SECURITY ASSISTANCE LEGISLATION AND POLICY

Foreign Assistance Funding Proposal for Fiscal Year 1992

By

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Secretary of State

[The following is a reprint of a formal statement presented by Secretary Baker in testimony before the House Appropriations Committee on 22 May 1991 in Washington, DC.]

Mr. Chairman, I am privileged to appear before this subcommittee to testify on behalf of our foreign assistance funding proposal for fiscal year (FY) 1992.

I would like to report on my recent trips to the Middle East, devoting the bulk of my remarks to the Middle East peace process and to the situation in Iraq. I also would like to make some brief observations about the Soviet Union and the North American Free Trade Agreement (NAFTA).

The Peace Process

For the past 2 months, we've been engaged in an intensive effort to find a path to a comprehensive settlement through direct negotiations between Israel, the Arab states, and Palestinians. Since we began that effort, I have had no illusions about the challenges and difficulties involved. But I also have had a strong sense that the Gulf war may have created some new possibilities for peace-making in the region and that the United States has a unique obligation to help explore them. While it would be sad if it turns out that old obstacles are more formidable than new opportunities, it would be sadder still if the United States failed to energetically pursue a chance for peace. Those chances do not come along very often in the Middle East.

Iraq's invasion of Kuwait brought together a historic international coalition. The United States, the Soviet Union, Europeans, Arabs, and others joined to reverse Iraq's aggression. The United Nations played the role its founders had intended. And through its restraint in the face of Iraqi provocation, Israel became a silent partner in the coalition's success. The net result was a staggering defeat for Saddam Hussein and the path of violence and intimidation that he represented and new hope for the alternative path of diplomacy and negotiations.

To test the moment and transform the ground rules for Arab-Israeli peace-making, we felt it important to engage in a process that would break the taboos on direct dialogue. If the impulse to make peace was different, we needed to overcome the barriers to Israelis, Arabs, and Palestinians meeting directly. We needed to establish that dialogue and diplomacy—not violence or rejectionism—could become the currency of politics in the region.

The war provided a grim reminder of the dangers of conflict in an era of escalating military competition. It was a reminder that the dispute between Israelis and Palestinians was still at the core of the Arab-Israeli problem—but that the state-to-state dimension also had to be addressed.

And it was a hopeful-reminder that Israel and the Arab states sometimes find common ground between them—common ground which might provide room for maneuver to encourage Israeli-Palestinian accommodation.

Our post-war task, therefore, was to try to blend what was new and promising following the crisis with the enduring principles of Arab-Israeli diplomacy. That was the purpose of my first three trips to the region after the war. The result was a consensus among the parties on five key points.

First, general agreement that the objective of the process is a comprehensive settlement achieved through direct negotiations based on UN. Security Council Resolutions 242 and 338.

Second, broad understanding that the negotiating process would proceed simultaneously along two tracks, involving direct negotiations between Israel and Arab states and between Israel and Palestinians from the occupied territories.

Third, agreement that the negotiations between Israel and Palestinians would proceed in phases, with talks on interim self-government preceding negotiations over the permanent status of the occupied territories.

Fourth, agreement that Palestinians would be represented in the process by leaders from the occupied territories who accept the two-track process and phased approach to negotiations and who commit to living in peace with Israel.

Fifth, general acceptance that a conference, co-sponsored by the United States and the Soviet Union, would break the old taboos about public contacts between the parties and be the launching pad for direct negotiations between the parties.

These are not insignificant areas of consensus. And they certainly provide a baseline for progress. But they still have to be translated into a practical process, and that was the purpose of my most recent trip to the area. Let me give you a sense of the key issues we are still trying to resolve.

Resolution of Key Issues

The first set of issues relates to modalities of the peace conference. There has been a great deal of misunderstanding on this question so let me lay out simply what we have in mind. Our objective is to launch direct negotiations. That's what this effort is all about. We believe the best way to do this is through a peace conference that would lead directly to bilateral negotiations between Israel and its Arab and Palestinian neighbors and multilateral negotiations on issues such as arms control and regional security, the environment, and water.

Let me be clear about this. We are not considering an international conference with a plenary that has the power or authority to impose its views, nor are we considering any mechanism that would interfere in any way with negotiations. In fact, as I've told those in the region, the conference is not a forum for negotiations. Quite simply, it's a means to an end, a tool in our effort to get the parties to sit down face-to-face to sort out their differences and to break anachronistic taboos.

This conference would be cosponsored by the United States and the Soviet Union. Israel, Egypt, Syria, Lebanon, Jordan, and Palestinians from the occupied territories would attend. As you know, the Gulf Cooperation Council (GCC) has already taken a very important step and agreed to send its Secretary General as observer. In addition, each of the member states of the

GCC, the six Gulf states, have announced they will participate in the direct negotiations on multilateral issues.

We also believe the European Community (EC) could play a constructive role in support of this process, and especially in the hard work of economic development that would follow a negotiated peace. The EC should be able to participate in the conference. Similarly, the United Nations should have some role; a formula ought to be found that is acceptable to all the parties, that prejudices none, and that channels the new-found potential of the United Nations in ways that can be helpful in promoting peace and reconciliation in the area. The exact nature of EC and UN involvement is still unresolved. Another open question is the ability of the conference to reconvene. The United States believes it should be able to do so, if all the parties agree, in order to hear reports from the bilateral and multilateral negotiating groups.

The point is that none of this will, in any way, interfere with direct negotiations. Indeed, face-to-face negotiations offer the only way to make any progress, and we would not accept any proposal that would lead any party to believe that it could avoid negotiations or have others relieve it of the need to negotiate.

The other set of issues deals with the question of Palestinian representation in the negotiations.

From the beginning of this Administration, we have made it clear that our objective is to get Israel and Palestinians from the occupied territories into negotiations. Of course, Palestinians must choose their representatives, but our view is—and many other parties agree—that a joint Jordanian-Palestinian delegation could be a useful vehicle to get to the conference as well as to handle any number of issues that might arise during the negotiations.

So the purpose of my recent trip to the region was to continue to explore these issues with the parties and to determine where there was consensus and which areas required more work. Overall, I found that there is more agreement than disagreement on the key elements of our approach. And I found a willingness to continue looking for ways to resolve those areas that are still not nailed down.

I also had extremely useful discussions with Soviet Foreign Minister Bessmertnykh in the Soviet Union and in Cairo. The Soviets have been very supportive of our approach. The fact that the Soviet Union and the United States are in basic agreement about how to proceed on the peace process creates a new factor—one that improves the chances of getting this process launched.

Nonetheless, we are obviously not at the point I would like to be. There are areas of disagreement, particularly between Israel and Syria over the modalities of the conference, both on the issue of the UN role and over the issue of reconvening the conference. I'm not going to pretend that sorting these out will be easy or that it will be done quickly.

But I will say that we will continue to try so long as we believe that all parties are working in good faith and are serious about finding ways to resolve differences. The President and I have talked about our next steps, and we believe we should continue to press ahead and see if we can overcome the gaps and get to negotiations. Finally, I believe the parties in the region do appreciate that there's a real chance to launch a process. We've defined a workable pathway to negotiations that would enable Israel, Arab states, and Palestinians to capture that chance and make a real break with the past in favor of peace. It is there for the taking, but it will not last forever.

What remains to be seen is whether the parties are willing to seize this chance. The United States is there, ready and willing to help them try. But we cannot create the political will to act, if it does not exist in the region.

The Situation In Iraq

With his aggression outward against Kuwait defeated, Saddam Hussein turned his terror inward in the aftermath of the Gulf War and drove hundreds of thousands of Iraqis out of their homes and into foreign lands. This created, as the United Nations recognized in Resolution 688, a new threat to international peace and security. The issue for all of us can no longer be just Kuwait.

Today, I want to review with you the three-pronged strategy that we and our allies have pursued to cope with this terrible situation. First, we have worked to relieve the immediate suffering of Iraqi refugees. Second, we are working to prevent another round of terror by creating safe and secure conditions within Iraq so that the refugees can return to their homes and live in safety. Third, we will continue to isolate Saddam Hussein as long as he holds power. Let me discuss each of these aspects of our strategy.

The **first** has been aimed at the immediate problem: saving the lives of refugees by providing them food, water, medicine, blankets, and housing. Through **Operation Provide Comfort**, we have air dropped and trucked supplies to refugees on the mountains in northern Iraq and southern Turkey, have built refugee camps in both Iraq and Turkey, and have re-secured. portions of northern Iraq so that they could begin to return to their homes.

The President has contacted the leaders of the major industrial countries and our coalition partners from the Arab world and urged them to make generous pledges to the various UN appeals. We appreciate the conference committee's action on Tuesday, and we hope the Congress will act expeditiously on our supplemental refugee request.

As a result of our efforts, the situation has improved considerably. Death rates among the refugees have dropped markedly, and well over half the refugees have come down from the mountains.

It has not been enough, however, to provide only for the immediate needs of the refugees. We also have a duty to try to prevent a greater tragedy—a situation where Saddam could exercise his terror once again.

This **second** aspect of our strategy requires uniting the world community to ensure international access to the affected regions throughout Iraq in strict conformity with Security Council Resolution 688, which calls for respect for the humanitarian and political rights of the Iraqi people. Saddam's ruthless suppression of his own people is yet another reminder that he cannot be trusted. We remain concerned that Saddam would, if conditions altered, resume a systematic extermination of regime opponents and innocent Iraqi civilians. The world community is not moving to save these poor, innocent people now, so that they can be slaughtered by Saddam Hussein later.

That is why we warned Iraq not to interfere with humanitarian relief efforts underway in Iraq. That is why, in support of Resolution 688, we have urged the United Nations to move quickly to provide personnel to ensure the safety of those refugees returning to Iraq. The United States does not seek to keep its forces in northern Iraq any longer than is absolutely necessary; we look forward to their early replacement by an effective international presence.

It is our firm conviction that some kind of international presence, however organized, must take over for the job now being done by American and coalition forces. We hope that this international presence will serve as the international community's watchdog to inhibit Saddam from repeating his most recent atrocities.

In the future, we hope that Iraq can fully rejoin the community of nations. Iraq has a tremendously talented, creative, and diverse population. I believe that a new Iraqi political compact which reflects the pluralistic make-up of its population and its rich historical and cultural traditions is possible. And such a compact must be arrived at by negotiations among all Iraqis, not by force.

We respect Iraq's sovereignty and territorial integrity and do not wish to see a fragmented state. We have said repeatedly that we have no quarrel with the people of Iraq. And our actions reinforce our words. While our soldiers have been feeding and caring for refugees, Saddam's soldiers were strafing and shelling them. Thus, I can say without equivocation or doubt: Saddam Hussein himself is the single greatest obstacle to any hopeful future for the people of Iraq—whether in terms of their own development as a society or their reintegration into the international community. Left alone, free to reconsolidate his brutal dictatorship and military machine, we know Saddam will act again to brutalize his own people and threaten his neighbors. Without constant international monitoring of and pressure against Saddam, this Iraqi government will continue to pose a danger to the peace and security of the Middle East.

That's why we can have a formal cease-fire but no genuine peace with the government of Iraq so long as Saddam Hussein remains in power.

Let me be absolutely clear about this **third** aspect of our strategy: Saddam Hussein is a pariah whose actions put him beyond the pale of civilized international society. Therefore, we will act with others to continue to isolate Saddam's regime.

That means we will never normalize relations with Iraq so long as Saddam Hussein remains in power. That means maintaining UN sanctions in place so long as Saddam remains in power. And that means Iraqis will not participate in post-crisis political, economic, and security arrangements until there is a change in regime.

With a new government, however, new possibilities will emerge for Iraq to rejoin the international community. With a new government, we may well be able to lift most sanctions, save those that constrain Iraq's military potential. And in that new Iraq, tolerance must replace terror, and the fear that so long has gripped the Iraqi people must give way to peaceful realization of the vast potential of the Iraqi people and their homeland.

Three Observations About U.S.-Soviet Relations

First, the President and I feel it is important to stress that Soviet new thinking continues to guide Soviet behavior in many aspects of our relations. In the Middle East, Foreign Minister Bessmertnykh's help has been invaluable to our attempts to reinvigorate the peace process. Soviet cooperation also has been critical to the historic agreement that will end the Angolan civil war—an agreement that I will join in signing in Lisbon next week. The Soviets have also been helpful in other regional areas—most notably, Central America and Cambodia.

In arms control, we hope to resolve our differences over the CFE [Conventional Armed Forces in Europe] Treaty, prepare CFE for ratification, and move forward with START [strategic arms reduction talks] and preparations for a Moscow summit.

Second, the so-called one-plus-nine agreement of April 23 between [Soviet President] Gorbachev and the republics creates an opportunity for a positive shift toward new political arrangements in the Soviet Union. If Gorbachev and the nine follow up this agreement in the way they have suggested—through an all-union treaty and a new constitution—then this would be an important step toward establishing a new political legitimacy in the Soviet Union. These steps, along with the on-going talks between Moscow and the Baltics, create new opportunities for reconciliation to replace the political polarization that has characterized Soviet politics since last September.

We also welcome enactment of new emigration legislation. For almost two decades, we have made the right of emigration a central part of US-Soviet relations. We regard passage of the new law as a major step in Soviet reform and in fulfillment of Soviet CSCE [Conference on Security and Cooperation in Europe] commitments.

For our part, we continue to expand our contacts with all levels and segments of Soviet society, ranging from reformers and democrats to traditionalists and the military. Not only will this increase our understanding of Soviet society, but it will allow us—through what I have called a "democratic dialogue"—to help promote political pluralism and economic freedom and the success of Soviet reform. As the President and I have made abundantly clear by now, the continuation and success of Soviet reform is in everyone's interest.

Third, even with the tentative steps toward political accommodation, Soviet economic reform still has a long way to go. We and almost everyone else who has looked at it are convinced that Prime Minister Pavlov's anti-crisis program will not work. We believe the Soviet leadership urgently needs to embrace fundamental market economic reform.

Without a commitment to fundamental reform, we expect the Soviet economy to continue its severe decline—and that is in no one's interest. We continue to study various ways we can assist Soviet economic reform, but the usefulness of our efforts still depends above all on the choices the Soviets themselves make.

NAFTA and Fast Track

We are seeking a North American Free Trade Agreement with Mexico and Canada because we are convinced such an agreement promises important economic benefits for all three countries. Since the President's announcement last June of his desire to seek a free trade agreement with Mexico, we have engaged in extensive consultations with Congress and the private sector.

I believe there is a tremendous amount at stake here—in terms of both foreign and economic policy and in terms of our growing cooperative work with Mexico on important regional and transnational issues. It also will enhance American exports, job opportunities, as well as global competitiveness. In order to achieve global markets and hemispheric trade cooperation, it is critical that fast-track negotiating authority be extended by the Congress. Without this step, our foreign and economic leadership position will be seriously impaired.

Overview of Our Funding Request

For FY 1992, we seek $21.9 billion in discretionary budget authority for International Affairs Budget Function 150, an increase of $1.7 billion over levels appropriated for FY 1991. In addition, we are requesting a one-time appropriation of $12.2 billion as the U.S. share of a global quota increase for the International Monetary Fund (IMF).

For the accounts under the jurisdiction of this subcommittee, we are requesting $15.2 billion in FY 1992 discretionary budget authority, a $455 million increase over FY 1991 appropriations.

In accordance with the terms of the Budget Enforcement Act, our request falls within specific, stringent limits on our spending levels, despite unprecedented demands for U.S. leadership across the globe.

In order to achieve our world-wide objectives within these resource constraints, additional flexibility is needed. Last year, I appealed to this subcommittee to make constructive consultation—not earmarking—the primary vehicle for achieving consensus on program objectives. I am pleased to note that with the cooperation of this subcommittee, we made some progress toward that goal last session.

Earmarking in our Economic Support Fund (ESF) declined from 82 percent in FY 1990 to just over 68 percent in FY 1991. In our Foreign Military Financing (FMF) account, the decline was less dramatic but still significant, from 92 percent to 87 percent. This is a welcome trend, one that we want to encourage and promote.

But we still have a long way to go. To support our request this year, let me express the Administration's willingness to work in partnership with Congress to develop greater flexibility in our foreign assistance authorization and appropriations legislation. To guide this effort, let me suggest five broad objectives for our international cooperation programs, built around the five foreign policy challenges which I outlined to Congress last year.

First, promoting and consolidating democratic values, including free and fair elections and respect for human rights. As the President noted in his State of the Union address, this fundamental American principle has stood as a beacon to peoples across the globe for more than two centuries.

Transitions toward democracy, however difficult, cannot be accomplished in isolation from the rest of the world. The essential ingredients of democracy—respect for human rights, the rule of law, free and fair elections, and political and economic freedom—also are the basic building blocks of the new world order.

Second, promoting free market principles and strengthening US competitiveness. Sustainable economic development cannot be separated from the pursuit of sound, growth-oriented policies; together, these can promote U.S. economic interests abroad. By fostering market forces through deregulation, privatization, and promotion of free trade and investment, reform-minded countries can establish an appropriate complement to building and securing democracy. They also can develop into thriving markets for US exports and the jobs they represent. Indeed, U.S. exports to recent aid graduates—Chile, Taiwan, and Korea—total more than twice the value of our entire worldwide foreign assistance budget. Our long-run goal should be to graduate more countries from foreign assistance toward mutually beneficial trade and investment relationships with the United States.

Third, promoting peace by helping to defuse regional conflicts, strengthening the security of our regional partners, and pursuing arms control and non-proliferation efforts. As the crisis in the Persian Gulf has demonstrated, there is no substitute for strong US leadership. We continue to play a vital role in bolstering the security of regional allies around the world. Egypt and Turkey—two long-standing beneficiaries of US security assistance—have been bulwarks of the coalition against Saddam Hussein.

National and regional security are preconditions for democracy and free enterprise to flourish. Saddam Hussein's aggression is a dramatic reminder of the continuing need to protect the security of regional states of vital interest to the United States and our allies. The proliferation of missile systems and nuclear, chemical, and biological weapons technology further sharpens our interest in promoting regional stability.

Fourth, protecting against trans-national threats, especially to the environment and from narcotics and terrorism. As I noted in my first Foreign Assistance statement to Congress two years ago, "The future of our civilization demands that we act in concert to deal with a new class of problems, transnational in nature." This includes curbing proliferation, protecting the environment, and countering terrorism and narcotics.

We have made progress in all of these areas. We have led the international effort to tighten non-proliferation export controls on a global basis. We continue to work to advance our environmental agenda. We are actively pressing state sponsors of terrorism in an effort to thwart terrorism around the globe. And our international narcotics efforts to counter supply are complemented by reports of declining demand at home.

But progress is sometimes slow, unheralded, and hard won. Iraq's conduct following its invasion of Kuwait is a brutal reminder of the danger posed by the interaction of these transnational threats. Saddam Hussein's actions during the Gulf war illustrate how traditional concepts of threats to national security need to be extended. Indeed, Iraq has combined:

- A credible threat of the use of chemical and biological weapons;

- A contemptible use of missile technology as a weapon of terror against innocent civilian populations;

- Perhaps the world's first deliberate use of an environmental disaster as a war-time weapon, with unknown consequences for the entire region for years to come; and

- A world-wide call for terrorist actions, sometimes supported by embassies abroad in flagrant violation of the basic principles of diplomacy.

These challenges to international order can all be defeated by a committed world community, supported by firm U.S. leadership and appropriate resources as needed.

Finally, meeting urgent humanitarian needs will continue to reflect deep and abiding concerns of the American people. America's record for responding quickly and substantially to alleviate severe suffering caused by natural and man-made disasters is unequaled. We salute the role played by American private voluntary agencies and private American citizens in this regard. Meeting the most pressing humanitarian needs with food aid, disaster relief, and refugee assistance will always be an essential component of U.S. assistance policies. Indeed, our current effort to mobilize a broad international response to alleviate the suffering of Iraqi refugees is another of U.S. leadership in this area.

We have submitted legislation to Congress that builds on these basic objectives to provide more flexibility and simplicity to our economic cooperation efforts. Working with our global partners, we envision the use of five principal mechanisms to advance this agenda world-wide:

One, more flexible and integrated bilateral assistance authorities. In authorization legislation, which we recently submitted to Congress, we seek more flexible account structures and greater ability to transfer funds both within and among accounts to meet pressing, unexpected needs. We

hope to move toward an assistance program unified around a single set of core objectives, along the lines of those outlined above. As a first step toward this goal, we have proposed a modest $20-million presidential contingency fund in our FY 1992 budget request. The need for flexibility is especially urgent at a moment when developments in the world are moving so quickly and unpredictably, while our ability to respond with additional resources is severely constrained by budgetary realities. The Gulf crisis, the restoration of democratic rule in Nicaragua and Panama, and the dramatic developments in Eastern Europe, the Soviet Union, and South Africa over the past year illustrate that when unprecedented demands for American leadership are combined with limited resources, our need for flexibility becomes all the more urgent.

Two, we see scope for more creative use of multilateral mechanisms to advance our objectives, through both the international financial institutions and the UN system.

The Bretton Woods institutions moved quickly to liberalize and expand their programs to assist countries seriously affected by the Gulf crisis. The IMF and World Bank have now admitted all the East European countries except Albania and are playing a central role in structuring sound, adequately financed programs to ease their transition to market economies based on private initiative. Should the Soviet Union move further along the path of structural economic and political reform, we would expect the IMF and the World Bank to play a role in facilitating its transformation as well. The European Bank for Reconstruction and Development will promote the development of the private sector, as well as infrastructure and environmental programs, in the reforming countries of Central and Eastern Europe. Meanwhile, through our Enterprise for the Americas Initiative, the Inter-American Development Bank is expected to play a major role in promoting sound investment policy in our own hemisphere.

To support these efforts, we are again proposing full funding for the multilateral development banks—including all arrears—plus a periodic quota increase for the IMF. This funding will allow these institutions to leverage other contributions in support of our objective of promoting sound, growth-oriented economic policies in the developing world.

As President Bush noted in his State of the Union address, the United Nations has played a historic role in the Gulf crisis, one that is close to fulfilling the vision of its founders. The Security Council's 14 resolutions, which laid the basis for ending the crisis, symbolize the unity of the international community against Iraq's aggression and established the principle of collective security as a cornerstone of the post-Cold War era.

At the same time, the humanitarian organizations of the UN system—together with the International Committee of the Red Cross (ICRC) and the International Organization for Migration—are coordinating a broad international effort to assist the hundreds of thousands of refugees fleeing from Iraqi aggression.

The United States has a vital interest in strengthening this new, revitalized United Nations as a full partner in the building of a post-Cold War world where peace, stability, and prosperity prevail.

Three, we foresee greater reliance on creative responsibility-sharing as we strengthen our global partnerships, especially with the European Community and its members and with Japan. As many in Congress have noted, our own difficult budgetary situation makes such efforts especially important for the advancement of a common agenda with partners who share our values and interests.

No effort so well illustrates the collective response of the world community to defend world peace as our successful efforts to enlist worldwide support for Operations Desert Shield and Desert

Storm, and for the front-line states whose economies have been set back by the effects of Saddam Hussein's aggression.

In 1990, our coalition partners pledged $9.7 billion to meet Desert Shield costs, representing 73 percent of the roughly $13.2 billion in total incremental expenses we incurred. As soon as hostilities broke out, our allies again responded promptly and generously to shoulder their fair share of coalition military expenses under Operation Desert Storm. Indeed, we have received unprecedented pledges totaling in excess of $44 billion from Saudi Arabia, Kuwait, the United Arab Emirates, Japan, Germany, and Korea, to offset Desert Shield/Storm expenses for 1991.

The world community also has responded swiftly and generously to the needs of the front-line states, especially Egypt and Turkey, as they incurred substantial costs in standing up to Saddam Hussein's aggression. Through the U.S.-chaired Gulf Crisis Financial Coordination Group, over $16 billion has been pledged by the Gulf states, Europe, Japan, Korea, and other countries to ensure that the economies of affected regional states are stabilized. The United States has played its part in this effort, supported by Congress, by canceling Egypt's $6.7 billion military debt, thereby relieving a heavy burden on a critical regional ally. Other countries have followed suit and canceled an additional $8 billion in Egyptian debt.

Similarly, in responding to the urgent needs of Iraqi refugees and displaced persons, the international community is in the process of mobilizing more than $500 million, under UN and ICRC auspices, for urgent humanitarian relief efforts.

Meanwhile, in Eastern Europe, the successful C-M [Group of 24] process chaired by the European Community Commission, has mobilized more than $18 billion in pledges for Poland and Hungary to ease their transition to market economies. And in the Philippines, the Multilateral Assistance Initiative (MAI) has been responsible for nearly doubling the level of international assistance to this struggling democracy.

In our own hemisphere, we are working with our worldwide partners to assist in clearing arrearages of Panama and Nicaragua to the international financial institutions and to help finance the enhanced debt strategy. And just last month, the United States and the OECD (Organization for Economic Cooperation and Development) countries joined together with Central America, Mexico, Colombia, and Venezuela to create the Partnership for Democracy and Development in Central America, a new multilateral grouping designed to support regional democratization and economic development. Finally, we are encouraging Europe and Japan to join us in pledging $100 million a year over 5 years to create a Multilateral Investment Fund for Latin America and the Caribbean. This fund is a key part of the President's Enterprise for the Americas Initiative and will play a crucial role in enabling countries to move from aid to trade and private investment as the principal engines of economic growth. In each case, both strong U.S. leadership and a community of interests are essential to catalyze a broad world-wide response.

Four, we envision more creative use of trade and investment policies as vehicles to promote U.S. interests in world economic growth, as well as to enhance our own economic strength.

Central to these efforts over the past 4 years has been our determination to pursue a successful conclusion to the Uruguay Round of trade negotiations. We continue to believe that the Uruguay Round has profound political as well as economic implications for the shape of the world in the next century. Successful conclusion of the round is essential for the economic growth and stability of the emerging East European democracies, as well as the wide range of developing countries who ultimately will rely on expansion of world trade—not aid—as the primary vehicle to generate employment opportunities and sustainable economic growth.

In our own hemisphere, the President's Enterprise for the Americas Initiative represents a comprehensive effort to promote economic growth and stability in the region, combining free trade and investment—the primary vehicles for growth—with debt relief and environmental initiatives.

As I noted above, as an important step toward the eventual goal of hemispheric free trade, the Administration is seeking a North American Free Trade Agreement with Mexico and Canada, which we are convinced promises important economic benefits for all three countries. A North American Free Trade Agreement will create the world's largest market, worth over $6 trillion a year and including more than 360 million consumers. There is a tremendous amount at stake for our economic future, foreign policy, trade policy, and historic reconciliation with Mexico.

Meanwhile, the United States has worked actively with our Asian partners in the Asia Pacific Economic Cooperation (APEC), to advance market-oriented cooperation among member states.

Our bilateral investment treaty program has been an important vehicle in ensuring an open and liberal investment climate for U.S. investors and exporters. Over the past year, we completed negotiations with Poland and Czechoslovakia and are actively negotiating with nine other countries which are in the process of undertaking economic restructuring programs.

Finally, we will be challenged to pursue more vigorous U.S. diplomacy, and will seek a State Department operations budget that reflects an activist approach to the diplomatic challenges of a changing world.

Bilateral Assistance

Bilateral military and economic assistance will remain an essential tool in advancing U.S. interests through the 1990s, assuming the necessary flexibility can be provided to meet emerging needs. No other vehicle at our disposal is as well-suited to provide timely support to our allies and friends around the world. Our interests in political pluralism, market-driven economic development, peace-making, and strengthening alliances—can all be advanced by prudent use of bilateral assistance resources.

For FY 1992, our request for discretionary budget authority for bilateral assistance programs totals $13.1 billion. That marks a 6.5 percent increase over the $12.3 billion appropriated by Congress for FY 1991. Highlights of this request by category are as follows:

- $4.65 billion in FMF, supporting a program level of $4.92 billion;
- $3.24 billion in ESF, up from $3.14 billion;
- $1.3 billion in development assistance, the same as the prior year;
- $800 million for the Development Fund for Africa;
- $400 million for Central and Eastern Europe, a slight increase over the FY 1991 appropriation;
- $160 million for the Multilateral Assistance Initiative for the Philippines ;
- $1.3 billion for bilateral PL 480 (Food for Peace) food aid, supporting the export of 5.9 million metric tons of U.S. commodities;

- $172 million for that portion of the Administration's international counter-narcotics program implemented by the State Department.

Near East and South Asia ($6.2 billion). The Middle East has been profoundly affected by the Gulf war and the economic turmoil associated with the conflict. Although the war is now over, the economic dislocations and hardships continue. In our bilateral assistance request, we continue to focus our efforts to promote peace and stability on our traditional partners, Israel ($3 billion) and Egypt ($2.3 billion). Additional costs which regional states have incurred as a result of the crisis are being compensated through efforts of the Gulf Crisis Financial Coordination Group, bilateral donors, and the international financial institutions. In partnership with our friends and allies, we are working on developing mechanisms to catalyze the resources needed to support the efforts of these countries to achieve sustained economic growth.

Reflecting developments associated with the crisis and our own budgetary limitations, assistance levels for Jordan and Yemen have been set at $57 million and $3 million, respectively. We also are requesting $24 million in assistance for Tunisia for FY 1992. We hope to be able to support Pakistan's development and security needs with a substantial assistance program and have set aside $260 million in total FY 1992 resources for this purpose. Provision of this assistance, however, will be contingent on the ability of Pakistan to satisfy the standards set in the Pressler Amendment [involving an annual Presidential certification to Congress under Section 620E(d), FAA, which waives the nuclear program provisions of Section 669, FAA].

East Asia and the Pacific ($702 million). In Asia, our principal assistance request is for the Philippines, for which we seek a total of $556 million in total FY 1992 bilateral funding, including a commitment of $160 million toward the Multilateral Assistance Initiative. This funding is designed to strengthen a fragile democracy and promote economic reform. We also are nearing conclusion of negotiations that we hope will make possible our continued use of Philippine military facilities and help build a new, more balanced relationship.

Other highlights of our request for East Asia include $27.5 million for Cambodia to support the achievement of a comprehensive settlement based on a UN-supervised free election. We expect to support community development, leadership and human rights training, and election efforts—as well as continuing to meet the very special needs of the children of Cambodia.

Europe ($1.6 billion). The Administration's FY 1992 request for Europe includes $400 million for the Special Assistance Initiative for Central and Eastern Europe, a slight increase over our FY 1991 appropriation. In accordance with authorizing legislation, these funds support a broad spectrum of activities, including democratic initiatives to assist with political and social reform, and support for economic reform, including environmental and energy projects, enterprise funds, and technical assistance. Contributing to the military capabilities of our NATO allies in the Southern Flank remains a central concern for U.S. policy in the Mediterranean. Recognizing the pivotal role played by Turkey in the Persian Gulf crisis, we seek $625 million in FMF and $75 million in ESF funding for FY 1992, a combined increase of $150 million over FY 1991 levels. Turkey took the lead in the enforcement of economic sanctions against Iraq and has taken a courageous position in support of the UN resolutions despite severe domestic economic costs. This crisis has demonstrated Turkey's on-going need for air defense support and other military equipment to bolster its role as a key regional partner, both in Europe and the Middle East.

For Greece, we seek $350 million in FMF to assist with Greek force modernization. We also seek $125 million in FMF and $40 million in ESF for Portugal to support force modernization efforts and assist in the development of the Azores region where U.S. forces are based.

Latin America and the Caribbean ($2.1 billion). For foreign assistance programs in Latin America and the Caribbean, we seek $2.1 billion in total funding, the bulk of which will be used to support the Andean Narcotics Initiative and the emerging democracies of Central America.

To implement the President's Andean strategy, we are seeking a total of $481 million in combined narcotics control, development assistance, and security assistance funding. These programs provide funding for bilateral counter-narcotics efforts, coordinated military assistance, and economic aid to offset the dislocations of successful counter-narcotics operations and provide alternatives to narcotics production.

To support democratization and economic growth in Central America, we are seeking $783 million in total bilateral assistance, down from $906 million the prior year. As in prior years, over three-fourths of this amount will support economic as opposed to military assistance. We believe that sustaining these programs is crucial to the opportunity to end the conflicts in both El Salvador and Guatemala this year.

We also are seeking $310 million in budget authority to cover the debt reduction provisions of the President's Enterprise for the Americas Initiative, and, as discussed above, $100 million for the proposed multilateral investment fund.

Africa ($1 billion). For FY 1992, the fifth year of the Development Fund for Africa, we seek $800 million in resources to promote broadly based and sustainable economic growth. Priority attention will continue to be given to those countries pursuing sound economic policies. We also are proposing modest amounts of ESF for Africa ($29.3 million), including a new regional "Support for African Democracy Fund." Our $34 million request for FMF supports maintaining and replacing equipment supplied to our friends in past years and is almost exclusively non-lethal. In addition we are seeking almost $150 million in PL 480 food assistance.

The United States already has provided approximately $550 million in debt forgiveness for qualifying African countries. In addition to bilateral assistance, the United States also provides important financial resources to Africa through institutions such as the IMF, the World Bank (about half of concessional disbursements), the African Development Bank and Fund,and many UN agencies.

Our FY 1992 request for Africa is designed to encourage the growing movement toward responsible governance in Africa, particularly the trend toward pluralistic democracy.

Multilateral Assistance

For the multilateral development banks, we are requesting $1.7 billion in FY 1992 budget authority, up from $1.6 billion in FY 1991. This includes $1.1 billion in funding for the International Development Association, the soft-loan window of the World Bank, which provides concessionary financing to the world's poorest countries, as well as full funding for the European Bank for Reconstruction and Development and the other regional development banks.

Our FY 1992 budget request also contains $12.2 billion in budget authority for the proposed increase in the U.S. quota in the IMF, as provided for in the Budget Enforcement Act. This is to ensure that the fund has the resources necessary to fulfill its responsibilities as the world's principal monetary institution. In the Third World, IMF arrangements support market-oriented adjustment and underpin debt reduction operations in support of the Brady Plan. The Fund also has spearheaded economic reform in Eastern Europe and responded vigorously to assist countries seriously affected by the Persian Gulf crisis.

In addition, we are seeking $250 million for voluntary contributions to international organizations including the UN Development Program ($115 million) and UNICEF [UN International Children's Emergency Fund] ($55 million).

Counter-narcotics Assistance

For the international narcotics control programs administered by the State Department, we are seeking $172 million, an increase of $22 million over FY 1991 levels. These funds serve as a critical element in motivating and assisting cooperative foreign governments to fulfill their narcotics control responsibilities.

Over two-thirds of the increased funding requested for FY 1992 will support expanded programs in Latin America, with an emphasis on helicopters. Indeed, Latin American and regional aviation programs will absorb fully 80 percent of our total FY 1992 request.

Refugees and Other Assistance Programs

The United States continues to play a pre-eminent role in addressing the plight of the world's refugees through our international assistance and domestic resettlement programs, as well as our diplomatic efforts in support of permanent solutions to refugee situations.

For FY 1992, we are requesting $491 million for migration and refugee assistance, up from $486 million in FY1991.

For our refugee assistance programs overseas, we seek $233 million in FY 1992 funding, a $20-million increase over the FY 1991 level. These programs will continue to focus on basic life-sustaining activities for the most vulnerable groups and support lasting solutions through opportunities for voluntary repatriation and local integration.

To finance refugee admission and resettlement, we seek $192 million in FY 1992 funding. This will cover the expenses of an estimated 120,000 refugees, about the same number as last year. Most refugee admissions will be from the Soviet Union and Vietnam, but there also will be admissions from Eastern Europe, Africa, Latin America, and the Near East. Family reunification will continue to be a priority, as will the resettlement of persecuted religious minorities and former political prisoners.

In addition, we request $20 million to replenish the President's Emergency Refugee and Migration Assistance Fund, to enable us to respond to unforeseen refugee and migration needs world-wide.

Another important component of our international development assistance request is our $200-million request for Peace Corps operating expenses.

Thank you. We look forward to working with you and the members oft his subcommittee in the coming months to mobilize the flexible resources we need to carry out our ambitious foreign affairs agenda.