

On March 3, 1983, William Schneider, Jr., Under Secretary of State for Security Assistance, Science and Technology presented the following statement before the Subcommittee on International Security and Scientific Affairs, House Foreign Affairs Committee:

U.S. foreign assistance programs constitute an integral part of this nation's response to international political and economic developments throughout the world. Resources provide us with the means to exercise leadership internationally and enable us to help developing countries address their most pressing problems.

Secretary Shultz testified before the full committee on foreign assistance in general. I am here today to discuss U.S. security assistance programs and arms transfer policy.

We have developed an integrated foreign assistance program in which development and security assistance combine to meet our economic and national security objectives as well as those of other countries who share these objectives. Security assistance is but one aspect of the whole. It is important to keep in mind that assistance to promote economic growth and development and security assistance are mutually reinforcing programs that cannot function independently.

The United States has multiple interests involving the developing world. On the economic level, about 40 percent of total U.S. exports are to less developed countries. U.S. industry depends on imports of primary commodities, minerals and petroleum. Open trading and financial systems are important to the economic health of developed and developing countries alike. Economic progress in the developing countries and recovery in the industrialized nations cannot occur independent of regional security and stability. A sense of security from external threat and internal upheaval is a necessary precondition of development, and our own self interest requires that we pay close attention to events in the sometimes seemingly remote countries that are commonly referred to as the Third World. It is only at our own peril that we ignore or fail to respond wisely to their security and development needs.

As it is integral to our foreign policy, so too is security assistance an inseparable ingredient of our own defense planning. This administration has sought to enhance the security of the United States and to strengthen its ability to protect its interests in various regions of the world. This requires increasing our own defense capabilities and conducting effective diplomacy. In part, however, it also requires a realistic increase in security assistance to allies and friends around the world.

The link between U.S. defense planning and security assistance is direct and occurs at several levels. The U.S. alone does not and cannot maintain a force structure and capabilities sufficient to defend the free world. We must depend upon allies to deter local threats to our common interests. We factor their capabilities into our planning and the security assistance program is the vehicle

for providing them the necessary equipment and training. It would cost \$60,000 to equip and maintain one U.S. soldier in Turkey, should that be necessary; it costs only \$9,000 for one Turkish soldier. Thus, security assistance is cost-effective.

Second, security assistance enables us to maintain cooperative relationships necessary for our strategic planning. For example, the rapid deployment force cannot perform its mission in a South-west Asian contingency unless it can move to the area promptly, equipped to fight as necessary. This requires enroute access and transit rights as well as prepositioned equipment and supplies in the region. We cannot expect other nations to cooperate with us unless we are equally responsive to their legitimate needs. We must be a reliable friend if we are to have reliable friends.

Third, the military security assistance programs are managed by DoD in conjunction with U.S. procurement so that both the U.S. and the foreign buyer reap the benefits of consolidated planning and economies of scale. This entails both integrated procurement of weapons systems and tying foreign buyers directly into our supply systems to ensure timely, effective logistical support. Cutting back on foreign sales by the U.S. will only serve to channel these sales to others and raise the costs of our own purchases.

Fourth, security assistance helps to maintain a strong defense industrial base in the United States. Virtually all security assistance resources are spent in the U.S. on U.S. equipment and services.

Finally, allies and friends who are able to deter and defend against local threats provide the President time and choices in a crisis situation. Specifically, the President is not faced with the sudden choice of intervening directly with U.S. forces at the request of an ally, or acquiescing to aggression. A security assistance recipient with a strong defensive capability provides valuable time for the U.S. to consider its own appropriate response.

In sum, adequately funded, efficiently administered security assistance programs are essential to U.S. defense planning. Without them, our own defense effort would be both far more costly and, in times of crisis, even dangerously crippled.

One aspect of security assistance that bears special mention is the Economic Support Fund (ESF). ESF is not simply another form of credits for military purchases. We do program a major percentage of ESF to countries where we also have a significant Military Assistance Program. But we use ESF to address economic problems in a way that both complements and enhances the military assistance we provide.

Many LDCs today are reeling from the multiple shock of high energy costs, decreased demand for their exports, and their own economic mismanagement. Political stability and the ability to fend

off external threats are simply impossible objectives if a country cannot achieve economic growth sufficient to enable it to meet the aspirations of its people. ESF helps the U.S. assert a leadership role in fostering economic recovery in nations of high strategic importance to us. In some instances, such as Israel, ESF provides needed budget support. In others, such as Pakistan, Jamaica and the Sudan, ESF helps us to support countries that are making efforts to restructure their economies and to become more self-reliant in the future. In still others, such as Kenya and Botswana, ESF meets basic human needs as do development assistance programs. Flexibility is the most important attribute to ESF, and it is an important complement to other trade, finance and aid policies and programs.

FY 1983 Supplemental

The FY 1983 Continuing Resolution under which we are operating does not provide adequate funds to achieve necessary national security objectives.

After careful consideration, we have reluctantly concluded that we cannot, without sacrificing important interests, operate with Continuing Resolution levels. Our problems are accentuated further by the extensive earmarking in existing authorization legislation and in the Continuing Resolution itself. The administration is obliged, therefore, to seek additional funding for the current fiscal year coincident with our request for FY 1984.

Before getting into specifics, let me review briefly the five security assistance programs. Although well known to you, they have evolved to meet changing needs around the world.

-- Foreign Military Sales (FMS) financing facilitates the purchase of U.S. military equipment, spares or training. There are two types of FMS financing: direct credits, which involve appropriated funds, and guaranteed loans, which do not. While direct credit can, under the law, be provided with varying degrees of concessionality, the Congress has in recent years limited its use to a few recipients, for which it has waived in advance the requirement to repay. USG guaranteed loans are provided to a wide range of countries -- but 85 percent of the program is directed to seven key countries (Spain, Turkey, Greece, Pakistan, Israel, Egypt and Korea). Such loans are made by the Federal Financing Bank and bear an interest rate reflecting the cost of money to the treasury.

-- The Economic Support Fund (ESF), of which I have already spoken, provides loans or grants to promote political and economic stability in countries of special economic, political or security interest to the U.S. This assistance may be in the form of cash transfers for balance of payments or budget support, commodity import programs or project assistance.

-- The Military Assistance Program (MAP) provides grant funding for defense articles and services. Whereas in the past MAP

was used to provide specific military items, it currently helps recipient countries pay for equipment purchased under the FMS program. We often provide a degree of concessionality in financing military purchases through a combination of FMS guaranteed loans and grant MAP funds. While the percentage rise over our FY 1983 request is significant, the dollar change is more modest and clearly reflects the continuing impact of worldwide recession on the ability of recipients to pay for necessary defense requirements.

-- International Military Education and Training (IMET) provides grant funds for professional military training. Most is used to bring promising military personnel to the U.S. for specialized training -- which often has the added advantage of exposing future military leaders to American values and institutions. The IMET Program, while relatively small in dollars committed, may well have the highest marginal return of any assistance program.

-- Peacekeeping Operations (PKO), the smallest of the security assistance accounts, permits us to participate in multilateral peacekeeping activities in some of the world's most volatile areas. For fiscal 1983 and 84, the only peacekeeping programs foreseen are those in the Sinai and Cyprus.

Lebanon Supplemental

I would like to turn now to the first of the two supplemental authorizations we are seeking: \$251 million to help restore peace and stability in war-torn Lebanon. This is a one-time special reconstruction package. In FY 1984 and beyond, we expect to revert to traditional levels of assistance. Others will testify in greater detail on the Supplemental and I will only briefly review the three component requests.

-- \$150 million in ESF grants. These are "no-year" funds to be obligated in both FY 83, and FY 84, about \$100 million and \$50 million respectively. These funds, together with funds from other donors, will help the Lebanese Government rebuild its shattered economic infrastructure.

-- \$100 million in FMS guaranteed loans. This will help finance Phase II, if necessary, and Phase III of the effort to reconstitute the Lebanese Armed Forces. Phase I, now almost complete, involves the formation of four new brigades and equipping them to 70 percent strength. Phase II will bring one of those brigades up to 100 percent strength and add a fifth brigade. We have signed Letters of Offer for most of this equipment except APCs which will require Congressional notification. The total bill for Phase II is expected to be the order of \$55 million. Phase III would add two more brigades at a cost of \$105 million.

-- \$1 million in IMET. This will send U.S. training teams to Lebanon and bring Lebanese military officers and enlisted crews to the United States for specialized training.

I am certain that members of this Committee recognize that very important national interests are at stake in troubled Lebanon. We have a vital interest in ending hostilities and promoting the withdrawal of all foreign forces in a manner that promotes lasting peace and stability. The MNF cannot play a permanent, direct role in maintaining internal security. The LAF must gradually assume responsibility for that job. The exact shape of LAF deployments will be determined in part by the outcome of the current negotiations with Israel.

The question is not whether we should participate in Lebanon's recovery nor whether we should help Lebanon develop the capacity to defend its national integrity, but how quickly we can bring about these goals. I urge you to consider this supplemental request on an urgent basis so that we can continue the enormous task of reconstruction.

FY 1983 Security Assistance Supplemental

Our other Supplemental Authorization request also requires urgent attention. In these times of economic constraints and domestic belt-tightening, it takes a really serious situation to come before the Congress to ask for more foreign aid. We are convinced, however, that the request in this case is not only justified, but that we have no responsible alternative.

The reasons are these:

The Continuing Resolution is \$961 million, or 11 percent below the amount we requested for security assistance in FY 1983. This means cuts of 48 percent in MAP, 17 percent in IMET, 16 percent in FMS Guaranteed Loans, and 8 percent in ESF. There was a 24 percent increase in forgiven FMS Credit, but this was completely earmarked for Israel and Egypt (at levels above the Administration request) and did not provide funds for the Sudan program, earmarked in authorization legislation.

Indeed, more than half of the MAP, ESF and FMS Guaranteed Loan is earmarked. This magnifies the reductions to be absorbed by the remaining unearmarked countries. For instance, the effective cut for these countries averages nearly 70 percent in MAP and 50 percent in FMS.

We cannot carry out an effective security assistance program with such extensive reductions. We face unacceptable choices as to which critical interests to fulfill and which to sacrifice.

We do not seek a total restoration of the difference between our request and the CR level. We are requesting \$167 million in additional MAP appropriations, of which only \$142 million requires authorization; \$144.5 million more in ESF appropriations, of which \$82 million requires authorization; and \$425 million in FMS Guaranteed loans. Let me describe how the Supplemental funds will be used.

Major MAP recipients will be: Sudan (\$50 million); Tunisia (\$30 million); Thailand (\$16 million); and Kenya (\$12.5 million). As I noted above, \$50 million in forgiven FMS credit is earmarked in authorization legislation for Sudan, yet no funds were appropriated. Sudan faces severe economic problems and a serious threat from neighboring Libya. Its continued security is important to the Middle East peace process, and to our access to Southwest Asia should the need arise. The Sudanese economy is in dire straits; it cannot service sizeable high interest guaranteed loans.

Tunisia, another good friend threatened by Libya, needs MAP, coupled with additional guaranteed loans, to purchase tanks and transport aircraft. The total package provides necessary concessionality to help Tunisia's military modernization program.

A similar rationale supports our proposals for Thailand, which just last week was attacked by the Soviet-backed Vietnamese forces ranged along its eastern border, and for Kenya, which contributes to stability and to our objectives in the Horn of Africa and Southwest Asia. We are also seeking small amounts of MAP funding in the Supplemental to prevent several small programs in Africa and Latin America from being eliminated.

Major ESF recipients are: Turkey (\$55 million), Sudan (\$25 million), Zimbabwe (\$15 million) and the Dominican Republic and Cyprus (\$10 million each). Last year we pledged \$350 million to a multilateral effort through OECD to help put Turkey back on its financial feet. The requested \$55 million, together with the \$245 million allocated under the CR for this purpose, still leaves us \$50 million short of our pledge.

For Sudan, we hope to generate matching support from others to enable Sudan to meet IMF foreign exchange requirements. Such support is essential for a country whose annual debt service costs are expected to exceed its total exports this year. We seek additional funds for Zimbabwe to fulfill our public pledge to provide \$75 million for three years.

The Administration remains committed to fostering Caribbean economic growth and stability. The Supplemental is essential to this endeavor. We are asking as well for supplemental funds to meet the Congressional earmarks for Cyprus, and for added funding for the Middle East regional program which promotes cooperation between Israel and Egypt.

The off-budget FMS guaranteed loan request for \$425 million will support Pakistan (\$75 million), Korea (\$70 million), Turkey (\$65 million), Tunisia (\$43 million), Jordan (\$35 million), and Indonesia (\$30 million). Several smaller country programs require funding to prevent them from being eliminated altogether. The Pakistan program will be raised to the requested level consistent with our five year program of support for that country and to permit Pakistan to pay for equipment already ordered. Korea has been forced by resource constraints to postpone badly needed modernization

programs in such areas as air defense radar installation. The Supplemental will enable us to restore the 33 percent cut from the requested level. The request for Turkey will allow a slight increase over the amount provided in FY 82 to offset grant MAP reductions mandated in the CR. The request for Jordan will return this critical program to its requested level. If Jordan is to join the peace process, it must be confident of U.S. support.

We are not seeking supplemental increases in funds for either IMET -- although reductions have forced major retrenchments in this highly effective program -- or in Peacekeeping Operations.

Our Security Assistance Program in FY 1983 has been seriously compromised by inadequate funding. We have planned for these extremely scarce funds to continue the absolute highest priority country programs and to conform to the Congressional earmarks. However, if the Supplemental request is not approved, country programs that are only marginally less critical will suffer grievously and many of the smaller programs will have to be either cut to the point of ineffectiveness or terminated altogether. We do not want -- and we trust the Congress does not want -- to be responsible for the negative impact on U.S. interests and our bilateral relationships that would result.

FY 1984 Security Assistance Request

Now let me move on to what would normally have been the only subject of my testimony today -- the FY 1984 Security Assistance Authorization request.

We are requesting total Security Assistance Programs of \$9.2 billion, requiring \$4.8 billion in new FY 1984 budget authority. There is no real growth. In fact, the program total represents a modest 4.5 percent increase over our revised request for FY 1983. By program, we are seeking authorization of \$697 million in MAP, which is essential to provide for increased military inputs at more concessional rates; a virtual straight-lining of ESF, to \$2,949 million; \$56.532 million in IMET; and \$4,436 million in off-budget FMS Guaranteed loans. We are requesting \$1 billion in forgiven FMS direct credits for Israel and Egypt, and a PKO contribution of \$46.2 million for the multilateral force and observers in the Sinai and the U.N. forces in Cyprus.

These figures are determined by an interagency process which carefully reviews all our programs. Our key strategic objectives are established and coordinated with foreign policy and defense planning. We then design a Security Assistance Program that is carefully integrated with development assistance priorities to fulfill key strategic objectives. Since I have recently returned from accompanying the Secretary on a trip to East Asia, I would like to discuss that vital area of the world first.

East Asia: Promoting Pacific Security

For the Pacific, we are requesting \$506 million for ten countries -- about 5.5 percent of the total security assistance request. The bulk of funding here goes to countries with which we have firm mutual security agreements. More than 85 percent of the program goes to three countries: Korea, Thailand and The Philippines.

The Republic of Korea is directly threatened by North Korea, which spends 15-20 percent of GNP on arms, has 12 percent larger forces than the South, and more than twice the number of artillery pieces, tanks, and combat aircraft. Our \$230 million request will help Korea purchase priority items in its second force improvement plan such as aircraft, air defense missiles and improved armor and artillery capability.

For Thailand, we are requesting \$106.4 million to be used primarily for tanks, anti-aircraft missiles and aircraft. The Thais face a direct threat from an estimated 180,000 Soviet-backed Vietnamese soldiers across their eastern border in Kampuchea. By assisting Thailand, we help to deter aggression and show ASEAN countries our commitment to support their independence and security. Our assistance program also has a catalytic effect by encouraging greater regional political and defense cooperation.

Our FY 84 program for the Philippines represents the final year of the security assistance pledge which President Carter made in 1979 following the successful amendment of the Military Base Agreement. Clark Air Base, Subic Naval Base and other facilities there help to sustain the U.S. position as an Asian power and to project American power into the Indian Ocean. Finally, I would note our two smaller but important programs in Indonesia and Malaysia, which promote security interests in these populous, resource rich countries lying beside vital sea links between the Pacific and Indian Oceans.

Furthering the Middle East Peace Process

A fundamental U.S. objective, requiring the largest percentage of funds, is to further the Middle East peace process. Nowhere is the need for consistency, reliability, and balance in U.S. foreign policy more evident than in the Middle East. Our policy in the region is based on two mutually reinforcing goals: (1) the search for a just and lasting peace among all of the states in the area, and (2) the requirement that our friends in the region be able to assure their security against threats from the outside and from the pressures of Soviet surrogates and radical forces within the region.

U.S. assistance programs to Israel and Egypt reflect our best appraisal of their real needs. Our programs are designed to help give these nations the confidence to continue on the path toward peace begun at Camp David.

Lebanon and Jordan are also critical to peace and security in the Middle East. I spoke earlier about Lebanon in the context of the FY 83 Supplemental. The strengthening of institutions and the fostering of a national consensus in Lebanon would help significantly to stabilize the area and would thereby remove one of the major flashpoints of conflict in the region.

Our continued support for Jordan increases its ability to remain a viable, moderate actor in the region and encourages it to assume an active role in the peace process. Numerically outmanned by a potentially aggressive neighbor, Jordan depends on well-equipped, high quality, highly motivated forces to deter attack. Inasmuch as the risks to Jordan would increase if it joins the peace process, Jordan must know that it has a staunch friend in the United States who will supply and provide financing for military modernization needs. The requested \$115 million program for Jordan is designed to help modernize the armed forces through purchases of equipment including armor, artillery, airlift equipment and Tow Missiles.

For FY 1984 we plan to devote about 51 percent of our total Security Assistance Program to this peace effort. In program terms, this is \$1,570 million in ESF, \$1,000 million in forgiven FMS credit, \$2,130 million in FMS guaranteed loans, \$4.75 million in IMET, and \$37.2 million for Peacekeeping Operations in the Sinai. By country, it amounts to \$2,485 million for Israel, \$2,052 million for Egypt, \$137 million for Jordan, and \$15.75 million for Lebanon.

Strengthening the NATO Alliance and Europe

The strategic importance of Europe's southern flank to NATO and the West has been dramatically underlined by events this past year. Helping these nations acquire the materiel and training needed to meet effectively their NATO responsibilities is an important contribution to our common defense, not only against threats to NATO but against challenges to our common interests beyond the geographic bounds of the alliance.

Portugal and Spain hold a strategic position along the principal lines of access to Europe and the Middle East/Southwest Asia. The Portuguese, with the aid of their allies, are determined to play a larger role in NATO and in the defense of Western interests. Basing facilities in Portugal are key to NATO reinforcement, ASW operations and possibly out of area contingencies. The FY 84 FMS/MAP request of \$105 million will help provide a second squadron of A-7P aircraft, the start-up of an anti-submarine warfare frigate program, and increased P-3 and C-130 capability. Spain's decision to join NATO is a historic milestone on the road to that nation's full reentry into the West European community. It underscores Spain's desire to reinforce democratic institutions. Our \$400 million FMS request serves to solidify progress in this direction and helps ensure the access we need to bases vital to our own defense posture.

In our Defense Cooperation Agreement with Turkey, we have undertaken to assist the Turkish Armed Forces in their efforts to modernize their dangerously obsolescent military inventory. Turkey is outnumbered three to one by Warsaw Pact ground troops, armed with the most modern armaments in the Soviet arsenal garrisoned in the nearby trans Caucasus and Thrace. Similarly, Warsaw Pact aircraft vastly outnumber Turkish aircraft in the region. We are requesting \$755 million in FMS/MAP to help Turkey purchase a wide variety of equipment including some replacements for its obsolete fighter aircraft. The use of MAP funds will limit the impact of this large program on Turkey's heavy debt service schedule. We cannot understate Turkey's importance, standing as it does at the intersection of our NATO, Southwest Asia, and Middle East strategies.

Security assistance demonstrates American support for a democratic Greece willing and able to fulfill its NATO responsibility and to help ensure political stability in the Eastern Mediterranean. We have straight-lined the Greek program because base negotiations currently are underway. To do otherwise would compromise our ability to reach a reasonable agreement. We have told the Greeks, however, that we are prepared to request additional funds in the context of a satisfactory Defense Cooperation Agreement.

We intend to commit \$1,790 million in security assistance to the European southern tier states of Spain, Portugal, Greece, Turkey and Cyprus. By program this will consist of \$230 million in ESF, \$290 million in MAP, \$1,250 million in FMS guaranteed loans, \$11.7 million in IMET, and \$9 million for the U.N. forces in Cyprus. By country, it will be \$12 million for Cyprus, \$281.7 million for Greece, \$148 million for Portugal, \$415 million for Spain, and \$934 million for Turkey.

Southwest Asia

Southwest Asia remains the critical source of energy for the free world. Broadly defined, this area stretches from Pakistan in the east to Morocco in the west. Almost all these countries face severe economic problems and potential subversion or regional threats, in many cases supported by the Soviets or their proxies.

Our five year program of military modernization and economic assistance will help Pakistan to meet the Soviet threat from Afghanistan and facilitate the economic development essential to internal stability. Our renewed strategic relationship will help deter further actions by the Soviets and support Pakistani resolve to continue to oppose Soviet aggression in Afghanistan. A Pakistan more confident of its security has less need for and motivation to develop nuclear explosives. The \$300 million FMS request will be used for progress payments on the \$1.7 billion package of military assistance already underway including F-16 aircraft. As you know, the first six F-16s recently arrived in country and the reaction was overwhelmingly positive for U.S.-Pakistan security relations.

Sudan, Morocco and Tunisia all face threats of subversion or aggression emanating from or supported by Libya. Sudan also faces a significant potential military threat from Ethiopia. These countries have difficult economic problems. Grant U.S. assistance is needed to enhance military preparedness without adding to already excessive economic burdens.

Given Oman's strategic location on the Strait of Hormuz and close cooperation on regional security issues, we put high priority on improving its defense forces. The Yemen Arab Republic, strategically located on the Bab-el-Mandeb Straits and the southwest flank of Saudi Arabia, faces a well-armed, Marxist-led insurgency supported by South Yemen and Libya. With a deteriorating economic situation, this country requires both development and security assistance to enable it to maintain its independence and stability.

Also along the Indian Ocean Littoral, in both Kenya and Somalia, we seek to encourage economic self-reliance and the development of defense capabilities consistent with economic realities. Both nations count as key features in our own defense planning for the region and Somalia faces continuing pressure from Ethiopian border attacks. Our aid to the Island states helps maintain U.S. access and influence in the Indian Ocean.

We plan to commit some \$1,188 million to security assistance for the 12 countries whose cooperation we consider essential to our Southwest Asia policy. Programmatically, this will include \$451 million in ESF, \$220 million in MAP, \$507 million in FMS guaranties, and \$10.15 million in IMET. The major country programs are Pakistan at \$525.8 million, Sudan at \$181.5 million, Tunisia at \$141.7 million, Morocco at \$98.7 million, Kenya at \$78.65 million, Somalia at \$76 million and Oman at \$60.1 million.

Restoring Stability and Progress in the Caribbean Basin

We face a major challenge in the Caribbean Basin, where Cuba has sought to exploit socio-economic problems and military vulnerabilities. The FY 1982 CBI Supplemental was never intended to cure all problems; we must continue to provide resources until increased investment, a strengthened private sector, and expanded export markets enable these countries to achieve more economic self-sufficiency.

El Salvador, where the guerrillas seek to destroy the economy and take over the government, would be the largest single recipient of both economic and military assistance in the Caribbean Basin. The Salvadoran economy has been in sharp decline since 1978; in real terms the value of goods and services produced now is estimated to be 25 percent below 1978. We have allocated \$140 million in ESF for FY 83 and are requesting \$120 million for FY 84 in an effort to restore production in what was one of Latin America's most efficient economies. Honduras faces a severe economic decline and a large military buildup in neighboring Nicaragua. Costa Rica's rapidly deteriorating economy will require substantial assistance

while fundamental reforms are effected. Jamaica will continue to need substantial assistance in order to restore the vitality of its private sector. Because of deteriorating conditions, other countries in the region, including Guatemala and the Dominican Republic, require substantial amounts of economic assistance. We are proposing a new FMS program for Guatemala in FY 84 because of the importance of Guatemala in Central America, the threat the country faces, and the progress being made in improving human rights.

Under the security assistance rubric, we expect to devote about \$558 million to CBI countries and regional programs. This will include \$398 million in ESF, \$109.8 million in MAP, \$45 million in FMS guaranties and \$5.13 million in IMET funds. The major recipients will be El Salvador at \$206.3 million, Honduras at \$81 million, Costa Rica at \$72.15 million, Jamaica at \$59.2 million, Guatemala at \$50.25 million and the Dominican Republic at \$45.75 million.

Other Strategic Groupings

We also propose in FY 1984, in addition to these areas of strategic concern to the United States, to provide security assistance to a number of other countries in troubled parts of the world.

Our policy in Southern Africa is designed to advance the peace process in Namibia, ensure continued western access to key strategic minerals, and support the development process from Zaire to the Cape. We are committed to assist the economic development of the front-line states in Southern Africa, whose participation is essential to the resolution of conflict there. The alternative -- a new escalation of conflict -- would provide significant new opportunities for the Cubans and the Soviets. We seek \$181 million in security assistance for this region.

Adequate aid is essential to maintain peace and stability in Western Africa, where financial difficulties risk exploitation by Libya. We propose modest new ESF programs for two threatened, staunchly pro-western countries, Senegal and Niger. Our aid to Liberia is designed to address its immediate financial crisis, stimulate long-term development, ensure continued U.S. access to key transportation and communications facilities, and facilitate the return to civilian government in 1985. Our assistance elsewhere in West Africa is limited to FMS loans in Cameroon and Gabon and to 14 IMET programs.

The President's recent trip to Latin America underscored America's commitment to play a major role in addressing the key problems of our neighbors to the south. In furthering our strategic and national security interests in the southern part of the hemisphere, we are seeking \$51 million primarily for FMS guaranteed loans to Peru, Colombia and Ecuador.

In concluding this portion of my remarks, I would emphasize that none of these figures is intended to set a cash value on the

relationship between the United States and the recipient country. Nor do they in all cases indicate the total amount of assistance we propose to provide, as many will receive various other types of development assistance as well. Our security assistance budget proposal is, I believe, carefully crafted to move us toward a variety of strategic objectives at minimum expense to the American taxpayer.

FY 1984 Legislative Proposals

Mr. Chairman, I would now like to address several of our legislative proposals for FY 1984. These include new proposals together with those submitted last year. Many of the latter were included in the authorization bill reported by this committee. We have made an effort to limit the number and scope of the proposals to those essential to the effective operation and administration of the programs. We regard those which are before you as extremely important and urge their consideration and adoption.

New Proposals

Let me highlight some of the more important proposals. General Gast will also speak to these proposals.

We seek a change to Section 21 of the Arms Export Control Act (AECA) to simplify the current, multi-tier pricing structure on sales of training. By allowing us to charge all purchasers an amount equal to the "additional cost" not otherwise incurred by the U.S. in providing the training, this proposal would reduce discrimination among countries yet ensure that the U.S. recoups the total cost attributed to such training. This proposal is similar to that enacted recently for grant training.

Earlier I mentioned the impact that earmarking in legislation has on our ability to allocate available funds to meet priority objectives. The most serious problems arise from earmarks in authorization and appropriations legislation, which assume availability of the funds authorized in that bill. When the worldwide availability for ESF or MAP is reduced, often severely in a CR, we must nonetheless fund specific countries at the full amounts earmarked. This creates serious distortions in country allocations, often unintended, by forcing disproportionately severe cuts in unearmarked country programs.

To help deal with this problem, the Administration is proposing enactment of a provision that would reduce earmarks, when operating under a CR, to the same proportion of the total funds available under the CR as the original earmark was to the total funds available for the relevant account in the law which established the earmark. We recognize, Mr. Chairman, that the Congress may not authorize and appropriate all the funds that have been requested. When funds are reduced, however, earmarking places us in a

straitjacket which prevents rational country allocations. The combination of lower funding and extensive earmarks is devastating. I strongly urge adoption of this proposal.

We also need adequate numbers of personnel in certain countries to manage the Security Assistance Program. The number of overseas military personnel declined significantly in the late 1970's. Congress took the lead in bringing about the reductions, many of which were warranted and overdue. As certain programs grow in size and importance, however, we must seek prudent increases. Accordingly, we propose to amend Section 515 of the FAA to add nine new countries to the twelve currently authorized to have more than six uniformed personnel. These include Pakistan, Tunisia, Yemen, Liberia, Sudan, Zaire, El Salvador, Honduras, and Venezuela.

We propose to add Korea to the short list of countries authorized to receive extended payment terms on FMS guaranteed loans. The size of the Korea program has been reduced significantly in recent years. The reduction was not by choice but because Korea, as an unearmarked country, was forced to bear a sizeable portion of the reductions in overall funding. This proposal would allow Korea to spread out its repayments and spend a larger portion of its own funds on needed military purchases.

Current law requires that countries that sell or dispose of U.S. equipment provided under the MAP program return the proceeds to the U.S. Because there is no incentive to eliminate obsolete equipment which drains available O&M funds, countries maintain such equipment in their inventories even when to do so is uneconomical. We are proposing to add a waiver authority that would allow the President, on a country-by-country basis, to permit countries to keep the proceeds of sale when it is in the U.S. national interest to do so. All applicable legal and policy controls on Third Country transfers would continue to apply to any sales of this equipment.

Carryover from FY 1983

Very briefly, Mr. Chairman, I want to mention a few of the FY 1983 proposals which we are once again requesting in FY 1984.

-- Authorization of an anti-terrorism training program. Our proposal incorporates virtually all of the changes made by the committees last year. This program would become effective upon enactment of the bill to provide anti-terrorism assistance. Authorization of \$5 million is requested for FY 1984.

-- Removal of prohibitions against assistance to China. This proposal removes China from the prohibited list of "communist" countries in Section 620(f) of the FAA.

-- Permit reciprocal no-cost exchange training on a one-for-one basis for professional military at war colleges and

command and staff colleges. Establish a threshold of \$50,000 on reprogramming notices to the Congress for international narcotics control and IMET programs.

Mr. Chairman, we are presenting you with several proposals -- two FY 1983 Supplemental Authorization Bills plus the regular FY 1984 Bill. We request your urgent and careful consideration of them. The legislative and budgetary requests have been scrutinized thoroughly within the Administration and meet all of our essential criteria in a very tight budget year. In conclusion, I ask you to consider not only the costs of providing the requested assistance, but also the costs of not providing it.

Arms Transfer Policy

With respect to arms transfers and arms transfer policy, I would merely reiterate what many officials of this Administration have said before: We consider arms transfers to be an instrument of U.S. policy, not an exceptional instrument as our predecessors tried but in fact failed to establish nor as a largely commercial activity as is the case with a number of some other nations. We will continue to weigh carefully all of the relevant considerations likely to bear upon any specific arms transfer decision in order to determine whether that transfer is, on balance, in the clear U.S. national interest. These considerations include, of course, the military purpose of the proposed transfer, the ability of the recipient to absorb and operate the equipment, the economic impact of the proposed transfer upon the recipient, the impact upon surrounding states -- stabilizing or destabilizing in the region -- and so on. As a practical matter, we continue to turn down proposed sales at a rate not significantly lower than our predecessors. This approach, we firmly believe, is sensible and ensures that arms transfers are integrated effectively with other instruments of policy and contribute to our broader strategic objectives.

Arms transfers are inherently neither good nor evil. A given weapon system is not stabilizing or destabilizing as an abstract proposition. Arbitrary restraint and unrestricted transfers are equally unrelated to U.S. national interests. There is no virtue in cutting arms transfers, or increasing them, in the aggregate. Transfers can fairly be evaluated only in terms of their impact on specific U.S. interests in specific countries and regions, taking into account military, political and economic realities at the time.

We have established a rigorous internal review process on arms transfers. All relevant departments and agencies have an opportunity to review major proposed transfers and present their views. This provides me, and other decisionmakers, with assessments of military need, political impact, regional implications, arms control factors and affordability.

Sometimes there are clear and easy choices, i.e., approval or disapproval is unambiguously in the U.S. interest. In other cases, there are valid pros and cons. We must then decide whether, on

balance, a proposed transfer is in the U.S. interest. We consult with the Congress, both to factor your advice into the decision-making process and to acquaint you with the factors bearing on the case, to sensitize you to the grey areas, and to minimize potential differences if we approve a sale and transmit it to you pursuant to Section 36(b) of the AECA.

We also give close scrutiny to transfers of systems that incorporate advanced or sensitive technology. We must be assured that such technology will be adequately protected. This factor adds complexity to our analysis, because we must take into account the potential stability of recipient governments over the lifetime of the equipment being sold. The probability that a country will continue to share common policy objectives with us over the long haul is an important consideration as well.

Arms transfers are not substitutes for other forms of diplomacy. They are not an alternative to a long-term coincidence of national security interests between the U.S. and another government. They cannot guarantee harmonious bilateral relationships when fundamental interests diverge. The Soviets learned this in Egypt, Somalia, and earlier in Indonesia or as we have experienced Iran and Ethiopia.

This being said, however, arms transfers should be and are an integral part of our security relationships with friendly countries who seek to deter and defend against neighbors who are, most likely, armed by the Soviets or other East Bloc countries. As I stated earlier in my testimony, if we want reliable friends, we must be one ourselves. Countries who cast their lot with the United States must know that they can count on our support to meet their legitimate military needs. Failure to respond prudently and appropriately to these needs would seriously damage our credibility as a leader of the free world, would increase the chances of U.S. forces having to be deployed in a crisis, and would jeopardize defense cooperation with countries which provide access and facilities to the U.S. military. Our ability to supply friendly nations with appropriate arms contributes to a reduction in what would be larger U.S. defense needs to meet our national security objectives.

Both my associates -- General Gast of the Defense Security Assistance Agency and Mr. Turrentine of the Arms Control and Disarmament Agency -- are prepared to speak further to this subject, but first I would like to provide some factual basis for our discussion.

Government-to-government arms sales have fluctuated in recent years, from \$1.3 billion in fiscal 1979, and \$15.3 billion in fiscal 1980, to \$8.5 billion in fiscal 1981 and \$21.5 billion in fiscal 1982. They are, of course, subject to inflation like other areas of the economy: thus the levels for the past three years, in constant FY 1979 dollars, would more nearly approximate \$13.6 billion, \$6.6 billion and \$16.3 billion respectively:

Foreign Military Sales Agreements
Billions

	1979	1980	1981	1982
Current	\$13.0	15.3	8.5	21.5
Constant FY 79	\$13.0	13.6	6.6	16.3

Commercial military exports have, in recent years, approximated \$2 billion or less per year. This figure might rise somewhat since the Congress removed the commercial arms sales ceiling several years ago.

The surge in arms sales in 1982 largely reflects the impact of several large transactions. During recent years, for example, the U.S. has approved or has under consideration the following major cases:

-- Trident for the UK	About \$4 billion
-- F-18s for Spain	About \$3 billion
-- F-18s for Australia	About \$2.6 billion
-- F-16s for Israel	About \$2.7 billion

The four sales exceed \$12 billion or more than half the FY 82 level of \$21.5 billion. Adding the \$8 billion Saudi AWACs package would, with just the five largest transfers of the past two or three years, virtually match the entire FY 82 total. Shifting such large sales from one year to another can dramatically change annual totals, with absolutely no policy implications.

In fact, the high FY 82 level following the low FY 81 level is largely an artifact of just such a shift of the Saudi AWACs package from FY 81 into FY 82 as a result of the extended Congressional debate. Averaging those two fiscal years yields annual levels of some \$15 billion -- about the same as FY 1980.

For the record, I would like to provide you with some additional detail on the major arms transfer recipients in FY 1982.

FY 1982 Major Arms Transfers Recipients
(Millions of dollars)

Saudi Arabia	\$5,170	Weapons-related
	\$1,844	Construction
	<u>\$7,014</u>	
Australia	\$2,653.5	(Mostly F-18s)
Egypt	\$1,943.2	(Mostly F-16s)
Pakistan	\$1,422.9	(F-16s and Army equipment)
South Korea	\$1,046.4	(Mostly F-16s)
	<u>\$14,080.0</u>	

These five countries, therefore, accounted for fully two-thirds of total FY 1982 sales; adding the next largest eight recipients

brings the total to nearly 17 billion or about 80% of the total for FY 1982:

Venezuela	\$ 615.3
Israel	\$ 544.3
Turkey	\$ 411.0
Netherlands	\$ 324.2
Tunisia	\$ 320.3
Taiwan	\$ 297.1
Japan	\$ 256.1
FRG	\$ 79.9
TOTAL	<u>\$2,848.2</u>

I would note that very few of these have been the subject of significant controversy.

With respect to FY 1983, it is difficult at this point to make a confident projection; however, we will provide an estimate, in the classified arms sales proposal, as required by law. At this point, we have concluded some \$5.7 billion in arms transfer agreements for the current fiscal year. Of this amount, about 60% is accounted for by just 5 sales -- to Saudi Arabia, Japan, and NATO plus two nato-member countries.

Major FY 1983 Arms Transfer Agreements
March 1, 1983

\$2.365 billion	Saudi Naval Program
\$1.178 billion	U.K. Trident Program
\$.275 billion	Japan - helicopters
\$.232 billion	NATO - missiles
\$.218 billion	Netherlands - F-16s

In conclusion, I would like to remind you of the relationship between arms sales and U.S. assistance programs. In general terms, our military financing has covered roughly twenty or twenty-five percent of annual approved arms sales agreements in recent years. The remainder has been paid for in cash. Of the financed portion, between two-thirds and three-fourths has been at the cost-of-money to the U.S. Treasury -- in recent years as high as 14%. The remaining fraction has been paid for by grant U.S. financing, largely to Israel and Egypt.