terrorism and has prevented attacks against Israel from its border, the longest of any of Israel's Arab neighbors. Jordan's own security situation continues to be precarious because it is surrounded by larger, more powerful states and subject to threats and intimidation by radical and rejectionist groups. Jordan's defensive capability relative to Syria has declined dramatically during the last decade, although progress on the initial construction of the Unity Dam (previously Maqarin Dam) based on the recent Jordan-Syria Table indicate some improvement in bilateral relations. Jordan must maintain sufficient defensive strength to deter threats by those opposing Jordan's moderate policies.

Jordan's economy has been suffering severely in recent years. Its principal sources of foreign exchange: Gulf-based workers' remittances, Arab aid flows, and phosphate export earnings, have all declined sharply. Unemployment is up to 12%, with the labor force expanding at 4-5% a year. GNP growth has averaged less than 1% annually since 1984, implying a steady loss in real per capita income as population grows at 3.6% a year. The Government has been in serious budgetary deficit, foreign exchange reserves are at their lowest levels in Jordan's history, and Jordan's debt service this year will be its highest ever.

Jordan is trying its best to adjust to these economic troubles by liberalizing the economy, stimulating foreign investment and export, discouraging luxury imports, allowing more flexible interest rate policies, allowing the Jordanian Dinar to float (and thereby depreciate), and advancing a market-oriented strategy which promotes private enterprise as the engine for growth and employment. Both growth in government budget and inflation have been kept low.

The Government of Jordan continues to demonstrate its resolve to adjust responsibly to adverse economic developments beyond its control. As it grapples with the challenge of reducing its budget deficit and balance-of-payments difficulties, expenditures on defense are unlikely to increase significantly.

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

Morocco

The latest available statistics (1986) indicate that Morocco spent 15 percent of its government budget on defense, or 6.5 percent of Gross National Product. Military imports were 2.1 percent of total imports. These figures are not inordinately large in view of the expenses of the Saharan war and the need for military modernization but they do require an explanation pursuant to the requirement of Section 620(s) of the Foreign Assistance Act.

Military expenditures did not increase dramatically in 1986. Rather, drought-related constraints and new policies aimed at structural economic reform curtailed other government expenditures, giving the appearance of rising military expenses.

The United States and Morocco have had many years of military and economic cooperation. Morocco has made important facilities available to the U.S. and has participated in vital joint training exercises at its own expense. The U.S. has assisted in upgrading Morocco's defense infrastructure and there are plans to continue and to expand such military assistance.

The Government of Morocco has made a strong commitment to economic reform and growth and the positive results of the new economic regime are being felt. Helped by substantial exchange rate depreciation and higher interest rates, the external current account deficit was reduced from 12% of GDP in 1982 to 2% in 1986. A major feature of this progress was a rapid expansion in manufacturing exports. Inflation has been brought down from 10% to 6% during the same period and the fiscal deficit from 12% of GDP to 6%. Yet, real economic growth has only been moderately satisfactory at about 4% annually. U.S. assistance has contributed to Moroccan economic growth both in real terms and in technical assistance which has prepared the policy framework for large-scale infusion of IBRD financing.

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

Oman

The economy of Oman is closely linked to the petroleum industry and oil has contributed well over 90 percent of GDP in recent years. Continued soft prices for oil have precipitated a marked decline in government revenues with the budget shifting from a substantial surplus to deficit spending since 1983. The projected deficit for the 1989 budget is over $1 billion, despite efforts to trim recurrent spending. Sectors of the economy closely linked to government spending have experienced a sharp downturn. For example, the contribution of the construction industry to GDP fell 38 percent in 1987. The manufacturing and fishing sectors have shown improvement, partly a result of the high priority placed on diversification to reduce economic dependence on oil. Defense spending as a share of the budget has been declining from a high of 43 percent in 1983 to an estimated 32 percent of the 1989 budget.

Regional and national security concerns have been the driving force behind Oman's security expenditures. Although now winding down, the Iran-Iraq conflict posed direct risk to Oman given the proximity to Iran and the vulnerability of crucial oil infrastructure and shipping. Security concerns have been exacerbated by the presence of an unpredictable Marxist government in the Peoples Democratic Republic of Yemen (PDRY) on Oman's southern border. The PDRY supported an armed secessionist movement until the mid-seventies in the southern region and numerous skirmishes have taken place along the border in the intervening years, most recently in late 1987.

The U.S. has had a closer military relationship with Oman since implementation of the Access Agreement in 1980. Although there has been no military assistance under FMS since 1986 and IMET has been maintained at a minimal level, Oman continues to benefit from increased security derived from the U.S. military presence. The economic support to Oman under the agreement provides ESF funding of $15 million in 1989.

The Government of Oman has demonstrated strong commitment to the economic development and modernization of the country and has invested oil revenues heavily in a broad range of domestic programs, including efforts to diversify the economy and reduce petroleum dependence. A.I.D. programs are managed through the Omani-American Joint Commission and support high-priority activities in water resources, fisheries, and educational development. National economic development is clearly the top priority of the Omani Government. Security expenditures rose in response to overt external threats and instability in the region and declined as the threats have diminished. Military budgets are expected to continue the declining trend.

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

Pakistan

Pakistan has sustained solid growth in recent years despite military expenditures, a continued global economic slowdown and the enormous burden imposed by the Afghan refugees. Pakistan's real growth averaged nearly 7 percent from 1983 to 1986, but fell to 5.7 percent in 1986-87 and 5.8 percent in 1987-88.

Pakistan has run deficits in its balance of payments for the last two decades. Traditionally the gap has been filled by remittances from Pakistan workers abroad and from international and bilateral donors. In 1988 Pakistan's balance of payments position was mixed. Exports were up 23 percent; imports were also up 19 percent. The overall trade deficit of 2.5 billion dollars was higher by 8 percent compared to the previous year.

It appears that the terms of trade are turning against Pakistan. International prices of edible oil and petroleum, two major Pakistani imports are up while cotton prices are down. The worldwide boom in textiles, which helped fuel Pakistan's export growth during the past two years, probably will level off. Raw cotton, cotton yarn and textile items account for 45 percent of Pakistan's export earnings.

Last fall the new Government of Prime Minister Bhutto agreed to an IBRD/IMF Structural Adjustment program that will provide $850 million in foreign exchange over three years in return for policy reforms. The IBRD/IMF Structural Adjustment program focuses on fiscal reform to broaden the tax base, liberalize trade and deregulate key prices. The GOP has pledged to continue privatization of the economy through sales of stock in nationalized enterprises.

Pakistani authorities are concerned that the country's defense inventory has suffered a net deterioration while those of neighboring India, Iran, and Afghanistan have expanded. The Soviets have left billions of dollars worth of armaments, including combat aircraft and ballistic missiles, in the hands of the Kabul regime. India has continued to expand and modernize its armed forces, until it has one of the largest defense establishments in the world. Iran used its petroleum earning for massive arms purchases during its war with Iraq. A reduction in military aid at this time would put added pressure on the newly elected government at just the moment that the U.S. wants to encourage the consolidation of democratic institutions in Pakistan.

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

Turkey

Turkey has witnessed a period of outstanding economic growth and transformation since 1980. Recovering from a period of economic and political crisis in the 1970's, the economy has witnessed real, positive economic growth in excess of 5% in the past four years, accompanied by the restoration of much needed stability to the balance of payments. The monetary and fiscal discipline that characterized the economy until 1985 started waning in 1986 and 1987. The economy showed signs of overheating with inflation rising sharply and the lira coming under tremendous pressure.

The Government of Turkey (GOT) took measures in February 1988, which reduced pressure on the lira and fiscal restraint, primarily with cuts in central government spending. In the second half of 1988, these measures led to a slowdown in growth and reduction in the public sector borrowing requirement.

Nevertheless, inflation remains high and was primarily responsible for the ruling Motherland Party's (ANAP) losses in the March 1989 local elections. These losses have led to a commitment on the part of Prime Minister Ozal to reduce inflation significantly by year's end, although the announced goal of 20% appears unrealistic. One side effect of ANAP's election losses may be to make it easier for the GOT to reduce spending at the municipal level.

Turkey will continue to implement restrictive monetary and fiscal policies over the next year. Domestic demand will then be squeezed as growth in investment is slowed by the prohibitive interest rates and government cutbacks in the investment budget. Higher exports and tourism receipts have led to a strong showing in the current account. However, this year's current account surplus is not expected to be repeated next year as export growth slows. The easing of Turkey's debt after 1989 should allow Turkey to finance its current account deficit without adding substantially to its foreign debt if the country continues to receive some multilateral and bilateral assistance.

In 1986, Turkey allocated 17.9% of their central government expenditures to defense, an amount equivalent to 4.6% of GNP. This is not considered unreasonable given that Turkey is a close, valued ally in the North Atlantic Treaty Organization (NATO) with the second largest standing army. Its location, between Europe and the Middle East, bordering the Soviet Union, is of strategic importance to the United States. The United States encourages its NATO allies to allocate a sizeable portion of their budget for defense.

U.S. economic assistance since 1978 has totalled over $2.2 billion, ranging from $350 million in 1982 to $32 million in 1988. In FY 1989, the U.S. provided a $60.0 million cash grant to the Republic of Turkey. The grant agreement requires that the dollars be used for balance of payments purposes which includes payment for imports of goods and services from the U.S., and payment of non-military debt owed to the U.S.

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

Yemen Arab Republic

Yemen occupies a strategic position on the entrance to the Red Sea and shares borders with Saudi Arabia and the People's Democratic Republic of Yemen (PDRY). Security concerns in Yemen are derived in part from historical internal friction — since the overthrow of the medieval regime of the Imamate in 1962, two of Yemen's five presidents have been overthrown and two were assassinated. The Yemeni Government does not have total authority over fiercely independent tribal factions. The unstable relationship with the Marxist regime in PDRY has resulted in frequent armed clashes. There are recent signs of increased cooperation with PDRY, including relaxed restrictions on boarder crossings and agreement to explore for oil in a region along the common border. Nevertheless, maintenance of a strong defensive capability is likely to remain a high priority in Yemen over the near term.

The Yemen Arab Republic is faced with formidable economic problems which are exacerbated by the heavy dependence on income sources which have been affected by declining oil prices in the Gulf region. Remittances from Yemeni workers have declined substantially in recent years and, in 1988, were down 50 percent from the previous year. Donor contributions, largely from other Arab states, dropped by 30 percent in the same period. Yemen's own oil exports began in December 1987 but revenues were less than expected in 1988 and failed to offset the sharp drop in other sources of foreign exchange. The result has been a severe shortage of foreign exchange, growing current account deficits and increased inflationary pressure. Yemen's late entry into an outwardly-oriented economic development process has left the country with a substantial deficit of modern economic and social infrastructure and the economic problems mentioned above, coupled with a high population growth rate, have slowed the modernization of the country.

Despite the problems mentioned above, Yemen has made substantial progress in addressing social and physical infrastructure requirements. Yemen's national planners have demonstrated an increasingly sophisticated appreciation of the priorities for economic development and of the role of the private sector as the primary engine for stimulating growth. The expanded role of elected representatives to parliament following elections in mid-1988 is expected to provide an additional forum for discussion of national development priorities.

Security concerns will likely result in continued emphasis on national defense. Despite the relatively high level of military expenditures, Yemen has tried to minimize the budgetary impact by negotiating to extend or forgive military assistance loans. Future fiscal austerity measures will have an impact on both defense and economic development budgets but it is clear that Yemen is placing a high priority on devoting budgetary resources, especially scarce foreign exchange, to development efforts.

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

Latin America and Caribbean

El Salvador

El Salvador is still engulfed in a bitter civil conflict which showed few signs of abating during 1988. However, the country under President Jose Napoleon Duarte has made progress in strengthening human rights, conducting the war and building a viable democracy. Unfortunately, the economy has made less progress. The Salvadoran economy suffered a major turndown in the early 1980s, began to stabilize through 1983-1985, slipped in 1986, continued to drift in 1987 and flattened out in 1988.

San Salvador is still recovering from the effects of the October 10, 1986 earthquake, which struck the heart of San Salvador, killing some 1,000 people, causing over $1 billion in damage, and further limiting the prospects for economic growth.

Unfavorable developments hit the country in 1988. The increase in urban and rural guerrilla attacks on the productive infrastructure, the 1987 drought, and adverse weather conditions early in 1988 that lowered coffee output all contributed to a growth in real GDP of less than one percent in 1988 compared to expectations of 2.6% growth.

Communist guerrilla economic sabotage has contrived to be a major obstacle to improved growth of the Salvadoran economy. Guerrilla leadership has correctly identified the destruction of key infrastructure targets as a potentially effective means to achieve economic and political destabilization. Sabotage of electrical power and communications facilities, roads, bridges, and railroads has steadily risen, and the total cumulative cost for this damage during 1979-1985 is estimated to exceed $1.5 billion.

Because of the ongoing guerrilla insurgency, the Government of El Salvador is required to devote 5.5 percent of its GNP and around 29 percent of government expenditures to defense. These expenditures are essential to defend the democratic government and Salvadoran people against an insurgency that remains committed to taking power. The insurgents are following a strategy of "prolonged popular war," involving destruction of economic infrastructure, military attrition, assassination of local officials and acts of terrorism against the population. Given the continuing threat posed by the insurgency, and the necessity of the government to contain this threat, the defense expenditures of the Government of El Salvador are justified.

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

Guyana

Guyana's economy has experienced a sharp and steady decline since the mid-1970s. Both adverse external conditions, including a sharp deterioration in the terms of trade and weak demand for the country's main exports, and poor domestic policies, contributed to the decline of the economy. The steady growth of public expenditures and the loss of revenue from bauxite and sugar have resulted in increasingly large fiscal deficits and a rapid build-up of external debt. As external financing was reduced in the early 1980s, domestic financing of the deficit resulted in strong balance of payments and inflationary pressures; international reserves were depleted, and external payments arrears accumulated. In response to these conditions, the Government of Guyana (GOG) relied increasingly on price controls and exchange and trade restrictions, while allowing the currency to appreciate substantially. Outputs and exports continued to decline, and a growing parallel economy emerged.

In recent years, the GOG has made several attempts to redress the country's economic ills, including lifting some price controls and a number of import restrictions. In 1988, the GOG reached initial agreement with the International Monetary Fund (IMF) and World Bank (IBRD) on a comprehensive economic policy adjustment program.

Guyana began implementation of an IMF-monitored program in April 1989 and is expected to reschedule its debts, including those to the USG. If it does so, it could become eligible for U.S. security assistance. A small IMET program has been requested, which would improve GDF professional skills, discourage the GDF from seeking Soviet bloc aid, and promote respect for human rights and democratic values.

Guyana is currently precluded from receiving Economic Support Funds (ESF) or Development Assistance (DA) funding by Section 620(q) of the Foreign Assistance Act (FAA), and by the Brooke/Alexander Amendment (which also precludes any form of U.S. military assistance). As of January 31, 1989, Guyana owed some $21.8 million in arrearages to the USG (the Georgetown U.S.A.I.D. Mission has been closed since mid-1985).

From FY 1986 when a P.L. 480 Title I program was reinitiated, through FY 1989, the USG has provided Guyana with $19.4 million in Title I commodities (mainly wheat). The Title I program, which is not covered by the above sanctions, was reinitiated to satisfy the country's requirement for wheat flour, to help stimulate productive economic recovery policies by the GOG, and to increase the nutritional content of the average Guyanese diet, thereby increasing the well-being of the Guyanese people, especially the needy of the country. P.L. 480-generated local currency is programmed to support mutually agreed upon self-help activities designed to support increased food production.

The Guyana Defense Force (GDF) is a professional, well-disciplined, but poorly equipped military force of about 3,000 personnel. The GDF consists of ground, air and maritime elements charged with national defense and maintenance of civil order; it also participates in anti-drug efforts. Retrenchment by the Hoyte government has led to marked reductions in the GDF's budget and personnel (troop strength was estimated at 5,000 in 1987 and at 4,300 in January 1988). The GDF's 1988 budget was 110 million Guyana dollars (approximately U.S. $1.1 million), of which GUY $46 million went to salaries and GUY $42 million to basic living expenses, including GUY $21.6 million for food (1987 GNP was GUY $2,751,000,000). Embassy Georgetown believes previous statistics on Guyana's defense spending used in Section 620 (s) reports may have been derived by including expenditures on subsidiary uniformed services—the Guyana National Service, a uniformed service with a 1988 budget of GUY $37 million tasked mainly with vocational training and agricultural/industrial projects and the Guyana People's Militia, a civilian reserve force—and on the police. It is expected that the GDF budget will decline further in 1989, leading to additional reductions in personnel.

Conclusion: Guyana is currently precluded from receiving USG assistance by 620 (q) of the FAA, and by the Brooke/Alexander Amendment.

Honduras

Despite the civil strife in the region, Honduras has made quite positive political achievements. In January 1986, in a graphic demonstration of strengthened democracy, one democratically elected government succeeded another for the first time in 50 years.

In June 1986, the newly elected government of President Jose Azcona embarked on a three-year economic program to stabilize and structurally reform the economy. Unfortunately, the pace of economic policy reform has been slower than optimal. However, negative economic growth rates of the early 1980's turned around as the Honduran Government took measures to contain and reduce the fiscal deficit and remove some barriers to export-led growth. In the 1984-1988 period, Honduras averaged a positive annual growth rate of 3.4% as opposed to an annual average of zero over the 1980-1983 period.

Government of Honduras (GOH) programs to extend health, education, and other basic social services to the poor and at-risk groups have improved Honduras' basic quality of life indicators. For example, the infant mortality rate continues to show significant changes, dropping to 60 deaths per 1,000 live births in 1988 from 87 in 1984, an impressive achievement for any country.

Honduras' fledgling democracy is faced with serious threats of both aggression and subversion from the Sandinista regime in Nicaragua and its unprecedented military buildup. The 16,750-man Honduran Armed Forces face a 75,000-man, extremely well equipped force across the border in Nicaragua. Expenditure of 3.8% of its GDP and 12.9 percent of the Honduran central Government budget is necessary for force modernization, streamlining of tactical units, provision of additional combat support assets, increased firepower and mobility, and improved command, control, and communication to preserve the regional balance of power. Given the potential threat posed by their aggressive neighbor, these expenditures are justified.

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

Peru

In July 1985, Alan Garcia assumed the Peruvian presidency in a democratic transition from the government of Fernando Belaunde, the first democratically elected government since the military coup of 1968. At the time the Garcia administration took over, Peru had experienced ten years of declining per capita incomes.

The Garcia government sought to reverse the decline in economic activity with a program aimed at increasing aggregate demand. Although the program resulted in sharply higher GDP growth rates in 1986 and 1987, the balance of payments deteriorated rapidly and inflation accelerated.

Faced with a chaotic economic situation, the GOP initiated in March 1988 a series of economic reform programs aiming to stop inflation, arrest the loss of international reserves, and restore private sector confidence. The outcome of the reforms was worse than anticipated. Four mismanaged "too little and too late" 1988 economic reform packages had failed to arrest economic decline or the inflation. Instead, they accelerated the onset of a major recession. By the end of 1988, GDP declined by almost 9 percent and inflation exceeded 1700 percent.

The GOP emphasis has been on increasing agricultural production and promoting development in rural areas while providing improved health and social services, particularly in the poorest Andean regions which are targets of the insurgency. The insurgency has expanded beyond the rural areas and the Maoist Sendero Luminoso (Shining Path) and other terrorist groups are the source of frequent terrorist acts in Lima and other cities of Peru. Similarly, illicit narcotics cultivation and trafficking have blossomed as major challenges to the GOP (as well as to the U.S. interests), and Sendero is a major presence in the principal coca growing region.

An important historical impetus for military procurement is Peru's concern for regional security, which is rooted in border disputes with Ecuador and Chile and the fear that a flare-up on one frontier could lead to a two-front conflict. Terrorism and drug trafficking are related threats to internal order which pose another strong motive for military expenditures. The current Minister of Defense is reported to want to re-direct Peru's military priorities towards the internal terrorist threat, but this does not necessarily imply a decrease in expenditures since the Peruvian military are greatly deficient in the needed military equipment to successfully carry out the war against the insurgent narco-terrorists.

Long oriented toward external threats, the Peruvian military found itself ill-equipped to handle the very different challenge passed by internal subversion. Between the civilian government and the military of the GOP, there are conflicting views as to the balance which must be struck between miliary preparedness and fiscal prudence in a time of economic recession. Resolution of conflicting policy approaches is complicated by the military's strong role in the political system and the constraints this heritage imposes on economic planners trying to control the budget.

One of the stated policies of the Garcia government is to reduce the size of its military budget. Peru negotiated a 50% reduction in purchases of Mirage jets. The GOP has also initiated an effort in Latin America for a regional agreement limiting expenditures on armaments in Latin America. This effort has not yet led to concrete results.

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

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

Statistical Tables

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

Countries with the Highest Rankings on Measures Included in Section 620(s) of the Foreign Assistance Act of 1961, as Amended

Burundi
Chad
Egypt
El Salvador
Guyana
Honduras
India
Israel
Jordan
Liberia
Mauritania
Morocco
Mozambique
Oman
Pakistan
Peru
Turkey
Yemen Arab Republic (N.)

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Regional Rankings

Africa

Country	Defense Expenditures as Percent of: Central Government Expenditures		Gross National Product		Military Imports as Percent of Total Imports	
	Percent	Ranking	Percent	Ranking	Percent	Ranking
Algeria	6.2	21	2.5	15	6.8	5
Angola					85.7	1
Benin						
Botswana	5.1	23	2.7	13	0	25
Burkina Faso						
Burundi	12.5	9	3.2	9	4.8	6
Cameroon	8.3	14	2	18		
Central African Republic					0	25
Chad	32.3	2	1.9	19		
Congo	8	16	3.4	8		
Cote d'Ivoire					0	25
Djibouti						
Ethiopia	26.5	3	9.1	1	29.9	3
Gabon					0	25
Gambia, The						
Ghana	7.2	19	0.9	25	0.6	15
Guinea						
Guinea-Bissau						
Kenya	12.6	8	3.6	6	0.6	15
Lesotho						
Liberia	8.8	13	2.7	13	4.3	7
Libya					25.9	4
Madagascar	8	16	2.4	16		
Malawi					1.9	11
Mali			2.5	15	0	25
Mauritania	25	4	6.6	3	0	25
Mauritius	0.8	26	0.2	27	0	25
Morocco	15	5	6.5	4	2.1	10
Mozambique	38	1	7.4	2	32.4	2
Niger	5	25	0.8	26		
Nigeria	7.9	17	1.4	23		
Rwanda	9.4	11	1.7	21		
Senegal	8.8	13	2.8	11		
Sierra Leone	5	25	0.9	25	0	25
Somalia						
South Africa					0	25
Sudan	12.9	7	2	18		
Swaziland	5.2	22	1.5	22		
Tanzania	13.8	6	3.4	8	3.5	8
Togo	6.9	20	2.9	10		
Tunisia	7.4	18	3.6	6	1	12
Uganda					2.9	9
Zaire	9.8	10	1.7	21	0.8	15
Zambia					0	25
Zimbabwe						

Asia

Country	Defense Expenditures as Percent of: Central Government Expenditures		Gross National Product		Military Imports as Percent of Total Imports	
	Percent	Ranking	Percent	Ranking	Percent	Ranking
Afghanistan						
Australia	9.2	11	2.9	8	3.1	4
Bangladesh	13.1	7	1.7	12	2.6	5
Burma	21.2	4	3	7	3.3	3
Fiji					0	16
India	17.3	6	3.8	6	18.3	1
Indonesia	11	8	2.5	10	1.8	6
Japan	5.5	14	1	16	0.5	12
Korea, Republic	26.6	2	5.5	3	1.6	7
Malaysia	9.3	10	3.8	6	0.4	13
Nepal	6.2	13	1.2	15	0	16
New Zealand	4.5	15	2	11	0.7	10
Pakistan	28.1	1	6.4	1	5.4	2
Papua New Guinea	4.1	16	1.5	13		
Philippines	9.5	9	1.3	14	0.6	11
Singapore	23.6	3	6.2	2	0.9	9
Sri Lanka	7.7	12	2.7	9	0	16
Thailand	19.7	5	4.4	4	1.2	8

Europe and Near East

Defense Expenditures as Percent of:

Country	Central Government Expenditures		Gross National Product		Military Imports as Percent of Total Imports	
	Percent	Ranking	Percent	Ranking	Percent	Ranking
Bahrain	10.7	13	4	16	2.1	10
Cyprus	4.1	17	1.3	20	0	19
Egypt	28.1	7	14.2	7	9.2	4
Greece	16	11	7.2	10	1	11
Hungary	8.1	15	4.4	15	0.6	12
Iran					17.4	2
Iraq					52.7	1
Ireland	3	18	1.9	19	0.2	18
Israel			13.9	8	4.2	7
Italy	4.8	16	2.7	18	0.2	18
Jordan	31.7	5	17.4	6	13.6	3
Kuwait	13.6	12	6.3	11	2.2	9
Lebanon					0.5	14
Malta						
Oman	42.3	2	24.4	3		
Poland	22.6	9	6	12	3.1	8
Portugal	8.4	14	3.3	17	0.3	16
Qatar	53.7	1	46.9	1	6.9	5
Saudi Arabia	27	8	24.4	3		
Spain	0	19	0	21	0.5	14
Syria	42	4	22.8	4		
Turkey	17.9	10	4.6	14	5.4	6
United Arab Emirates	42	4	5.7	13	0.4	15
Yemen Arab Republic (N.)	28.5	6	10	9		
Yemen PDR (S.)			17.6	5		

Latin America and Caribbean

Country	Defense Expenditures as Percent of: Central Government Expenditures — Percent	Ranking	Gross National Product — Percent	Ranking	Military Imports as Percent of Total Imports — Percent	Ranking
Argentina	12.9	7	3.3	8	0.6	7
Barbados	2.3	19	0.8	21	0	19
Belize						
Bolivia						
Brazil	3.6	18	1	19	0.4	11
Chile	11.4	9	4.1	6	0	19
Colombia	7.8	12	1.2	16	0.5	9
Costa Rica	4	16	1	19	0.4	11
Cuba			5.4	5	15.5	2
Dominican Republic	11.7	8	1.4	15	0.3	12
Ecuador					0.6	7
El Salvador	29.1	2	5.5	4		
Guatemala	15.9	5	1.8	12	0	19
Guyana			8.9	2		
Haiti	8.4	11	1.6	13		
Honduras	12.9	7	3.8	7	6.9	3
Jamaica	1.8	20	0.9	20	0	19
Mexico	4.4	15	0.6	22	0.5	9
Nicaragua	22.5	3	16.8	1	68.5	1
Panama	3.7	17	2.2	11		
Paraguay	18.3	4	1.1	17	0	19
Peru	37.1	1	6.9	3	5.3	4
Suriname	5.4	13	2.5	10		
Trinidad and Tobago					0	19
Uruguay	10.6	10	2.7	9	0	19
Venezuela	4.7	14	1.4	15	0.8	5

World Rankings

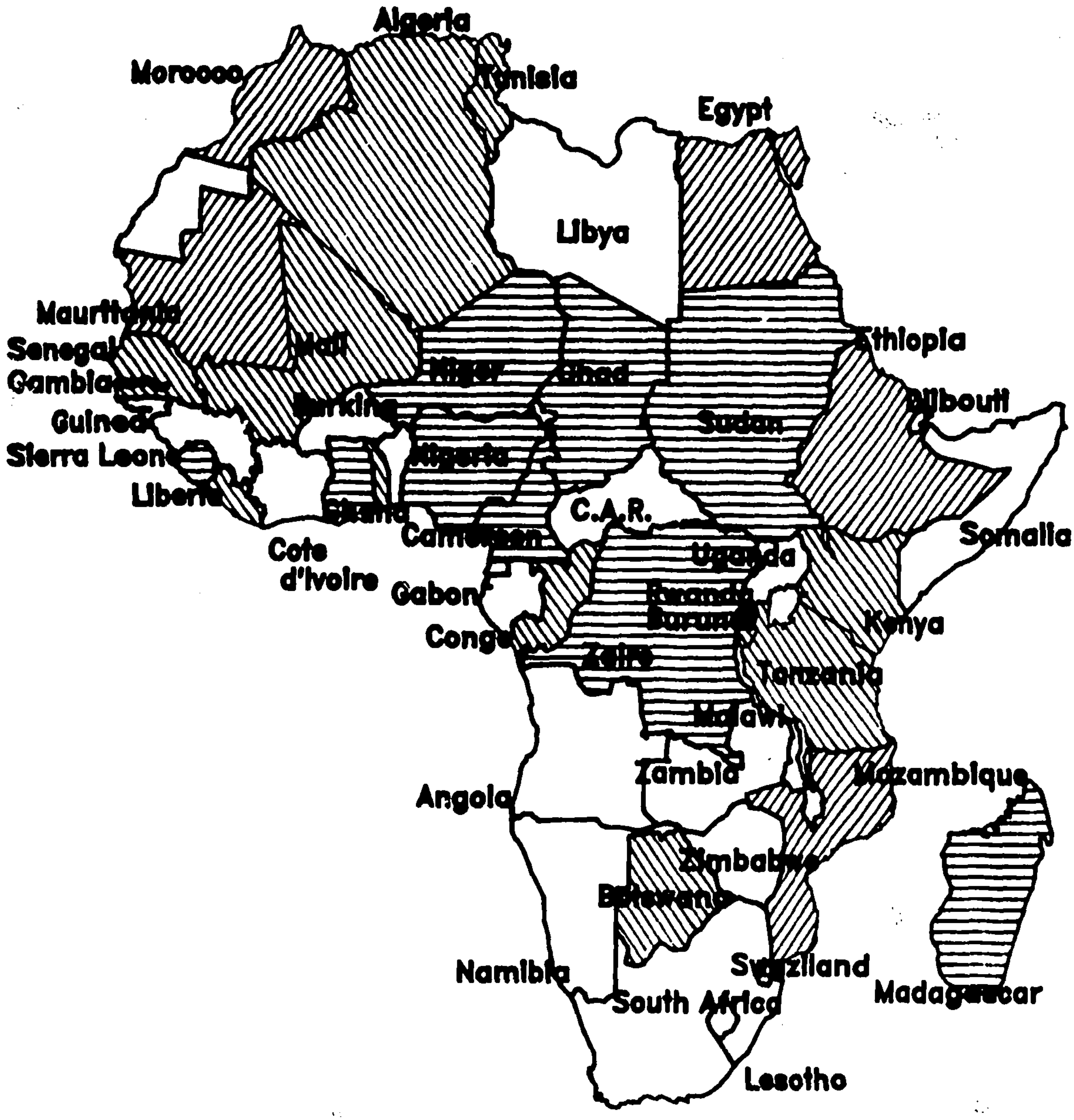
Country	Defense Expenditures as Percent of: Central Government Expenditures — Percent	Central Government Expenditures — Ranking	Gross National Product — Percent	Gross National Product — Ranking	Military Imports as Percent of Total Imports — Percent	Military Imports as Percent of Total Imports — Ranking
Afghanistan						
Algeria	6.2	61	2.5	53	6.8	14
Angola					65.7	1
Argentina	12.9	33	3.3	39	0.6	45
Australia	9.2	45	2.9	43	3.1	24
Bahrain	10.7	39	4	30	2.1	29
Bangladesh	13.1	30	1.7	64	2.6	26
Barbados	2.3	78	0.8	83	0	79
Belize						
Benin						
Bolivia						
Botswana	5.1	65	2.7	49	0	79
Brazil	3.6	76	1	78	0.4	54
Burkina Faso						
Burma	21.2	20	3	41	3.3	22
Burundi	12.5	35	3.2	40	4.8	18
Cameroon	8.3	50	2	58		
Central African Republic					0	79
Chad	32.3	7	1.9	60		
Chile	11.4	37	4.1	29	0	79
Colombia	7.8	55	1.2	74	0.5	50
Congo	8	53	3.4	37		
Costa Rica	4	74	1	78	0.4	54
Cote d'Ivoire					0	79
Cuba			5.4	25	15.5	9
Cyprus	4.1	73	1.3	72	0	79
Djibouti						
Dominican Republic	11.7	36	1.4	70	0.3	56
Ecuador					0.6	45
Egypt	28.1	12	14.2	8	9.2	11
El Salvador	29.1	9	5.5	24		
Equatorial Guinea						
Ethiopia	26.5	15	9.1	11	29.9	5
Fiji					0	79
Gabon					0	79
Gambia, The						
Ghana	7.2	58	0.9	81	0.6	45
Greece	16	25	7.2	14	1	35
Guatemala	15.9	26	1.8	61	0	79
Guinea-Bissau						
Guinea						
Guyana			8.9	12		
Haiti	8.4	49	1.6	65		
Honduras	12.9	33	3.8	33	6.9	13
Hungary	8.1	51	4.4	28	0.6	45
India	17.3	24	3.8	33	18.3	7
Indonesia	11	38	2.5	53	1.8	31
Iran					17.4	8
Iraq					52.7	3
Ireland	3	77	1.9	60	0.2	58
Israel			13.9	9	4.2	20
Italy	4.8	68	2.7	49	0.2	58
Jamaica	1.8	79	0.9	81	0	79
Japan	5.5	62	1	78	0.5	50
Jordan	31.7	8	17.4	6	13.6	10
Kampuchea						
Kenya	12.6	34	3.6	35	0.6	45
Korea, Republic	26.6	14	5.5	24	1.6	32
Kuwait	13.6	29	6.3	19	2.2	27

	Defense Expenditures as Percent of:					
	Central Government Expenditures		Gross National Product		Military Imports as Percent of Total Imports	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Laos						
Lebanon					0.5	50
Lesotho						
Liberia	8.8	47	2.7	49	4.3	19
Libya					25.9	6
Madagascar	8	53	2.4	54		
Malawi					1.9	30
Malaysia	9.3	44	3.8	33	0.4	54
Mali			2.5	53	0	79
Malta						
Mauritania	25	16	6.6	16	0	79
Mauritius	0.8	80	0.2	85	0	79
Mexico	4.4	71	0.6	84	0.5	50
Morocco	15	27	6.5	17	2.1	29
Mozambique	38	5	7.4	13	32.4	4
Nepal	6.2	61	1.2	74	0	79
New Zealand	4.5	70	2	58	0.7	38
Nicaragua	22.5	19	16.8	7	68.5	2
Niger	5	67	0.8	83		
Nigeria	7.9	54	1.4	70		
Oman	42.3	2	24.4	3		
Pakistan	28.1	12	6.4	18	5.4	16
Panama	3.7	75	2.2	55		
Papua New Guinea	4.1	73	1.5	67		
Paraguay	18.3	22	1.1	75	0	79
Peru	37.1	6	6.9	15	5.3	17
Philippines	9.5	42	1.3	72	0.6	45
Poland	22.6	18	6	21	3.1	24
Portugal	8.4	49	3.3	39	0.3	56
Qatar						
Rwanda	9.4	43	1.7	64		
Saudi Arabia	27	13	24.4	3		
Senegal	8.8	47	2.8	44		
Sierra Leone	5	67	0.9	81	0	79
Singapore	23.6	17	6.2	20	0.9	36
Somalia						
South Africa					0	79
Spain	0	81	0	86	0.5	50
Sri Lanka	7.7	56	2.7	49	0	79
Sudan	12.9	33	2	58		
Suriname	5.4	63	2.5	53		
Swaziland	5.2	64	1.5	67		
Syria	42	4	22.8	4		
Tanzania	13.8	28	3.4	37	3.5	21
Thailand	19.7	21	4.4	28	1.2	33
Togo	6.9	59	2.9	43		
Trinidad and Tobago					0	79
Tunisia	7.4	57	3.6	35	1	35
Turkey	17.9	23	4.6	26	5.4	16
Uganda					2.9	25
United Arab Emirates	42	4	5.7	22	0.4	54
Uruguay	10.6	40	2.7	49	0	79
Venezuela	4.7	69	1.4	70	0.8	37
Yemen Arab Republic (N.)	28.5	10	10	10		
Yemen PDR (S.)			17.6	5		
Zaire	9.8	41	1.7	64	0.6	45
Zambia					0	79
Zimbabwe						

Maps

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

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



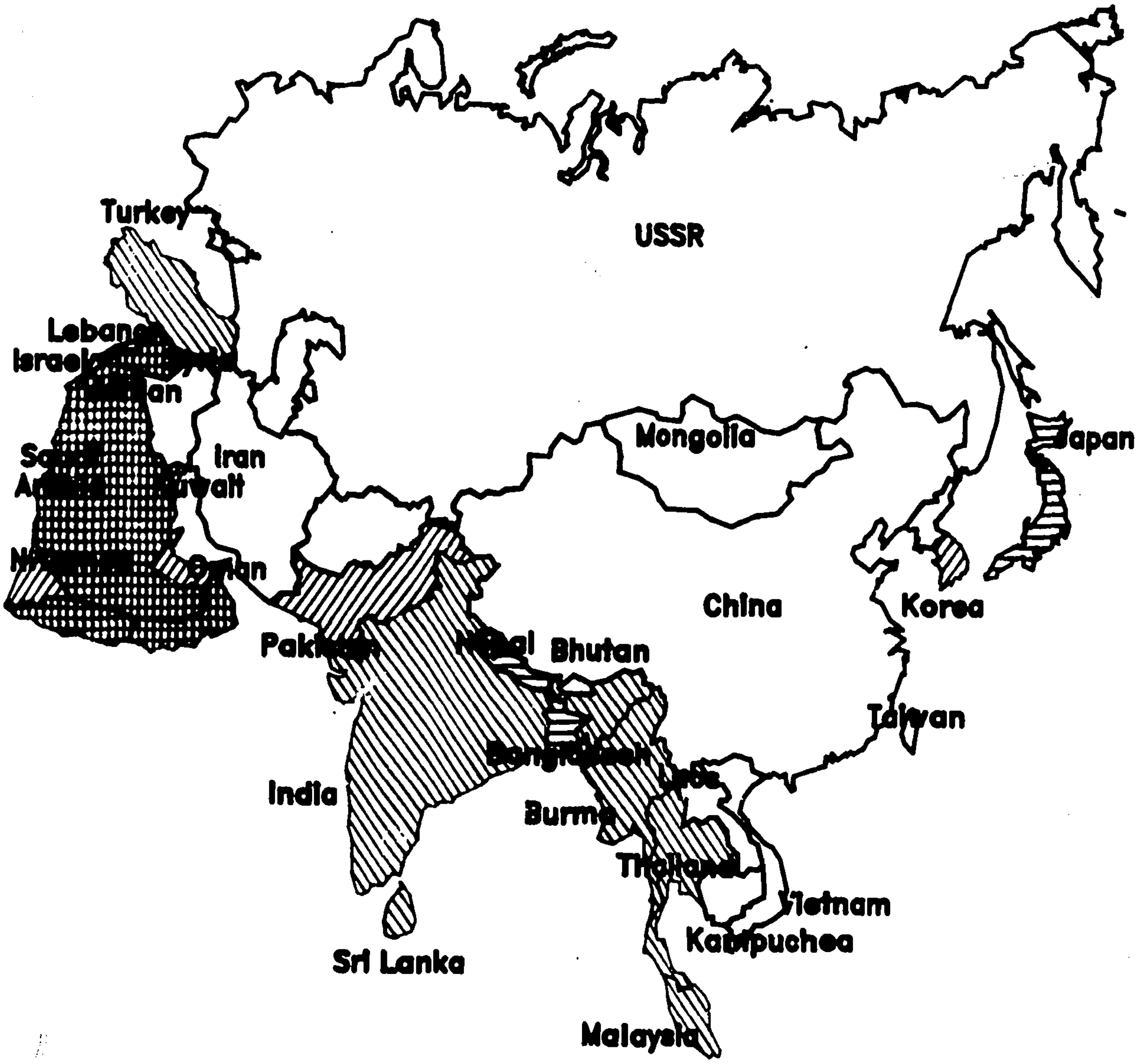
UNDER 2.5% 2.5% TO 5%

5% TO 15% OVER 15%

1985 – 86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



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

1985—86 DATA

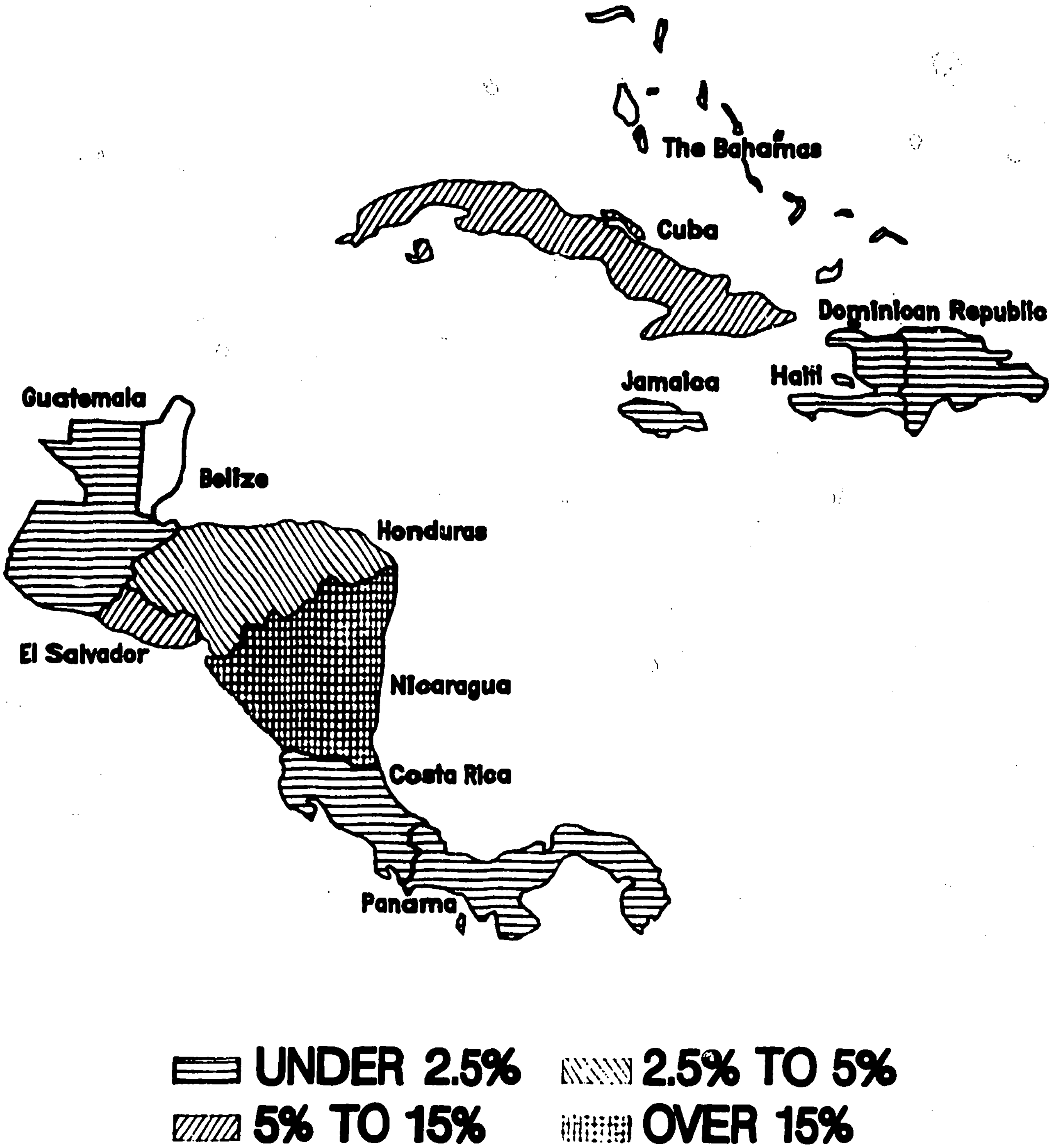
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT

1985–86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



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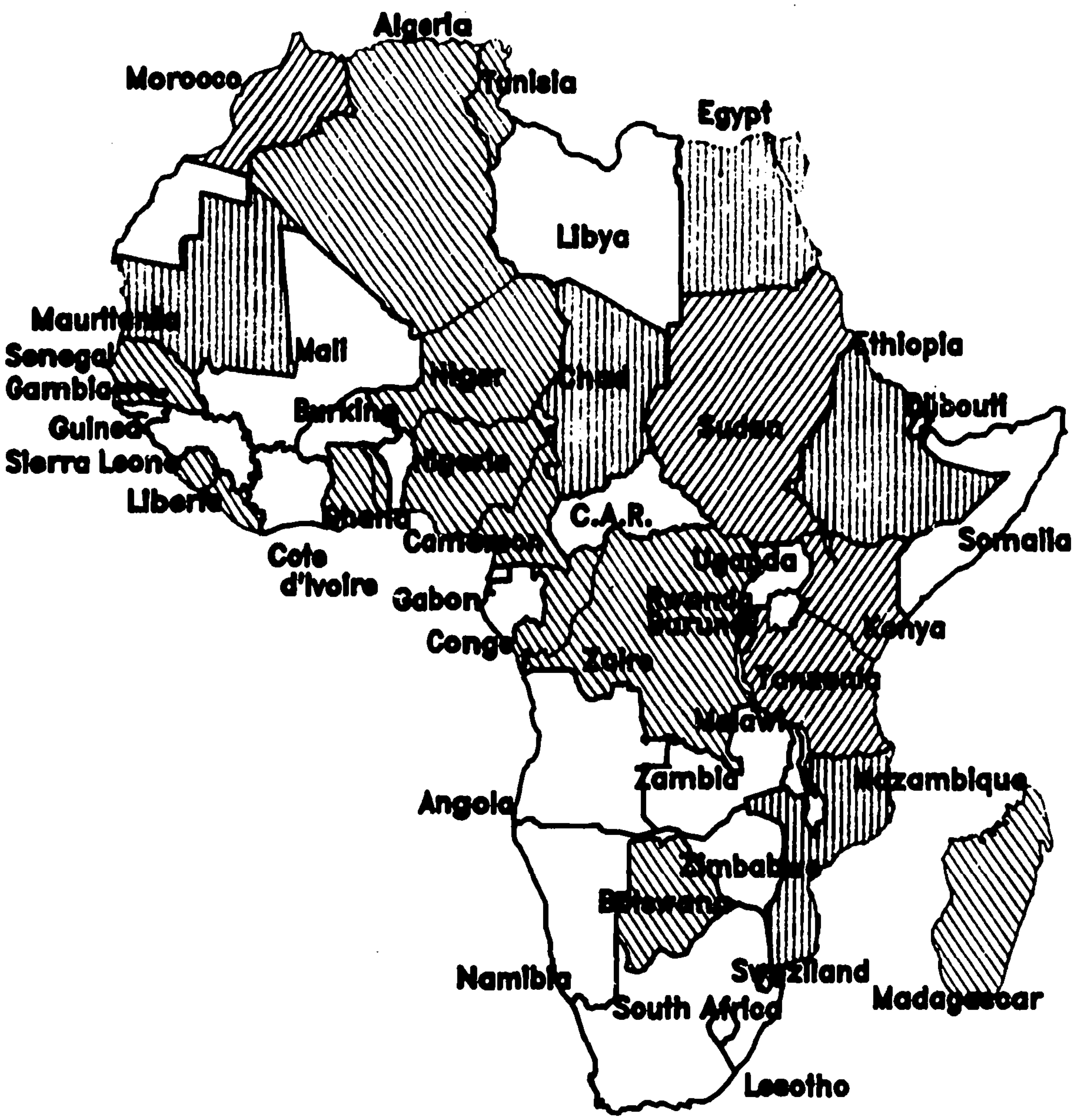
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



UNDER 5% 5% TO 10%

10% TO 20% OVER 20%

1985–86 DATA

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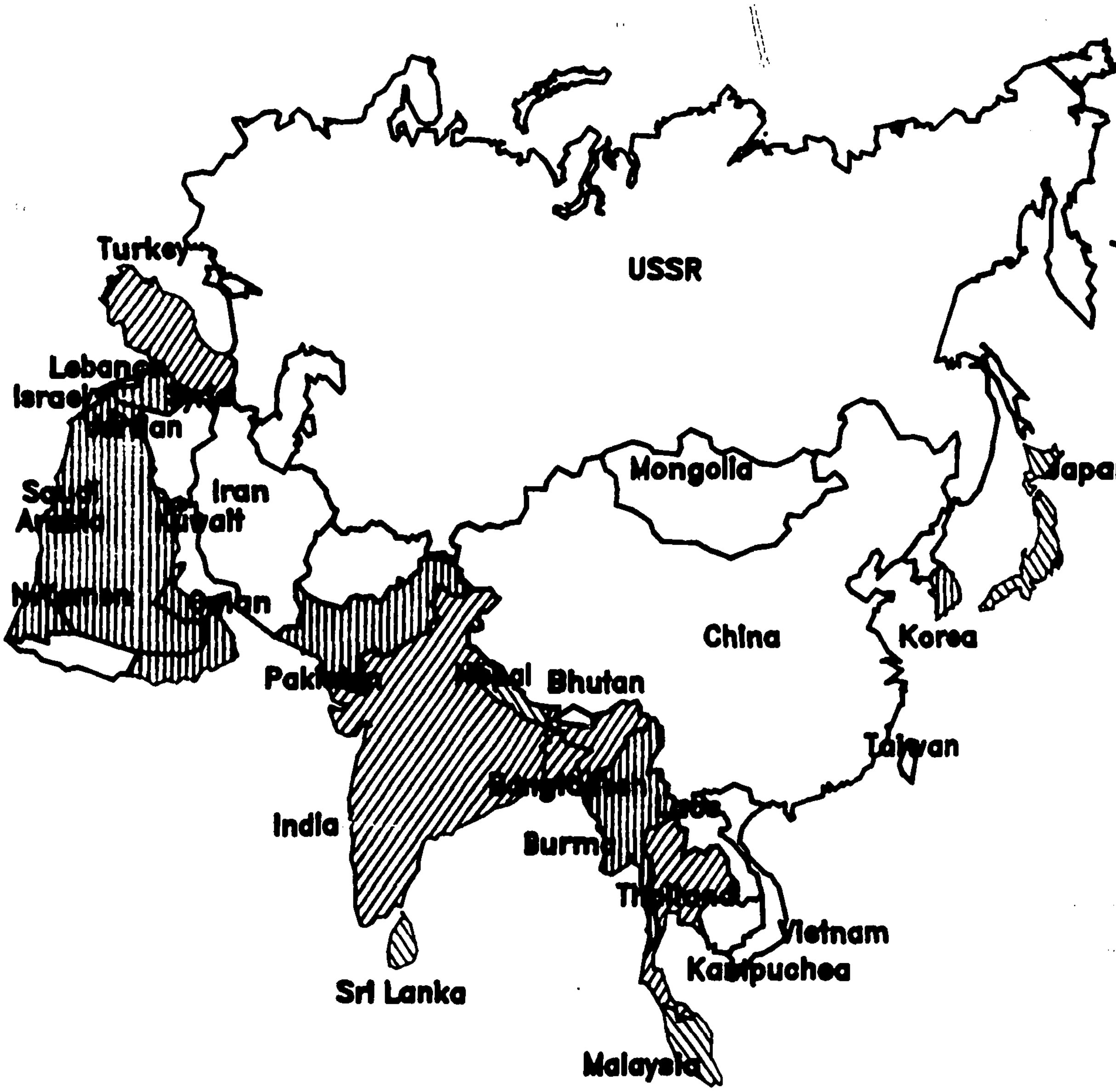


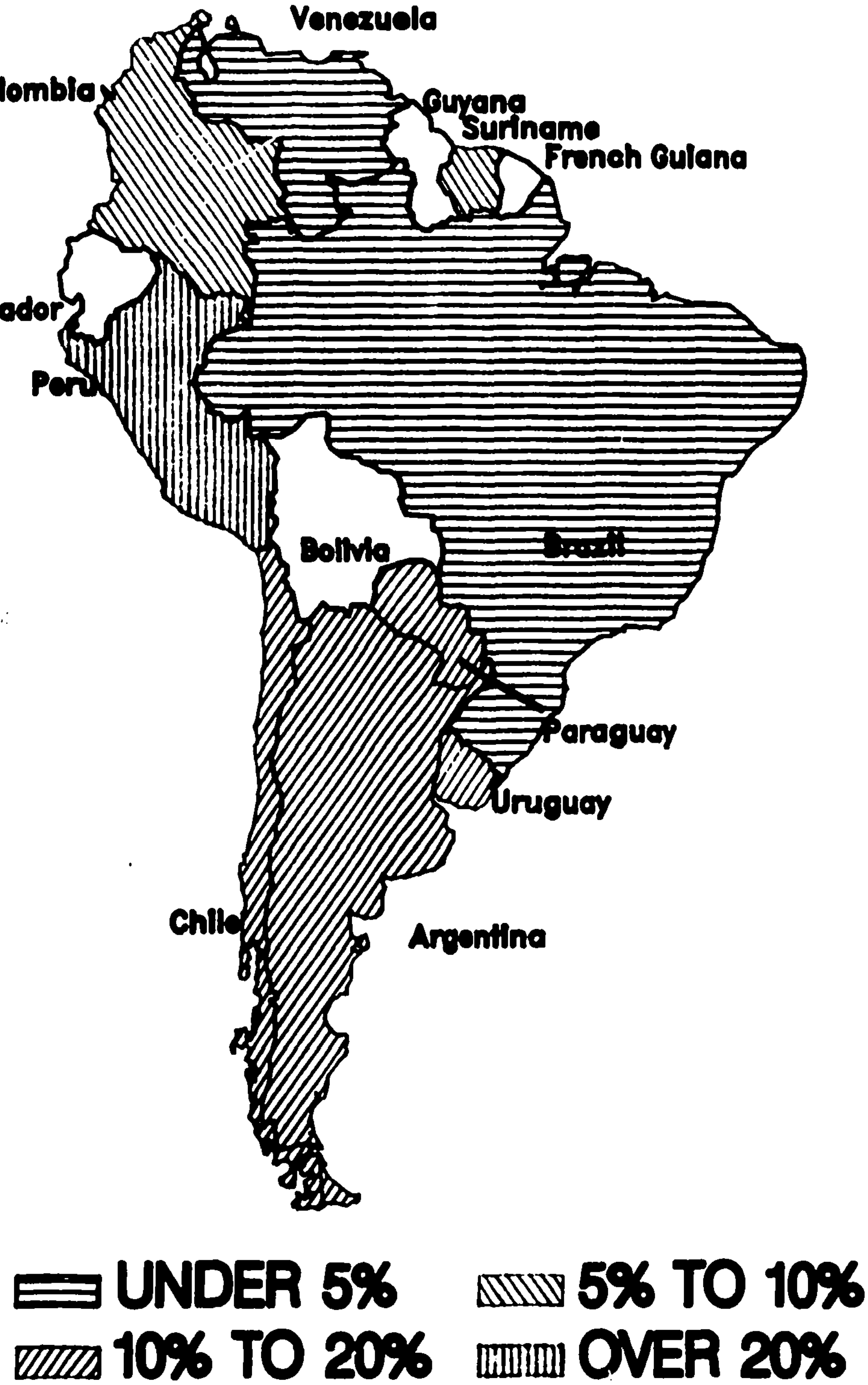
UNDER 5% 5% TO 10%

10% TO 20% OVER 20%

1985–86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



1985–86 DATA

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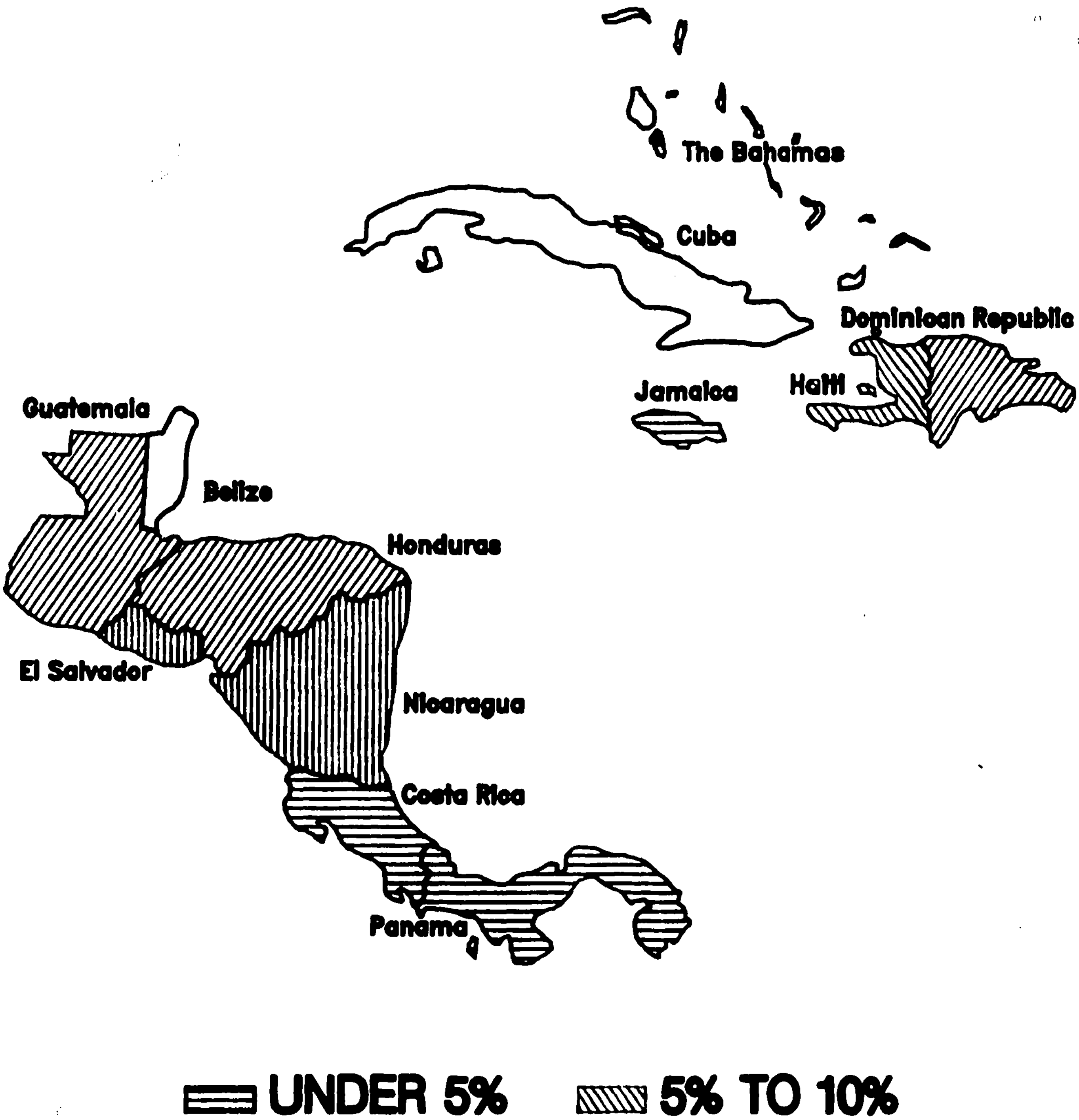
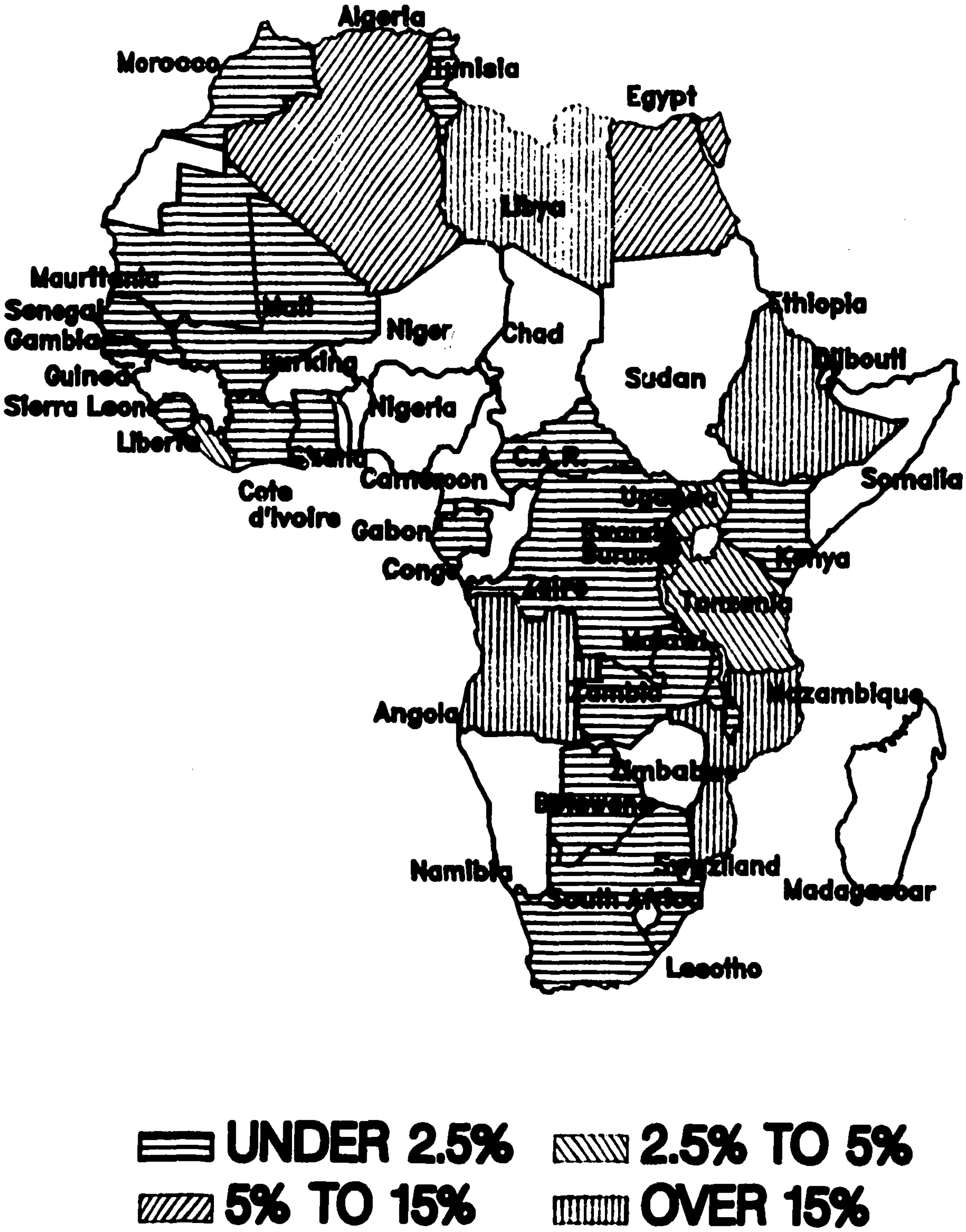
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



1985–86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

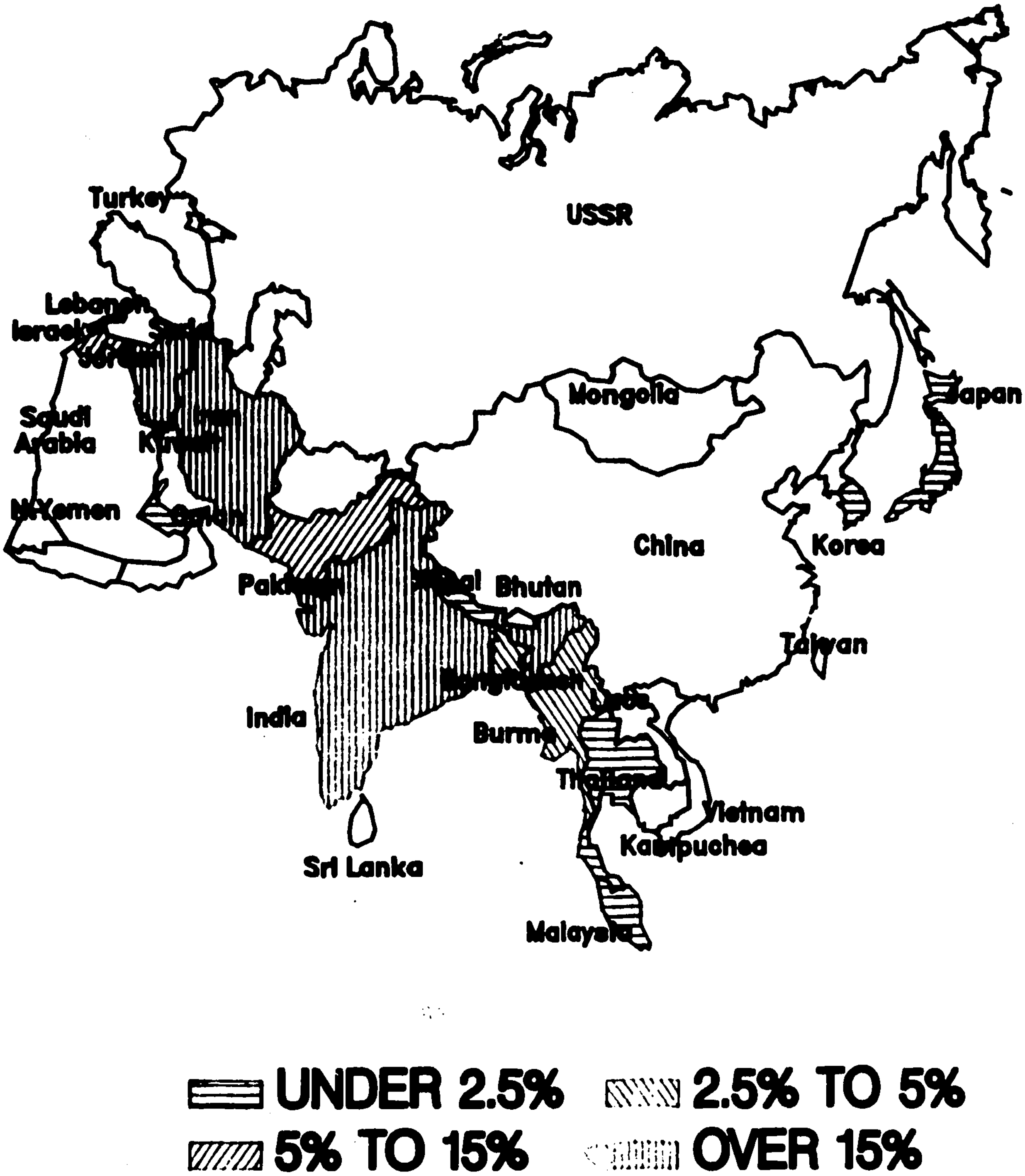
MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



1985—86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



1985–86 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS

1985–86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

53

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS

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

1985—86 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

Appendix

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

Methodology

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

The three resulting measures and their rank are presented in worldwide and regional tables. All figures in this report refer to 1985 or 1986, the latest years for which the most complete statistics were available for preparing the 1987-88 report.

Source

The source of data used throughout this report is the U.S. Arms Control and Disarmament Agency (ACDA), as reported in its publication, *World Military Expenditures and Arms Transfer, 1987.*

Definitions of Data

Defense Expenditures

Data on NATO country military expenditures (defense expenditures) are based on NATO definitions. In summary, civilian-type expenditures of each NATO defense ministry are excluded and military-type expenditures of other ministries are included; grant military assistance is included in the expenditures of the donor country; and purchases for credit are included at the time the debt is incurred, not at the time of payment. For other non-communist countries, data are generally the expenditures of the ministry of defense. When these are known to include the costs of internal security, an attempt is made to remove these expenditures. It should be recognized that the data are of uneven accuracy and completeness. There are indications that the military expenditures reported by some countries consist mainly or entirely of recurring or operating expenditures and omit all or most capital expenditures, including arms purchases. In the case of several countries — Algeria, Cuba, Ecuador, Egypt, Honduras, Iraq, Iran, Libya, and Syria— special note of this possibility is made in Table I of ACDA's 1987 World Military Expenditures Report (see Source).

Gross National Product

Gross National Product (GNP) represents the total output of goods and services produced by residents of a country and valued at market prices.

Central Government Expenditures

Central Government Expenditures (CGE) include current and capital (developmental) expenditures plus net lending to government enterprises, by central (or federal) governments. It should be noted that for the Soviet Union, China, Iran, Jordan, and possibly others, the ratio of military expenditures to central government expenditures may be overstated, inasmuch as the estimate for military expenditures is obtained at least in part independently of nominal budget or government expenditure data, and it is possible that all estimated military expenditures do not pass through the nominal central government budget.

Military Imports

Arms transfers (military imports) represent the international transfer (under terms of grant, credit, barter or cash) of military equipment, usually referred to as "conventional," including weapons of war, parts thereof, ammunition, support equipment, and other commodities designed for military use. Excluded are foodstuffs, medical equipment, petroleum products, and other supplies. Military services such as construction, training, and technical support are included for countries other than the United States. The statistics are estimates of the value of goods actually delivered during the reference year, in contrast both to the value of programs, agreements, contracts, or orders which may result in future deliveries, and to payments made during the period. Because countries may not include their arms imports or exports in their trade statistics, "total" imports and exports may be understated; in this event, ratios such as (estimated) arms imports to "total" imports will be overstated and may even exceed 100 percent.

*All definitions are taken from the Statistical Notes of ACDA's *World Military Expenditures and Arms Transfers, 1987.*