
Foreign Policy Priorities and the Fiscal Year 1991 Foreign Assistance Budget Request

By

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I welcome the opportunity this morning to review with you the Bush Administration's foreign policy priorities and our Fiscal Year 1991 budget request for foreign assistance.

Last year, when I testified before this Subcommittee, I indicated that our best guide to today's rapidly changing world was to be found in fundamental American principles—freedom, democracy, equal rights, respect for human dignity, and fair play. Over the past year, those values and the necessity for American leadership have been much in evidence. And, as I said then and repeat now, there is an equal need for bipartisanship.

The President and I have been pleased to work productively with you, Mr. Chairman [Representative David R. Obey, D-WI], and with the Members of this Subcommittee and others in Congress, and we look forward to even greater cooperation on the agenda before us.

We are meeting here in the aftermath of another triumph for democracy. I know you share my gratification that the free and fair Nicaraguan elections mark a critical step toward restoring peace and democracy in that strife-torn country. The President has declared our readiness to support Mrs. Chamorro's new government in her difficult task of national reconstruction and reconciliation. The way is now open for fulfillment of the dream of the Central American peace process—peace and democracy in all the nations of the region.

The recent success of the elections in Nicaragua makes it all the more urgent that peace return to El Salvador. Our policy is clear: we fully support the Central American peace process and the call of the Central American Presidents at San Isidro last December for the FMLN [Farabundo Martí National Liberation Front] to enter into negotiations with the democratically-elected government of President Cristiani under the U.N.'s good offices. This is the year to end the war in El Salvador. Soviet Foreign Minister Shevardnadze joined with me in Moscow to support the Central American Presidents' call for peace and democracy in El Salvador. We support President Cristiani's courageous efforts to bring to justice those who have abused human rights and to reinitiate a dialogue with the FMLN with the assistance of the U.N. Secretary General Perez de Cuellar. And, we support his government's efforts to resist the violent efforts of the FMLN to impose its minority views by force.

In my confirmation testimony last year, I described a world in transition. It was my opinion then and even more so today that basic American values such as freedom, democracy, human dignity, and fair play offered us the best foreign policy guide for this rapidly changing world. Over the last year, those values and the necessity for American leadership have been much in evidence. And, as I said then and repeat now, there is an equal need for bipartisanship.

Truly, we are entering into a new age of democracy around the world. I would cite just a few examples from my recent trip abroad.

In Prague, the old Czech and Slovak republic is being recreated as a new and vigorous democracy. In Moscow, the Communist Party Plenum, led by President Gorbachev, abandoned the guarantee of party primacy, setting the stage for the beginning of possible multi-party politics. In Bulgaria and Romania, new and vigilant opposition groups are pressuring for free and fair elections—the birth pangs of democracy. In Ottawa, I worked with my colleagues in NATO—the established democracies—to make progress on arms control and new security arrangements that promise at last a whole and free Europe, including a democratic Germany, as a member of the Atlantic Alliance. And Chancellor Kohl's visit here this past weekend reaffirmed that the long-standing U.S.-German partnership—a partnership of free peoples—will continue to play a vital role in the new Europe.

Finally, the democracies of our hemisphere, led by President Bush, took a large step forward at the Cartagena Summit in an increasingly united campaign to win the war against drugs.

While all of this was going on, the welcome news of the release of Nelson Mandela reminded us of the worldwide sweep of the surge toward freedom. The President expressed the good wishes of the American people when he said that new hope had arrived in South Africa. We look forward to President de Klerk continuing his policy of reshaping the future of his country in cooperation with all South Africans.

There can be no doubt that the United States has a major role in fulfilling the promise of this new age of democracy. As I noted in Prague, there are political, security, and economic challenges to be overcome and new international associations to be considered. The message I brought there and elsewhere was the message they all wanted to hear: as you travel the road toward democracy, as you face these challenges, you are not going to travel alone, [for] the American people will be with you. We are committed not just at the outset of the journey, but straight through until together we bring about a new world of peace and freedom.

I want to tell you now briefly what I believe we achieved and how it all fits into our larger foreign policy.

First, we reached a major agreement on the process whereby Germany can be unified in peace with security for all. About a month ago, it became clear to us that the pace of German unification had begun to pick up dramatically. East German elections, originally scheduled for May, had been rescheduled for March. The outflow of refugees from the East was continuing.

At the same time, unification could not take place in a political vacuum. After 40 years of division, the two Germanys alone cannot deal with all of the security or external consequences of their coming together. The four World War II occupation powers retain historic rights and concerns. There is also the larger context of the Helsinki Process—the 35 nations who had agreed upon all-European security principles in 1975.

We therefore needed a consensus to act on this fast moving problem, and history was not going to wait. The time was ripe to create an orderly process for German unification which would give due allowance to German freedom of choice, while reassuring the rest of Europe that due regard would be given to external aspects that might affect them. Before going to Moscow, I discussed the idea of such a process with my British, French, and German colleagues. After further discussions in Moscow and then in Ottawa, what we call a "two plus four" formula was adopted. This formula calls for the two German states, after the March elections in the GDR [German Democratic Republic], to agree upon a plan of internal unification. At the same time, the Foreign Ministers of the Federal Republic and the German Democratic Republic will meet with

those of us from France, the United Kingdom, the United States, and the USSR, to discuss external aspects of the establishment of German unity.

As we see it, the two plus four process has many advantages. It establishes the principle that unification starts with self-determination, the free choice of the German people. It makes clear that the Four Powers approve such a choice. The process recognizes that larger legitimate security interests are at stake in unification, and it gives a specific role to the Four Powers, including the Soviet Union, in dealing with those interests. Finally, it contemplates that the issue will be reviewed as part of an overall assessment of political and security questions in the Conference on Security and Cooperation in Europe, the CSCE.

To sum up, we have a proper balance here between the rights of the German people and the security concerns of Germany's neighbors, and indeed, of Europe as a whole.

There are, of course, many contentious issues to be settled. The President has made it clear—most recently last weekend in his meetings with Chancellor Kohl—that a unified German must be a member of NATO. That is the U.S. position, the allied position, and the position of Chancellor Kohl and Foreign Minister Genscher. We have also indicated that, in deference to Soviet concerns, we support Foreign Minister Genscher's proposal that NATO's forces not be moved further east.

There are many other difficult matters to be explored and resolved. Nonetheless, we now have a forum whereby the unification of Germany in its most urgent, practical, people-to-people level can go forward with support of the Germans and the Four Powers, as we work together to iron out the appropriate security arrangements.

Second, we made a major breakthrough on conventional arms control in Europe at Ottawa. The Soviets essentially accepted the President's new proposal on force levels of 195,000 for the U.S. and U.S.S.R. in an expanded central region in Europe. In Moscow, the Soviets suggested that we have a common ceiling for all U.S. and Soviet forces of either 195,000 or, counting the 30,000 U.S. forces outside the Central Zone, a total of 225,000. I explained to President Gorbachev and Foreign Minister Shevardnadze why we could not accept the principle of symmetry. As a matter of simple geography, their withdrawals still leave Soviet forces in the European area of the Soviet Union, while ours, once withdrawn, are an ocean away. Even more significantly, as has now become abundantly clear, our forces are stationed in Europe by consent and our allies want them to stay there, while the allies of the Soviet Union want Soviet forces to leave.

In Ottawa, the Soviets agreed to asymmetry between U.S. and Soviet forces, insisting only that the implicit part of the President's proposal, the 30,000 U.S. troops stationed in Europe now outside the Central Zone, should become an explicit limit. The President approved and the result is an overall limit of 195,000 U.S. and Soviet troops in the Central Zone, it being understood that the U.S. troops stationed elsewhere in Europe will not exceed the 30,000 level.

The Soviets have also agreed with our contention that no CSCE summit on Europe security should take place without a CFE [Conventional Forces in Europe arms control] agreement. I must add, however, that a CFE agreement still faces some major hurdles, especially concerning aircraft.

On the President's Open Skies proposal, there was also tangible progress. The governments of the twenty-three NATO and Warsaw Pact countries welcomed the open skies concept as a useful contribution to openness, arms reduction, and arms limitation. Those attending the Ottawa Conference also agreed to some of the basic elements of an open skies regime.

Third, we laid the basis for a new, more cooperative relationship with the peoples of Central and Eastern Europe, based on democracy, economic reform, new security arrangements, and at their initiative, new regional associations. In a speech at Prague's Charles University, I said that while 1989 was the year of sweeping away the old dictatorships, 1990 should become the year of building new democracies. The United States was prepared to help in this process, which begins with free elections and the building of democratic institutions. I repeated the President's call for agreement by all CSCE members to hold periodic free elections. In addition, we would like to have observers from the CSCE states for each of the free elections promised throughout Eastern and Central Europe.

I made clear throughout my trip, and especially in Bulgaria and Romania, that any backsliding or rear-guard action against democracy would isolate the backsliders from our help. If the countries of this region are to flourish in freedom, then they must create free institutions and free markets responsible above all, to the people. That's what the democratic revolution is all about and that is why we are making our aid contingent on democratic reforms. This "democratic differentiation," as we call it, will *not* affect our humanitarian aid but *will* determine the extent to which we offer additional support.

In Prague, I was also able to tell the Czechs of our economic assistance package and of course, to urge upon them reforms leading to a free market economy. Clearly, the new leaders of Czechoslovakia, like those of Hungary and Poland, are also thinking of new ways to cooperate together. Drawing upon our previous experience after World War II in encouraging such cooperation, I expressed to the Czechoslovaks our desire to help their new coordination efforts, as President Havel proposed in Warsaw, in any way that we could. Such efforts may indeed be instrumental in turning this region of Europe from its historic role as the "lands between" into a new and vibrant grouping of its own.

Fourth, we advanced chemical and strategic arms control. A major original purpose of my trip to Moscow was to advance the START Treaty negotiations. Before we left home, some questioned whether we would be able to conduct any business given the Communist Party Plenum then underway. So this is a good place for me to say a word about the political atmosphere we found in the Soviet capital. When we arrived, the difficult, even traumatic plenum was just ending. President Gorbachev emerged more determined than ever to double his bets on *perestroika*. He explained to us why a majority felt that the economic and ethnic trouble now besetting the Soviet Union could only be resolved by radical advances rather than by any turning back. That meant creating a more competitive party system, with the communist monopoly ending, and a stronger Presidential system subject to popular will. It meant an effort at more radical economic change. And it also meant new arrangements with the [Soviet] republics, perhaps even negotiated treaties which spelled out rights and responsibilities.

In short, the Soviet leaders were anxious to forge ahead and we were therefore able to make much progress. First, as a joint communique issued in Moscow indicated, the President's proposal for an agreed framework for progress on chemical weapons (CW) was accepted by the Soviets. Both countries have decided to conclude a bilateral agreement at the June Summit to destroy the bulk of our stocks. And we are committed to complete multilateral negotiating on a chemical weapons convention that would reduce CW stocks still further over its first eight years and eliminate chemical weapons over the subsequent two years if other CW capable states adhere by that time. This framework is a major step forward. It provides a practical road map to reach the goal of eliminating chemical weapons.

Second, we also registered some considerable progress on *START*. As the President said, we hope to resolve all the major *START* issues by the time of the June Summit. We resolved the Air Launched Cruise Missile (ALCM) counting issue, in a way that gives us the discount we sought and allows our program to go forward. The issue of non-deployed spare missiles covered

by the Treaty was also largely settled and we made progress on telemetry encryption. As for Submarine Launched Cruise Missiles (SLCMs), in a major development, the Soviets accepted our declaratory approach. By that I mean a politically binding statement outside the START Treaty made for each side, declaring the numbers they intend to build over a given period. So, some of the toughest START problems have now been resolved, and the Geneva negotiations are on track.

Fifth, and finally, during the Cartagena Summit we and our democratic allies in this hemisphere took a major step forward in the war against drugs. Producer and consumer nations are no longer pointing fingers of blame at each other and arguing who is responsible for the drug problem. Now, we are joining forces to rid our hemisphere of this menace. The President's decision to attend the conference in person, despite threats, and President Barco's determination to press ahead, sent a significant message to the drug cartels: we will resist, we will never give in, and in the end, we will win. Now, as the President has put it, we have the first anti-drug cartel. We have a unified strategy, expressed in the Declaration of Cartagena, which coordinates our joint attack on all aspects of the narcotics rackets—economic, political, and security.

To sum it all up, the past month has registered major advances in the President's foreign policy. We are measurably closer today to a Europe whole and free, living in peace and security. The difficult task of building democracy in Central America and Eastern Europe has begun, with the especially promising elections in Nicaragua leading the way. We have taken important steps toward controlling chemical weapons and a START Treaty. And working with our allies, we are also moving forward in the war against drugs.

These are the up sides, the very encouraging sides. But I would be remiss if I did not point out the down sides. After 40 years of communism, the democracies struggling to be born or to be reborn in Europe have wrenching tasks ahead. German reunification by its very nature will require patience, fortitude, creativity, and good will to leave not only the Cold War behind but also the history of conflict which preceded it. We are still a good ways from home on various arms control tasks. Furthermore, I regret to say we still have strong differences with the Soviet Union over some regional conflicts, especially Central America. And of course, we all recognize that the drug war must still be won.

As I told the Senate Foreign Relations Committee one month ago, the old world of dogmatic dictatorships may be on its way out but the new world of secure, prosperous, and just democracies is not yet here. It will not arrive automatically. The President has defined our mission very clearly, to consolidate the democratic revolution transforming our world. The message I brought throughout my travels and the message announced by the President from his very first day in office is the message people around the world want to hear: as you travel the road toward democracy, as you face these challenges, you are not going to travel alone, [for] the American people will be with you. We are committed not just at the outset of the journey but straight through until together we bring about a new world of peace and freedom.

Prudent commitment of U.S. resources will be essential to catalyze the promising changes we see on the horizon. In my testimony before the Senate Foreign Relations Committee earlier this month, I set out five challenges the United States will face in the 1990s: consolidating democracy, building free markets, helping the peace-makers, protecting the world against transnational dangers, and renewing our alliances. Meeting these challenges effectively will determine whether or not we are successful in advancing fundamental American values and interests across the globe. These are not "inside-the-beltway" issues of interest only to Washington insiders. Rather, they affect the quality of life of every American.

I ask your bipartisan support for the U.S. leadership needed to manage change in a way that protects our basic values and interest. And I ask you in the Appropriations Committee to provide us the minimum level of resources we need to assure the effectiveness of such leadership.

OVERVIEW OF OUR FUNDING REQUEST

Foreign affairs and national defense together form the backbone of our national security. The President's budget outlines a scenario in which—assuming present world trends continue—our fundamental security requirements can be safeguarded in the context of a gradual decline in national defense spending. In this dynamic world environment, however, we must continue to invest judiciously in selected foreign affairs initiatives to ensure that our interests and values are protected into the next decade.

Hence, we view foreign affairs spending, not as a substitute for defense, but as a complement to reinforce the positive developments around the world which can facilitate further reductions in defense spending. We do not propose to spend the "peace dividend" before it actually exists. Rather, we seek to shape a world of reduced tensions where, over time, our security can be assured at a lower cost.

In the context of a tight budgetary environment, therefore, the Administration is requesting \$20.8 billion in discretionary budget authority for International Affairs Budget Function 150 in FY 1991. This represents an increase of \$1.7 billion or 8.9 percent over FY 1990 levels agreed to in the context of last year's Budget Summit. Outlays for FY 1991 are estimated at \$18.2 billion, up from \$14.6 billion the prior year, a figure artificially depressed by special inflows.

With respect to the accounts assigned to this Subcommittee, Mr. Chairman, we are requesting \$14.6 billion in discretionary budget authority for foreign assistance, up by 5.6 percent from the levels of FY 1990.

These sums are not large in relation to the stakes we have before us, or to the leadership position the American people expect us to play on the world stage. Indeed, our total foreign affairs request represents just 2 percent of the federal budget, equivalent to about 0.4 percent of our gross national product. And our levels are down substantially in both real and nominal terms from those over the 1985-87 period.

In most bilateral and multilateral diplomacy, America's ability to shape and influence the world stage has far exceeded our relatively modest budgetary contributions. But our ability to catalyze support for American policy can run aground if we cannot back up our positions with adequate resources of our own.

The returns from our modest foreign affairs spending in the post-War period have been impressive—forty years of peace, economic growth, and—most promisingly—the new wave of democracy we see on the horizon. Let us not cut corners just as our long-standing commitments are paying off.

Our budget request for foreign assistance for FY 1990 and FY 1991 can be divided into two parts:

First, five funding initiatives, designed to respond to some of the most urgent requirements on the world stage,

Secondly, our core foreign assistance programs, essential to maintain the progress which is now bearing fruit in the flourishing of democracy and free markets around the world.

Funding Initiatives

We propose three new assistance funding initiatives for FY 1991, plus two Supplemental FY 1990 initiatives—one for Panama and one for refugees. All are integral to our ability to protect American values and interests into the next decade.

First, in support of the dramatic changes underway in Eastern Europe, we seek \$300 million to promote democratic institutions, training and technical assistance, environmental initiatives, and to fund transitional economic support. Such support includes private sector development, trade, and investment programs. On February 7, we submitted legislation to provide assistance to Eastern Europe and Yugoslavia, when the President determines that specific countries are making significant progress toward political pluralism, economic reform, respect for human rights, and a willingness to build a friendly relationship with the United States. Deputy Secretary [of State] Eagleburger has just returned from Eastern Europe and will be meeting with Congress shortly to provide further details.

Second, we seek \$500 million in Supplemental FY 1990 funds to support Panama's economic recovery. These funds comprise a portion of the comprehensive \$1 billion program announced by the President to dismantle economic sanctions and stimulate a revival of business confidence. We are grateful for the bipartisan Congressional support of the first stage of this recovery plan.

Panama will need supplementary, one time funding to restore financial stability and underpin a revival of private sector investment activity. Our Economic Support Funds would be used to help Panama regain its economic momentum following several years of mismanagement under Noriega. Together with our friends, including the Japanese, we are organizing a multinational effort to help Panama normalize its relations with the international financial community, promote business credit, support public investment, and underpin public sector restructuring.

Third, we request \$441 million in military, economic, and counter-narcotics assistance to support the Andean countries in their struggle against narcotics cultivation and trafficking. This initiative is a central pillar of the President's Drug Strategy, and addresses a problem ranking high on our list of transnational challenges for the next decade. In the wake of the Cartagena Summit, the Andean leaders look to these resources to support our joint economic, security, and political fight against the narcotics trade.

Our request includes \$137 million in Foreign Military Financing to bolster the Andean governments in their efforts to maintain effective airlift and military capabilities for the interdiction of drug traffickers. The economic portion of our request—\$214 million—will assist our friends in developing legitimate alternatives to the narcotics industry and implementing other structural adjustments necessary to sustain economic growth.

Fourth, we ask for your support in authorizing \$268 million to clear U.S. arrearages to the multilateral development banks. This is one component of the President's initiative to clear arrears to the United Nations, other international organizations, multilateral development banks, and U.N. peacekeeping activities.

The President feels strongly that a carefully structured arrears initiative is essential to maintaining U.S. leadership in these multilateral organizations. Over the next decade, we expect the World Bank and regional development banks to play critical roles in mobilizing funding to support growth-oriented adjustments in the developing world. To maintain our credibility and influence with these multilateral organizations, the United States must live up to its commitments.

Fifth and finally, we seek \$70 million in Supplemental FY 1990 funding for urgent refugee admissions requirements. Last year, I indicated that we might need to revise our FY 1990 refugee funding request, and promised to consult with you on this issue. Primarily as a result of the continued liberalization of Soviet emigration policy, we will admit 27,000 more refugees this year than were provided for in our original request. We look to your support for the resources needed to welcome these refugees.

Core Foreign Assistance Budget

The five funding initiatives I cited above address some of our most urgent challenges as we enter a new decade. But we should not lose sight of the fact that our core foreign assistance programs—which offer basic support for our closest friends, allies, and Western institutions—have played an important part in assuring the stable world environment which has paved the way for those dramatic changes to which we today are responding. Our traditional bilateral and institutional relationships have served the United States and the Western democracies well over the past four decades. The relatively modest investments we are requesting for those basic programs address the key concerns of the next decade—promoting democracy and free markets, supporting the peacemakers, protecting against transnational threats, and invigorating alliances. They are equally important to our ability to ensure that American values and interests continue to be successfully advanced on the world stage.

Security Assistance

For FY 1991, our request for discretionary budget authority for security assistance programs (FMF, ESF, IMET, and peacekeeping) totals \$8.5 billion. That marks a modest 4.4 percent increase over the \$8.1 billion appropriated by Congress in each of the past three fiscal years. Our FY 1991 request, however, is less than amounts provided in FY 1985 through FY 1987.

In our single Foreign Military Financing account (FMF), we are requesting \$5.02 billion in budget authority for all-grant military assistance programs, compared with the \$4.83 billion appropriated in FY 1990. For our small but important International Military Education and Training programs (IMET), our request is for \$50.5 million, up from the \$47.2 million appropriated for the current year. In Economic Support Funds (ESF), our request is for \$3.36 billion in grants, compared with \$3.18 billion provided in the current fiscal year. Only our highest priority programs can be met at these request levels.

Our security assistance resources remain essential in complementing our diplomatic initiatives for promoting peace in some of the world's most troubled regions.

Nowhere have our diplomatic efforts been more intensive than in the pursuit of a negotiated solution to the Arab-Israeli conflict. Over the past year, we have sought to create a process that would break the decades-old confrontation between Israelis and Palestinians, and then broaden the effort into a lasting peace between Israel and the entire Arab world. And we have had results. Working closely with both Israel and Egypt, we have hammered out a framework for an Israeli-Palestinian dialogue in Cairo to discuss elections for Palestinians on the West Bank and Gaza. Elections offer a practical step that could launch the kind of negotiating process that could lead to a comprehensive peace—one based on U.N. Security Resolutions 242 and 338, security for Israel and all states in the region, and the fulfillment of the legitimate political rights of the Palestinian people. We are now working intensively on the practical details of getting this dialogue launched. If the parties are prepared to approach this process in a practical and broadminded way, we can make progress.

To help the peacemakers broaden and strengthen their vital and ongoing efforts, we are again requesting \$5.1 billion in combined security assistance for the two Middle East peace partners.

That represents about 61 percent of our total security assistance request. These funds meet military modernization requirements and contribute to economic stability and development objectives.

The United States and Pakistan have enjoyed close bilateral ties for more than forty years. For FY 1991, we are requesting \$573 million in total bilateral assistance, down slightly from the \$588 million provided in FY 1990. This funding reflects the continuing importance we place on this relationship, and on the key role Pakistan continues to play in support the Afghan people in their struggle for self-determination. Our funding supports Pakistan's return to democracy, encourages economic development, assists military modernization, and more generally promotes regional stability.

NATO is critical to our quest for securing peace and democracy in Europe. As the President recently stated in Brussels, the ending of the Cold War does not mean an end to the most successful alliance in modern history. We foresee NATO's vital military mission being complemented by a number of additional activities which build on its strength in protecting Western security interests. These include conventional force reductions, verification, and collaboration against threats to common security posed by new lethal technology and volatile regional conflicts.

For our NATO allies with whom we enjoy military base agreements—Portugal, Greece, and Turkey—we are requesting a combined total of \$1.1 billion in military and economic assistance, or 13 percent of our total security assistance request. This compares with \$992 million provided in FY 1990. Greece, Turkey and Portugal are vital to NATO's Southern Tier. As NATO develops new missions over the next decade, we will need to tailor our programs to meet changing requirements. It will remain critical, however, to support host government forces as a complement to our continued access to important facilities, including the Lajes Air Base in the Azores and military and intelligence assets in Greece and Turkey.

We fully support the Esquipular, Tesoro Beach, and Tela accords as a lasting framework for peace in Central America. Uniting all these accords is a fundamental commitment to democracy and the democratic process. We continue to work with other nations to translate the promises in those agreements into a permanent reality—whether through El Salvador's five elections since 1982, last Sunday's election in Nicaragua, or the Panamanian election last May that exposed Noriega's corruption to the entire world. We seek the support of all governments for peace and the democratic process in Central America.

To consolidate democracy and support economic development in Central America, we are requesting \$739 million in total assistance for the Central American democracies. This compares with \$655 million provided in FY 1990. As in prior years, over four-fifths of our request supports economic assistance, which is vitally needed to bolster living standards and promote market-oriented growth strategies, to create a climate for the expansion of regional peace.

To bolster another fragile democracy—the Philippines—we are requesting \$450 million in total bilateral assistance, plus a second installment of \$200 million for the Multilateral Assistance Initiative. This compares with \$341 million in bilateral assistance and \$160 million for MAI in FY 1990. President Aquino needs our help to implement economic and military reforms necessary to broaden the foundations of her democratic government's stability. Discussions also begin shortly on renewing our base agreements with the Philippines. We hope to achieve agreement on continued use of these valuable facilities.

The key interests above—together with the security assistance component of our narcotics initiative—absorb 94 percent of our worldwide security assistance request. Budgetary restrictions leave us with only \$511 million to meet vital security interests in Africa, the Middle East, the Caribbean, Thailand, and elsewhere.

We must face together the prospect of managing tight international affairs budgets for at least the next several years. When resources are tight, let us agree on vehicles to ensure that our less visible but highly essential security interests do not get shortchanged in the process. Let us together explore way to achieve greater flexibility to respond to changing circumstances.

We would like to work together to avoid the difficult decisions the Administration was obliged to make in FY 1990 in the distribution of security assistance resources. In FY 1990, some 82 percent of our Economic Support Funds and 92 percent of our Foreign Military Sales financing were earmarked for specific country or regional programs. Because overall assistance levels were subsequently cut, we were unable to meet our broad foreign policy requirements with the residual which remained once the earmarks had been satisfied.

In ESF, we were left with some \$570 million in unearmarked funds, which had to be stretched to meet some \$950 million in justified program needs. In FMS, we had about \$396 million to meet \$659 million in program requirements. That gave us about 60 cents on the dollar to meet the needs of unearmarked programs across the board. The tough choices on how to distribute the shortfalls have some real foreign policy effects.

- In Central America, where the economic costs of regional instability have been compounded by uncertainty in key export markets, especially for coffee, our level of Economic Support assistance to the four democracies fell [in FY90] by nearly 30 percent compared to FY 1989 levels.
- In the Philippines, where much emphasis has been placed on meeting a commitment President Reagan made to the Aquino Government in 1988, we fell short by \$96 million, more than a quarter of our combined ESF/FMS pledge.
- In NATO, which will be vitally important in guaranteeing the security of a newly united Europe, we were unable to meet the needs of two critical friends. Our combined ESF/FMS aid to Portugal fell nearly 30 percent below our request, while our economic aid to Turkey fell 75 percent below our request.
- In Africa and the Caribbean, Economic Support Fund assistance was virtually unavailable to support the important security and anti-drug efforts of long-standing friends including, Kenya, Jamaica, and the Eastern Caribbean nations.

International Development and Humanitarian Assistance

To meet urgent human needs around the world and foster greater reliance on market forces, international development and humanitarian assistance will continue to play an important role. The U.S. remains the world leader in this field—through our direct provision of bilateral assistance, the emergency humanitarian aid we extend in crisis situations, and through the leadership position we take in refugee programs and international financial institutions. Indeed, it is largely through U.S. leadership that the world assistance community has embraced such important humanitarian concerns as first asylum for refugees. And it is greatly due to our leadership that the community continues to move away from traditional state-dominated development strategies.

For FY 1991, we are requesting \$6.6 billion in budget authority for international development and humanitarian assistance, up from \$6.1 billion actually appropriated for the current year. This increase will support our new Eastern European initiative and enable us to clear U.S. arrearages to the multilateral development banks.

For the multilateral development banks, we are requesting \$1.74 billion in budget authority, up from \$1.47 billion in FY 1990. This increase will enable us to clear past arrearages to the World Bank and the Asian Development Bank. Included in our request is \$1.06 billion for the annual U.S. share of the ninth replenishment of the International Development Association (IDA). This soft-loan window provides concessional World Bank financing to the poorest countries. Recognizing the need for shared responsibilities, we have agreed to contribute 21.6 percent of this IDA replenishment, down from our 25 percent share of the previous exercise. Up to half the IDA funds will be slated for Sub-Saharan Africa's most urgent development and economic restructuring requirements.

For our bilateral development assistance programs—managed by the Agency for International Development (A.I.D.)—we are requesting \$2.89 billion in FY 1991 budget authority. This provides funding for the following programs:

- \$1.23 billion for the development assistance program, providing for basic needs in the areas of agriculture, population, health, energy, environment, and education.
- \$561 million for the Development Fund for Africa.
- \$500 million for the Special Assistance initiatives for the Philippines (\$200 million) and Eastern Europe (\$300 million) that were described above.
- \$145 million for several smaller A.I.D. programs which respond to a variety of special needs—including humanitarian disaster assistance, support for American Schools and Hospitals Abroad, and overseas housing programs.

Given the shortage of security assistance funds, multilateral and bilateral development assistance programs will continue to be our primary vehicles for promoting economic growth along free market principles in the countries of Africa. Our bilateral Development Fund for Africa is targeting such assistance to countries willing to undertake adjustment efforts to lay the basis for sustained growth. Currently, 28 African countries are undertaking formal structural adjustment efforts in close coordination with the International Monetary Fund (IMF) and World Bank.

Largely through assistance and admissions efforts, the United States continues to play a preeminent role in easing the plight of the world's refugees. We are making significant progress:

- We improved our assistance to Soviet refugees by shifting our processing activities from Rome and Vienna to Moscow.
- We are working closely with Congress on special immigration legislation to supplement our refugee programs.
- We successfully negotiated an agreement with Vietnam to allow reeducation center detainees to resettle in the United States. Last month, the first 750 former detainees and their family members departed Vietnam under this program.
- We are working hard in multilateral channels to preserve the principle of first asylum for Vietnamese boat people, and to make a success of the voluntary repatriation program from Hong Kong.

For FY 1991, we are requesting \$476 million in budget authority for refugee activities. This compares with \$438 million in total FY 1990 resources, including the supplemental funding request described above. These funds will support the admission of 95,000 refugees and 15,000

Amerasian immigrants—the same number as the current year—and enable us to assist the immediate needs of millions of additional refugees and displaced persons worldwide.

Other important components of our international development assistance request include:

- \$898 million in budget authority for P.L. 480 food aid, to support a \$1.5 billion program level.
- \$181 million for Peace Corps operating expenses.
- \$225 million for voluntary contributions to international organizations, including the U.N. Development Program (\$109 million) and UNICEF (\$50 million).

For international narcotics control assistance programs under the management of the State Department, we are requesting a total of \$150 million in FY 1991, up from \$113 million in the current fiscal year. Nearly all of this increase will be devoted to significantly expanding our coca control efforts in the Andes, with Latin American country programs increasing from \$57 million to \$87 million. The equipment and training we provide are essential to support interdiction and law enforcement operations against the major trafficking organizations.

Stretching the Assistance Dollar

The Administration is utilizing a wide variety of tools to promote an adaptive climate for world economic growth, to ensure that our assistance resources are appropriately leveraged to deliver maximum impact. Over the past year, we and our friends have worked together on a number of programs to lay the basis for sustainable growth in the developing world.

- Our bilateral Development Assistance programs worldwide are increasingly targeted to those countries willing to pursue growth-oriented structural adjustment programs.
- Our assistance programs for Eastern Europe are largely devoted to stimulating private sector development, through the use of Enterprise Funds designed to catalyze entrepreneurial skills. We are working to ensure that a future development bank for Eastern Europe carries a similar orientation toward the private sector.
- Our own dynamic economic expansion—into its eighth year of growth—has provided mutual trade opportunities for U.S. exporters and those from the developing world.
- Our commitment to an open world investment regime is attracting additional infusions of private capital to equity markets in developing countries.
- Our strengthened debt strategy now incorporates debt and debt service reduction options. These provide a more solid basis for growth to countries undertaking economic reform programs. Mexico, Costa Rica, and the Philippines already have taken advantage of these options. We expect a number of other countries to follow suit this year.
- Our commitment to support strong, adequately funded multilateral economic institutions helps foster market-oriented structural changes in the developing world. The International Monetary Fund and the World Bank will shoulder additional responsibilities as Eastern European countries seek assistance in adapting to market mechanisms. Latin American countries with structural economic problems will solicit advice from these institutions on the stabilization programs essential to the preservation of their political stability

- Our commitment to a successful completion of the Uruguay Round of GATT [General Agreement on Trade and Tariffs] negotiations in December 1990 is vital to ensure the continued expansion of trade and economic growth in the decade and century ahead. We are tackling head-on a series of tough issues in Geneva—bringing open trading rules and discipline to new areas such as services, intellectual property rights, investment related trade measures, and world agriculture production. The GATT talks remain of the highest priority to us. We are working hard with our trading partners—developed and developing—to ensure a strong set of agreements that benefit all nations.

- On a bilateral basis, we are deepening trade relations with our closest neighbors and friends—Canada and Mexico—to jointly address some of the major challenges of the next decade. In Mexico, we are working in close partnership with President Salinas to broaden our mutual agenda. Through our Framework Agreement on Trade and Investment, we continue to encourage Mexico to deepen the extensive liberalization of its trade and investment policies now underway.

- The President has announced a trade initiative for the Andean Region to promote economic growth by encouraging the expansion of legitimate trade opportunities.

- We are on the way to establishing a new regional grouping in the Pacific Rim, which can help identify and overcome barriers to more efficient flows of trade, capital, and technology, thereby enhancing world economic growth.

Over the past year, the United States has pursued an active agenda to ensure that the fruits of an open world trading and economic system accrue to those countries which are ready to participate on a competitive basis. We will continue to build on America's commitment to private enterprise, individual initiative, and pioneering spirit to foster market-led growth in the developing world.

CONCLUSION

As the last six months have clearly demonstrated, we are approaching a new age of democracy. Free elections have transformed the globe, from Nicaragua and Panama to Poland and—in the very near future—the rest of Eastern Europe. The primary responsibility will be in the hands of the new leadership of those countries—to craft political and economic structures responsible to the will of the people. But they will also need help to support democratic structures, introduce free markets into a controlled economic structures, or simply live in peace with their neighbors. Many of our traditional allies face similar if less dramatic challenges.

Our responses to these dramatic events will determine whether we are prepared to reach out and meet the challenges of the next decade. This Administration believes that American values and interests demand that we respond positively to these challenges. The budget request we have put before you is essential to meeting that task.

Let me conclude on this note. In today's dynamic world, we must be flexible if we are to manage change successfully. We in the Executive Branch recognize that accountability and sound management are essential to the effective administration of foreign policy. I would therefore propose a kind of new code of conduct on foreign assistance. We should look to constructive consultations as the primary vehicle for achieving consensus on program objectives. Let us explore together ways to achieve greater flexibility that serve everyone's interest, as we deal with these extraordinary times and changing priorities.

I know that you have been supportive, Mr. Chairman, of the attempt to limit the practice of earmarking, and I look forward to working with you and the members of your subcommittee to develop a new kind of Executive/Legislative relationship on this critical issue.