S. HRG. 105–365

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

ON

H.R. 2159/S. 955

AN ACT MAKING APPROPRIATIONS FOR FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1998, AND FOR OTHER PURPOSES

Agency for International Development
Department of Justice
Department of State
Department of the Treasury
Nondepartmental witnesses

Printed for the use of the Committee on Appropriations

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

THURSDAY, FEBRUARY 27, 1997

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:35 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Bennett, Campbell, Leahy, and Lautenberg.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF HON. J. BRIAN ATWOOD, ADMINISTRATOR

OPENING REMARKS OF SENATOR MITCH MC CONNELL

Senator MCCONNELL. This hearing will come to order.

Welcome, Mr. Atwood. It is good to see you again.

Mr. ATWOOD. Thank you, Mr. Chairman.

Senator MCCONNELL. I am pleased to have you open our fiscal year 1998 hearings on the administration's budget request. I am equally pleased with the fact that the President's request level finally reflects a serious commitment to advancing our international interests.

Before offering some thoughts on some specific concerns I have about the allocation of funds within the foreign operations account, let me point out a small irony. Last year, $12.3 billion was provided for foreign operations. This year your budget submission of $13.3 billion reflects a $1 billion increase.

I consider this $1 billion the amount that Senator Leahy and I have appealed and pressed the administration to request for the past 3 years. I welcome the request and hope that we have really turned the page, ending a sad chapter of neglect of the foreign affairs account.

Having acknowledged your commitment, I should recognize that some of my colleagues are already pointing out that this increase exceeds other subcommittee or function requests. In his opening hearing, Congressman Callahan expressed concern about being able to pass a bill that includes a 9-percent increase when other subcommittees are continuing to experience reductions.

Frankly, 9 percent may not be enough to compensate for the near fatal assault this account has suffered over the past decade.

In the last 10 years, with the end of the cold war, we have established assistance programs to help stabilize and strengthen more than two dozen new, emerging democracies. At the same time, the resources available for foreign operations and export promotion have declined nearly 40 percent, from $20.2 billion to $12.2 billion.

Measured against foreign aid's peak level in 1985, our resources have dropped nearly 60 percent. Those numbers give the term "deficit" new meaning. We are experiencing a critical deficiency in diplomacy's funding.

While I strongly support the overall request level, I am not as convinced that the administration has distributed funds to best serve our interests. You have repeatedly called attention to the problems AID has experienced because of deep reductions in development assistance. While the administration added $1 billion to the overall foreign operations request, child survival programs have actually been cut. Education, health care, agriculture, and other development assistance priorities have either been straight-lined or reduced in this budget.

The increase is dedicated almost entirely to down payments on arrears at international financial institutions and a huge increase in aid to Russia. In contrast, a majority of other NIS states have been reduced or held at the fiscal year 1997 level.

Last year, our report recommended we graduate Russia from most of our grant programs, sustaining modest but declining support for a few projects which strengthen democracy and the private sector. This request continues to reflect a bias toward Moscow at the expense of our deep interests in the region and fails to recognize that we cannot buy our way out of the economic crisis which cripples opportunity in Russia.

While I may not completely support the mix of funds, let me conclude by emphasizing once again that I am committed to securing as strong an overall account as possible. I urge you and Secretary Albright to make as persuasive a case as you can to the Budget Committee very soon since their decisions will have a significant impact on the resources allocated to our subcommittee.

With that, let me turn to my friend and colleague, Senator Leahy, for whatever opening observations he might wish to make.

OPENING REMARKS OF SENATOR PATRICK LEAHY

Senator LEAHY. Thank you, Mr. Chairman.

I am glad that we are starting off this year with the AID Administrator.

You have been through some rather rough times in the past dozen years. The last 4 years have been no exception. There are two dozen field missions being closed, 200 of AID's staff, including some of the best, were laid off last year. There has been a suggestion that we merge AID into the State Department. We get a lot of requests from Senators who want us to fund various programs in AID and I sometimes wonder how they can find the time to ask us to fund these programs when they are so busy giving speeches about what a waste, foreign aid is. If they would spend a little bit less time talking more about where we will find the money to fund the programs they want, we might be better off.

I think it would also help if they would do as you have, which is make the case to the American people why a lot of this aid is in our national best interest. You have been an eloquent spokesman on that, as have some others.

I think we are going to have questions about AID's future. Is it going to be an autonomous agency or part of the State Department, whether it expresses national interests on its own or the State Department's political goals which may be more short-term.

Mr. Atwood's persuasiveness is reflected in the President's request for an increase in foreign operations, but with all of the programs in the budget, AID has fared the worst. The State Department, the international financial institutions and the military assistance programs got the lion's share of the increase. That might not have been my choice. But at least it does not occur to me that at any time has the administration asked my opinion on what might go through this committee or what my views might be. So I was not bothered or impressed by their consistency in that they did not this year.

I am concerned about some of the problems in AID. I think strategic goals for each country and more in the field staff is good. That was long overdue and I compliment you for doing it. But there has been a lot of money, an enormous amount of money, spent on new management systems while, at the same time, some of the best people have been laid off.

You are moving to a new building which, at least from the impression I have gotten, will be more expensive but with less space. This bothers me. Then, maybe it is the State Department's fault, but they may have required you to do some things you should not have. I refer to Haiti and Russia. We have foreign interests there, of course. There have been some successes there. But I am worried that in a lot of instances money was sent down, was spent, so that we could say look, we are doing something, but nothing came out of it.

There have been a number of failures in both countries where AID has seen something that is not working, restructures the program, asks for even more money, and then basically does the same thing.

I applaud you, Mr. Atwood, for your eloquence in speaking up for AID's mission and for what is needed. I would urge you to get some good, day-by-day, nuts and bolts managers who can handle the nitty-gritty at AID.

I know there is at least one intended. It would help, I think, for these people to get down there.

I would not continue, Mr. Chairman, though I do have some more comments. These are just some that occur to me now.

Senator MCCONNELL. Thank you, Senator Leahy.

Mr. Atwood, why don't you go ahead and tell us what is on your mind.

SUMMARY STATEMENT OF HON. J. BRIAN ATWOOD

Mr. ATWOOD. Thank you very much, Mr. Chairman and Senator Leahy. I want to thank both of you for the support you have given us over the years for a larger 150 account. This has not been an easy battle, and in the environment we are in all of us are trying

to find ways to balance the budget. So very serious choices have to be made.

But I think you have seen, and I would even call your views, those of the two of you, visionary because you do understand that, unless we continue to make investments in the global economy and investments in peace and stability through the 150 account, we are not going to be able to find the revenues necessary to balance the budget in the long run.

So I do very much appreciate the support you have given us. Your prodding has succeeded in convincing the administration to come forward with an increase of about $1.1 billion, as you mentioned, this year. We keep hearing that the 40-plus percent decrease is not a correct number because 1985 was a year when we had a plus-up for the Middle East. The fact of the matter is, if you look at it from 1986 on and take away that plus-up, it is still a 34.6-percent decrease in the 150 account through fiscal year 1997.

We are trying to bring that down to about 32 percent if we can get what the President has asked for this year. We very, very much appreciate your support.

Senators, as both of you have alluded, we have been through really difficult times at USAID, and I think this budget request will enable our Agency to reach some degree of equilibrium, after we had to go through reductions in force.

Let me make it clear that, while the increase that we have asked for in development assistance is only $65.5 million, the USAID will be managing an additional $476 million of the increase, the $1 billion increase, because we will be managing the SEED and NIS money—much of it, anyway—in those requests. It's $292 million, to be exact, of those additional requests; $135 million of the ESF requested mainly for transitions in the Middle East and Latin America.

AGRICULTURE

I want to emphasize one aspect of our request for an increase in development assistance and that is the word "agriculture."

This is an extremely important aspect of development. About 80 percent of the GNP's of some of these countries we work in are in the agriculture sector. And yet, over the years, we have seen the amount that we have been able to provide for agriculture programs, to increase productivity and get countries to adopt market techniques for their agriculture sector, diminish from 16 to 9 percent.

Just the other day, a group of agribusiness interests and traditional farm associations and others interested in agriculture, land grant colleges, et cetera, got together and put out a report recommending a $2 billion increase in the foreign aid bill in order to pursue our agricultural interests.

As you know, Mr. Chairman, coming from a farm State yourself, 1 out of every 4 acres grown in this country is for export. With our population stabilizing and our production continuing to go up, it is clear that everybody now agrees that increasing production overseas has increased our ability to export.

Of the top 50 importers of American agricultural products, 43 of them had been aid recipients in the past.

So I think that our request for a food security plus-up, for agriculture and for agricultural research, which also redounds directly to the benefit of American farmers, is warranted, and I hope that we will be able to achieve a good deal more balance than we have had in the past in our development approach.

CHANGING FOREIGN AID

Our foreign aid program has changed, Mr. Chairman, and a lot of it is due to your prodding and that of others. I can remember exchanges that we had a few years ago and one television program we did together where you said, that the aid program ought to serve American interests.

Well, today we make judgments about where we work on the basis of the quality of the partnership we have with that government. We don't work in countries where they do not allow their people to participate in the process, where they don't accept the need for a market economy, where they don't accept the need for democratic institutions. So the quality of the partnership is important. The need of the country is important. The foreign policy interests of our country are important.

Finally—and this is important because the Congress did pass the Government Performance and Results Act—performance of our programs is important. We are measuring those as never before, which got us a lot of acclaim from OMB. OMB said that we had submitted the best performance-based budget that any agency in government had submitted, which is why I think we were treated so relatively well in the budget process this year.

So our Foreign Aid Program is a misnomer. It serves American interests more than it ever has in the past. It serves American interests by helping to achieve stability, dealing with crisis situations in terms of our humanitarian relief programs, and dealing with transition situations which are a crucial part today of our foreign policy in places like Bosnia, the former Soviet Union, South Africa, Cambodia, the West Bank, and Gaza. It serves our international economic interests by continuing to invest in the creation of new markets. And, of course, it most certainly serves our own humanitarian values as well.

Our program serves American interests more now than ever before.

FORMER SOVIET UNION

Mr. Chairman, I do want to say a few words in particular, because you did raise these issues, about our request for additional funding for the former Soviet Union.

The proposal for an additional $275 million for the NIS represents our effort to create permanent linkages between our country's democratic institutions and our business community and the new democratic market economies of this region. It is part of a strategy that will assure the strongest ties between our nations long after the technical assistance program we have undertaken is phased out.

In this sense, the partnership for freedom proposal is a strategic investment in a peaceful, more stable future in this region.

We have said all along that we will phase down technical assistance as the NIS countries continue their transformation to democratic market economies. We have said all along that one indication of the success of our technical assistance programs will be the discernible flow of trade and investment into these economies from Europe and the United States.

There are still barriers to trade and investment. We know them well: crime, corruption, weak regulatory systems, the absence of capital markets, weak customs and tax administration systems and weak justice systems. Overall, these weaknesses add up to an unpredictable business environment.

Our friends in these countries know this. This, for example, is what we discussed in the Gore-Chernomyrdin and Gore-Kuchma forums. These commissions are struggling to correct these problems and they want our help. Most importantly, they yearn for the day when trade and investment and not technical assistance characterize our relationship.

The partnership for freedom is designed to accelerate the process. It is designed to force the issue, if you will. It makes explicit what we have always advised the Congress is our goal—trade, investment, and partnership between our democratic and market institutions and those of this vital region; $275 million is not a large additional investment to make this happen. It is, I repeat, a strategic investment.

Now I know, Mr. Chairman, you want more detail about how this additional money will be spent and I know that you are going to be holding a hearing on, I believe on March 13 with the NIS coordinator, Dick Morningstar, and our Assistant Administrator for Europe and the NIS, Tom Dine. But I do want to say a few words about the details here.

The partnership for freedom has two basic components. First, the principal component is to promote trade and investment through capital mobilization. This will result from the combined U.S. Government effort working with private business organizations and NIS governments and businesses to remove the impediments to trade and investment. We are looking at several mechanisms to ensure that when good business projects come along, they can find the financing to move forward.

Second, in order to have this kind of market economy, it must be based on a strong democratic civil society. Therefore, the second major component is to continue the development of institutions and organizations that are fundamental to a broad-based participatory democracy.

We are going to be continuing our technical assistance programs, but we are going to be phasing them out; and, in time, we are going to be using more collaborative, collegial approaches that emphasize partnerships and linkages between institutions.

I could go into more detail, but I do have a breakout that I would be happy to provide for the record, Mr. Chairman, of how some of these funds will be spent and what our intentions are. I know that you will be getting into much more detail in your hearing on the 13th.

NEW MANAGEMENT SYSTEMS

Let me sum up, Mr. Chairman, and thank you for giving me so much time. We have, indeed, overhauled the agency. We do believe that it is managed very well. I know that there are concerns, as Senator Leahy expressed, about the new management system. Let me just say that you don't start receiving complaints from your work force on a new, integrated computer management system until you start to deploy it, until you start to activate it. We have activated it, starting on October 1. We have forced people to begin to adapt to the changes that we are bringing about. We have, I certainly have, heard all of the screams from our work force about the problems that we have encountered. I want you to be assured that we are absolutely on top of those problems.

They relate to two basic aspects. One is the migration of old data from the old 11 accounting systems that we have had which, as every inspector general report that has come up here in recent years and GAO reports as well have indicated, is not good, consistent data. We need to clean it up in order to make the NMS system work. But it is not the NMS system that is at fault. That is a single entry system that doesn't allow us to use bad data or inconsistent data. So that has been a problem. It has taken us time.

Communications with the worldwide network has also been a problem. We are working out those problems. It is not true that we have, indeed, laid off people in order to put this system in place. If we didn't put this system in place—and this system, by the way, in its earlier incarnation was planned by the last administration, by the last Bush administration, I should say. Everyone in government knows that under the requirements of the Chief Financial Officer's Act, the GMRA, which deals with management and financial statements, and the Government Performance Results Act, we must have a system like this.

You don't hear complaints from other government agencies, Mr. Chairman, because other government agencies have not made as much progress in actually deploying their system.

AGENCY MOVE

Finally, regarding the move to the new building, I point out that this building, the Ronald Reagan building, is a government building. It is a government building that is sitting there, waiting for government occupancy. We drew the right straw. We've got to move into this building.

We believe it will save us money over the long run and even in the immediate future, after the initial costs of the move.

We are in commercial space now in 11 different buildings. In each case, we have to negotiate on an almost annual basis for new rental fees. Commercial buildings will charge you commercial rates based on inflation and other aspects of where the market is. A government building over time gives us more opportunity to see where we are going down the long run.

It is not a fancy building. As Senator Leahy pointed out, our people will have less space than they had before, but there are tremendous efficiencies in getting everyone from 11 buildings into one place.

I believe very strongly that this is, again, a part of our effort to try to achieve equilibrium with respect to USAID, an agency that has been downsized by 2,700 people, has closed 26 missions since 1993, has reduced its regulations by 55 percent, and is one of the pioneering agencies in implementing the Government Performance and Results Act.

U.S. LEADERSHIP

So I feel very proud, Mr. Chairman, that we were able to accomplish those things, that we have been able to maintain our leadership in the development community. We have even been able to do that despite the fact that we have fallen from being the No. 1 donor in absolute levels to being No. 4, behind economies like those of Japan, France, and Germany, which are one-half the size of ours.

We have traditionally been near the bottom in terms of percentage of our GNP. We are at the absolute bottom, providing only 0.1 percent of our GNP to overseas development assistance. But when you look at it, that comes out to about $24 per American citizen, which is a pretty good meal for a family at McDonald's.

It is not a lot to invest in our future in a global economy or a lot to invest in our stability, in the stability of the global economy, or a lot to invest in American interests.

PREPARED STATEMENT

I feel that we have made some progress. I think we have done that with your help and with that of Senator Leahy and this entire subcommittee. I, therefore, want to make sure you understand that I am deeply grateful for that support and assistance.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF HON. J. BRIAN ATWOOD

Chairman McConnell, Senator Leahy, and other members of the subcommittee, it is a pleasure to appear here today to defend the President's budget request for the U.S. Agency for International Development's (USAID's) fiscal year 1998 economic assistance request. I look forward to working closely with the subcommittee during the second Clinton Administration. It is my belief that we are entering a new and positive era in our international relations, and that our policies and approaches will be guided by the stabilizing hand of bipartisanship.

Recently, Secretary Albright noted, "In our democracy, we cannot pursue policies abroad that are not understood and supported here at home." I could not agree more. I look forward to sharing with you today the reasons why USAID's programs directly advance America's interests.

President Clinton's budget request for fiscal year 1998 includes $19.4 billion for programs in international affairs. This is a modest increase from the previous year, and represents just slightly over 1 percent of the federal budget. More importantly, this budget reverses the dangerous downward trend in funding for foreign affairs. USAID will manage $7.158 billion, or 37.5 percent, of those funds, including both USAID programs and programs administered by USAID in cooperation with other agencies. USAID's request for discretionary funding in the Foreign Operations appropriations bill includes $998 million for Development Assistance, $700 million for the Development Fund for Africa, $190 million for International Disaster Assistance, $11 million for credit programs, $473 million for operating expenses, $29 million for Inspector General operating expenses, $2.498 billion for the Economic Support Fund, $492 million for programs in Central and Eastern Europe and $900 million for programs in the New Independent States. USAID also requests $44.2 million for the fiscal year 1998 mandatory contribution to the Foreign Service Retirement and Disability Fund. In addition, USAID will administer $867 million in P.L. 480 funds, although this funding is not under the jurisdiction of this subcommittee.

The total request for fiscal year 1998 USAID-managed programs represents an increase of $476 million over fiscal year 1997. This increase includes:

—An additional $292 million for programs in Central and Eastern Europe and the New Independent States. These transitional programs are designed to aid Central and Eastern European countries and the New Independent States through their difficult passage to democracy and market economies. I know this subcommittee understands both the importance and challenges inherent in securing lasting change in these nations. Helping to secure free societies in this region remains one of America's highest foreign policy and national security priorities. This increased funding demonstrates the Administration's commitment to helping these nations move through this turbulent time and reflects a realization that such sweeping change has also been characterized by uneven political and economic progress. In Central and Eastern Europe support for Bosnian reconstruction and reform and efforts in the Southern Tier countries will be given special emphasis. In the New Independent States, the Partnership for Freedom effort will build on our achievements to date and reorient our assistance program—beginning with Russia and then in the other New Independent States—toward longer-term and more cooperative activities to spur economic growth and develop lasting links between our peoples.

—$135 million more for the Economic Support Fund.—Economic Support Funds (ESF) advance key economic and political foreign policy interests of the United States by providing economic assistance to countries in transition to democracy, supporting the Middle East peace process and financing economic stabilization programs. The largest share of ESF will continue to go to supporting the Middle East peace process, including $52.5 million to be transferred to the Middle East Development Bank. The Latin America region will receive ESF funding vital to support the democratic transition in Haiti and the breakthrough peace accords in Guatemala. ESF will also support programs in "fledgling democracies" such as Cambodia and Mongolia. Finally, ESF will be used for assistance in sub-Saharan Africa for elections, political party building and legislative training for countries in transition such as Angola.

—An increase of $65.5 million in Sustainable Development Assistance.—These funds will support USAID's development goals by encouraging broad-based economic growth, protecting human health, slowing population growth, encouraging environmental protection and advancing democracy. By fostering free markets and open political systems, USAID's development programs are helping to shape a world that is more stable and open to U.S. trade and leadership. Specifically, the "Promoting Food Security" pilot initiative, aimed at improving food security in Africa, will in its first year target $30 million to five nations: Ethiopia, Uganda, Mali, Malawi and Mozambique. This initiative will support policy reform and a range of agricultural research that will benefit not only Africa, but other developing nations as well. Modernizing agriculture, the cornerstone of the economy in most developing nations, increases incomes of rural people, lowers the cost of food for the urban poor and conserves the environment. By furthering agricultural and, thus, economic growth in these countries, the initiative has the potential to both spark U.S. exports and save this country significant emergency relief food costs.

In sum, these modest increases in spending are all vital to helping secure a more prosperous and stable world during the next century. I would also note that this year's request includes a decrease of over $15 million in our agency's operating expenses. This decrease is due to a reduction in staffing levels combined with economies achieved by reengineering and the restructuring of our overseas operations.

Recognizing the importance of our unique mission, we have dramatically improved the management of USAID to make it the most effective foreign assistance agency in the world. We have overhauled the agency from top to bottom—its strategic approach, organization and management. We have demanded that our programs produce demonstrable results. Since 1993, we have reduced staff by over 2,700. We have cut senior management by 38 percent. We have reduced project design time by 75 percent. We have reduced our regulations by 55 percent. We have closed 26 overseas missions and will close six more by the end of fiscal year 1998. Further, USAID is one of the pioneering agencies in implementing the Government Performance and Results Act. All of these actions are designed to ensure that every dollar appropriated to the agency can bring taxpayers the best possible return on their investment.

We know you have questions about our new management systems. Let me try to give you my perspective on what we are doing. You must first understand that our new management systems are not just designed to replace existing financial and procurement systems. We will indeed replace those systems but NMS is much more

than computers or software. Our new management systems are a new way of doing business. As you know, we have redesigned our old project design system to make it faster, simpler and more customer-oriented. We have also redesigned our foreign missions to empower employees, to create strategic objective teams and to make our programs more results-driven. The new computer system will facilitate these improvements. It is a management tool created to allow us to manage more effectively the other reforms we have adopted.

As we implement the computer portion of NMS, we are bringing the agency's technology to the forefront of any used in government. We are in the process of deploying a management system that fully integrates project planning, budgeting, a single-entry financial system, a simplified procurement system, and our evaluation system. In the next few years, we will add workforce planning, personnel management and a training module to our current capabilities. All of this will be available to every USAID office worldwide. Deploying such a system in a worldwide operation is not easy, but we have made great progress.

Let me give you a brief status report.

As you know, we activated NMS computer system worldwide on October 1, 1996. Since then we have been using a combination of NMS and the old legacy systems to process transactions. To date we have processed 142 contracts and grants in NMS totaling $252 million and have paid approximately $15 million in invoices plus the $1.2 billion cash transfer to Israel.

Since bringing the system up worldwide, we have been addressing two major challenges. One relates to the need to migrate consistent and accurate data from the old systems into the new. The NMS will not allow us to process any inconsistent or inaccurate data. This forces us to clean up and reconcile data and incorporate it into the new system. We have found this to be a more labor-intensive process than we imagined because the level of inaccuracy in the old systems was even greater than anticipated. Nonetheless, we have made great progress. We have migrated all 8,000 records from the old Financial Accounting Control System (FACS) and the 6,500 records from the Contract Information Management System (CIMS). We still have to reconcile this data and reconcile it with the data from the field Mission Accounting Systems (MACS), but we expect to finish that process by this summer.

Could we have waited until all this data was reconciled before we activated NMS? Could we have phased in the new system one module at a time? We considered both of these options. We rejected them because the integration process would have taken years, and we would still be using the old legacy systems and accumulating additional data of questionable accuracy that would have to be migrated later in a reconciled form. Activating NMS has forced us to migrate the data more expeditiously and, in the long run, it will save us time and tax dollars.

The second challenge has been the need to create a worldwide, high-speed communications system. We have encountered problems with the two separate telecommunications systems we have been using, but we are making real progress in overcoming these problems. The time needed for transactions has been reduced, and we have several actions we are taking to further reduce this timeframe.

Mr. Chairman, when I came to USAID in 1993, the need for an integrated management system had already been identified. A plan developed in 1992 called for a fully integrated financial management, procurement and budget system but one that did not integrate operations or allow us to integrate field and headquarters capabilities. This much less ambitious system was estimated to cost approximately $100 million. Our judgment was that that plan would not have given the Agency what it needed in a reasonable timeframe and that the cost estimate would most likely have been exceeded.

What we have created is the full-fledged integrated management system I have described. We have consciously sought to deploy this system using state-of-the-art approaches. Each step of the way we have consulted with systems experts at OMB, GAO and the private sector, and we have been encouraged to move forward. My own Inspector General has offered superb advice on which we have acted to correct problems. He has also pointed out that our systems development approach is an unconventional one. That is his job.

I want you to know that I understand the risks, and I believe that our approach will pay off. It reflects the latest thinking in systems development. I also understand there are risks in adopting conventional approaches as well. As business executive Hank Delevati of Quantum Corporation said recently, "The phased approach is longer—and I contend riskier—because you won't get everyone involved and coordinated." Quantum Corporation was one of many large organizations that has successfully deployed a new integrated management system using the "all at once" approach.

Last week we had our systems coordinators into Washington from around the world. We want them to know we understand the problems they are having and the solutions we are devising. They now have a better appreciation of the effort we are making. They and we are confident that we will accomplish what other government agencies have not.

Mr. Chairman, we do not seek to mask the difficulties we face in making NMS fully operational, but we are on the right track. This system will not only revolutionize the way we do business at USAID, it will lead the way for the development of similar systems in the U.S. Government. We have been pleased that so many Congressional staff have sat through detailed briefings on NMS. We welcome your vigorous oversight. We welcome it because we know that together we can vastly improve our capacity to fulfill our mission.

In short, we are doing everything possible on the management side to make America's international programs cost-effective. We want to achieve results that serve America's interests. Let me describe how we believe we serve those interests in today's world.

AMERICA'S STAKE IN THE WORLD

The United States has a vital interest in maintaining a leadership role in the international community, and in seeing that the international community cooperates on the basis of shared values. Nowhere is this more true than in promoting development in poor nations and countries emerging from the long shadows of communism and totalitarianism. Why is this important to Americans?

It is important because we live in a world where trends toward globalization and increased interdependence are powerful and accelerating. This means international cooperation is increasingly important—in areas as diverse as promoting trade, protecting the environment, fostering democratic governments, reducing rapid population growth rates, establishing market-based economies, stemming the flow of narcotics, slowing the spread of infectious diseases, coping with migration and protecting human rights. In all of these areas, the benefits of fruitful cooperation are significant and lasting, while the failure to work together will be increasingly costly and immediate.

During the cold war, U.S. leadership was central and unmistakable as the protector of the free world against the threat of communist expansion. U.S. military power and economic dynamism were seen as essential to resisting that threat. But America's leadership then, as now, had a foundation stronger than our Army or our economy. The United States projected a compelling, and widely shared, vision of a world order where democracy and open systems were respected. Our vision of political and economic freedom, of social justice and respect for the individual was as powerful as any missile or any defense system. The United States offered the world not only security, but a better alternative to the Communist vision.

The Cold War is over. We still have the strongest military and the strongest economy in the world. But strength alone is not a substitute for leadership. America's position in the 21st century will depend more and more on the quality of our leadership; on the perception that we understand and appreciate the broad interests of the international community, and that we act with these interests in mind; and on the perception that we still have the best, most compelling vision of a global world order. Equally important, America's domestic interests are now, more than ever before, inexorably linked to events that take place far from our own shores.

Our modest and well-targeted foreign assistance programs directly advance America's interests—your constituents' interests—in three direct ways: by helping to prevent crises; by generating dynamic opportunities for expanded trade; and by providing protection from specific global health and environmental threats.

A DIPLOMACY OF CRISIS PREVENTION

One of the most profound areas of concern for the United States and its allies is the growing phenomena of failed states. One need only open a newspaper on any given day to see the perilous state in which many nations now find themselves. Whether it is rebels fighting in eastern Zaire, hostage-taking in Tajikistan, street protests in Belgrade, Bulgaria and Albania or the constitutional crisis in Ecuador, we are confronted by potentially explosive situations with the potential to trigger conflict or economic collapse.

Since the mid-1980s, the number of man-made emergencies requiring a U.S. Government response has doubled. The staggering human, financial and political cost of these conflicts is reflected in the increasing scope and complexity of peacekeeping operations, the loss of human life and the exploding numbers of refugees around the globe. Since the Gulf War, the United States has mounted 27 military operations

as a result of ethnic conflicts and failed states. Up to 1 million people lost their lives through genocide in one year in Rwanda. In the former Yugoslavia, the loss of human life in less than four years was the greatest in Europe's post-World War II history. The number of refugees and displaced persons in the world now numbers close to 50 million.

As a nation, we know that we ignore the warning signs of crises only at our own peril. When potential crises erupt into genuine emergencies, it is the U.S. military most likely to be put in harm's way, it is U.S. economic interests that suffer and it is this nation that ends up providing the lion's share of humanitarian assistance to the victims of war and social collapse. It is abundantly clear: The United States has a compelling national interest in preventing and averting crises before they occur. Practicing a diplomacy of crisis prevention is one of our greatest challenges in this new era, and development programs have a lead role to play in these efforts.

As we know from our own daily experience, every country is subject to the internal pressures to some degree of stress from ethnic, religious, economic and other deep-seated conflicts among their own citizens. What distinguishes a country that can endure these internal tensions from one that cannot is the relative strength of its domestic institutions. By institutions, I mean not just government and political organizations, but also tradition, culture, social practices, religion and the depth of human capital. In many cases, conflict is a result of a failure to give people a stake in their own society.

The reality is that most nations in conflict simply lacked the institutional capacity to avoid escalating violence. We see prime examples of this in the former communist world. When communist institutions collapsed, and no strong institutions replaced them, conflict became commonplace. We obviously do not wish to see a return to totalitarian methods, so it is essential that we help these countries put democratic institutions and social conditions in place.

A second category of countries that fall into crisis include nations such as Rwanda, Somalia, Sudan, Zaire, Afghanistan and Liberia. What these countries have in common is that they are among the least developed countries in the world. And, by "least developed" we mean they have the weakest institutions and least developed human resources.

The findings of a recent CIA study of failed states confirm the role of underdevelopment in crises. The study attempted to find the indicators most commonly associated with a vulnerability to crisis. The three leading factors shared among nations that have succumbed to crisis were high infant mortality rates, a lack of openness to trade, and weak democratic institutions. Does this mean that if we simply promote trade, strengthen democracy and provide child health programs that crises would disappear? The study doesn't say that. What it does say is that these variables are reasonable proxies for a nation's relative level of overall development, including a country's willingness to invest in its own people, to concern itself with lower consumer prices and to create institutions to enable the people to participate in the development of their own society.

The implications of this analysis for our foreign policy are profound. Development programs are aimed at enriching human resources, strengthening open institutions, and supporting political and economic reform. By fostering stronger institutions, a richer human resource base and economic and social progress, countries are better able to manage conflict and avoid the dangerous descent into war. Development programs give us the tools we need to deal with the uncertain world around us. I am not here today to say that development programs are an ironclad guarantee against crisis and collapse. But it is entirely fair to say that successful development and transitions out of closed systems vastly improve the capabilities of a country to manage division and conflict. This is clearly in the best interests of the United States.

The challenge of crisis prevention is, in many respects, the logical successor to the paradigm of the Cold War. Through our democracy and governance programs, USAID seeks to strengthen the political, social and economic institutions on which management of conflict directly depends. Our efforts at promoting economic growth also encourage economic freedom. Our efforts at human resource development—in education and health—ensure that an increasing percentage of the population can take advantage of economic opportunity, social progress and political freedom. Our efforts to protect the environment and to give families the capacity to space their children help ensure that development progress is sustainable.

And there is strong evidence that U.S. foreign assistance programs have successfully helped develop functioning stable democracies. Political freedoms have increased significantly in the countries where development activities have been most focused. Between 1982 and 1996, Freedom House data demonstrates that political freedom improved in 48 countries and grew worse in 30. Of the 29 countries showing the most dramatic improvements in political freedoms, most were significant re-

cipients of U.S. aid over the period. U.S. efforts helped nations such as the Philippines, South Africa, Jordan, Haiti, Bangladesh, Guatemala, Mozambique, Nicaragua, Uruguay and Malawi realize the dream of more open societies.

We have also adopted the policy that nations that do not embrace democracy, and that turn their backs on their citizens, will not receive U.S. assistance. We cannot achieve development results if we have poor partners. We will not work with governments that exclude their people from the development process.

International development cooperation works. In developing countries during the past 35 years, infant mortality has fallen from 162 to 69 per thousand; life expectancy has risen from 50 to 65 years; and literacy has climbed from 35 to 67 percent.

We cannot prevent every crisis, but we can avert many. Investing in these efforts is a small price to pay for a foreign policy that advances our interests in a more stable world.

ADVANCING U.S. ECONOMIC INTERESTS

Let me turn now to the role development programs play in directly supporting U.S. economic interests. For both trade and investment, developing countries provide the most dynamic and rapidly expanding markets for U.S. goods and services. U.S. exports to developing countries in the 1990s have expanded at 12 percent annually, more than double the export growth to industrial countries. This is not just a short-term phenomenon, but reflects a trend that began emerging in the mid-1980s.

U.S. exports to countries that receive U.S. assistance have boomed—rising by 76 percent in the last five years alone. Between 1990 and 1995, American exports to transition and developing countries increased by $98.7 billion. This growth supported roughly 1.9 million jobs in the United States. Work in agriculture has a particularly high return. Forty-three of the 50 largest importers of American agricultural goods formerly received food aid from the United States—that's over $40 billion a year of U.S. agricultural exports. A recent study by the International Food Policy Research Institute found that for every dollar invested in agricultural research for developing countries, the export market available for donor countries expands by more than four dollars, of which more than one dollar is for agricultural commodities.

The bottom line is that by the year 2000—three short years from now—four out of five consumers will live in the developing world. USAID's programs are helping these people become America's next generation of customers.

As Latin American economies have prospered, so have U.S. exports and jobs. The region is the fastest-growing market for U.S. exports of goods and services, and also one of the largest. In 1995, the Latin American and Caribbean region accounted for more than 70 percent of all U.S. exports to USAID-assisted countries. Exports of goods to all countries in the region reached $95 billion in 1995, more than three times the level 10 years ago.

Creating the enabling environment for markets is a principal focus of USAID's programs. The connection with development programs, and USAID in particular, is quite significant. U.S. exports are growing much more rapidly to some developing countries than to others. What accounts for these differences? The major portion of the variation is explained by progress in terms of improved policies and institutions—i.e., the enabling environment for markets.

USAID-assisted countries have been among those that have made the greatest progress in policy and institutional reform over the past decade, including Thailand, Jamaica, Bolivia, El Salvador, Guatemala, Peru, Ghana, Costa Rica, the Philippines, Morocco, Sri Lanka, Belize, Panama, Tanzania, Tunisia, Indonesia, Mali, Botswana, and Uganda. Because of our field presence, technical expertise and experience, USAID can have significant influence in encouraging economic policy reform.

The international financial institutions have also played a vital role in supporting economic reform and restructuring weak economies, especially in countries in transition from authoritarian regimes or from conflict. In response to effective U.S. leadership within the donor community, they have increasingly put their weight behind governance reform, investment in social capital, and environmental sustainability—significantly complementing U.S. bilateral efforts. U.S. investments in both bilateral and multilateral assistance programs are fundamental to maintaining U.S. leadership within the donor community and to strengthening this complementarity.

There are some who have argued that private capital flows can simply replace the need for foreign assistance programs. However, it is important to remember that foreign assistance and private investments are complements—not alternatives. By and large, private investment is flowing today into the emerged markets of the developing world, not into countries where there is no rule of law, no financial institu-

tions, no private sector and no predictability. It is only when the enabling environment for markets has been well established—by recipient self-help efforts often supported by foreign aid—that private flows begin to accelerate. Eventually private investment and trade will replace foreign aid, and this is what a development program should strive to achieve. But the issue for most of the developing world countries is not best captured by the phrase "trade, not aid." The phrase "aid, then trade" is closer to their reality.

Our development efforts have contributed to economic freedom worldwide. Of the 27 countries with large improvements in economic freedom between 1975 and 1995 (as measured by an index from the Fraser Institute), 22 have been major recipients of U.S. foreign aid. Continued Clinton Administration efforts to promote U.S. job creation through trade and investment abroad must focus on emerging markets in Asia, Latin America, Eastern Europe, the New Independent States and Africa. Hastening the fuller emergence of these dynamic new markets is an essential element of a long-term U.S. economic and foreign policy strategy for the United States. Private capital will play the largest role in bringing the markets of developing nations into the mainstream of trade and investment, but some of the most promising developing markets are still hampered by trade barriers, other policy distortions and human capacity constraints that discourage trade and private capital flows.

U.S. development assistance is useful in removing these structural and policy barriers. By reducing barriers that keep out foreign trade, by fostering fair and transparent regulatory and legal regimes, and by building capital markets, USAID has been at the cutting-edge of the continued steady growth of America's economy.

PROTECTING AMERICA AGAINST GLOBAL THREATS

Foreign assistance programs are also vital in protecting the United States against dangers that are global in scope. By treating infectious diseases like AIDS, polio, and emerging viruses like Ebola before they reach our shores, USAID lowers health costs here at home. Our environmental programs help protect the air and water that Americans share with the rest of the world. Our family planning programs help slow rapid population growth and make for healthier and better-cared-for families around the globe, ultimately reducing instability, migration and refugee flows.

Let me give you several specific examples of how all Americans can benefit from our development efforts abroad. USAID has long been the leader in the battle to eradicate polio around the globe. Working with our neighbors, the Pan American Health Organization, American organizations like Rotary International and many others, we successfully wiped out polio in the Americas. But did you know that U.S. taxpayers still spend $230 million a year to immunize our children against the threat of polio reoccurring on this continent?

USAID, working with a rich variety of partners, is helping to lead the effort to eradicate polio globally by the year 2000. This is an ambitious goal, but an achievable one. So by making modest resources available for foreign assistance, the United States stands to save $230 million a year in domestic immunization costs. This is clearly a case where foreign assistance is an investment in our own self-interest.

Or consider that USAID has reached more than 3.2 million people with HIV prevention education and trained more than 58,000 people to serve as counselors and health providers in the developing world. Recent computer modeling shows that USAID helped Kenya avert over 110,000 HIV infections in just three years. Ultimately, our HIV/AIDS programs result in fewer Americans exposed to the virus, and lower health care costs for American families.

By preventing crises, by boosting America's economy, and by protecting the United States from truly global threats, we are working abroad to keep America strong at home and abroad.

BUILDING THE INSTITUTIONS THAT SERVE US WELL

In closing, I would say to this subcommittee that today we have the chance to shape the international institutions and programs that will protect America's prosperity, security and stability for years to come. This includes not only bilateral institutions such as USAID, but equally vital multilateral mechanisms such as the United Nations, the World Bank and other international financial institutions.

It is fitting that this year we will celebrate the 50th anniversary of the commencement of the Marshall Plan. All now agree that the Marshall Plan was a stunning, unprecedented example of enlightened leadership. The United States understood the benefits to the United States of economic recovery in Europe and Japan, and the threats in terms of crisis and instability that would result from economic stagnation in these regions.

During the Marshall Plan, foreign economic aid amounted to more than 1.5 percent of U.S. gross national product. Now, foreign aid is about one-tenth of 1 percent of our gross national product, and well below one-half of 1 percent of federal expenditures. Fortunately, and precisely because the Marshall Plan was such a success, there are many other nations to help us carry the mutual burden of international leadership. But we should still do better if we want to maintain our leadership role and defend our interests.

Development cooperation, including support for countries making the transition from communism, and humanitarian assistance for countries in crisis, remains an essential part of a credible and compelling vision of how the international community should function. A lead role for the United States in development cooperation is a vital part of American leadership in the post-Cold War era, arguably more important now than ever.

I urge your support for the President's budget request, and I look forward to working with you to strengthen our nation's foreign policy capacity.

Thank you.

U.S. Agency for International Development

FISCAL YEAR 1998 CONGRESSIONAL PRESENTATION

SUMMARY

"Every dollar we devote to preventing conflicts, to promoting democracy, to stopping the spread of disease and starvation brings a sure return in security and savings." —President William Jefferson Clinton State of the Union Address February 4, 1997

The president's Budget Request for fiscal year 1998 includes $19.4 billion for programs in international affairs. The U.S. Agency for International Development will manage $7.2 billion (37.5 percent) of those funds, which includes both USAID programs and programs administered by USAID in cooperation with other agencies. USAID works with developing nations and countries in transition to support viable democracies and market economies. America's fastest growing export markets are in developing countries—U.S. exports to countries receiving USAID assistance grew by $98.7 billion from 1990 to 1995, supporting roughly 1.9 million jobs in the U.S. By the year 2000, four out of five consumers in the world will live in developing nations.

Fiscal year 1998 budget request

	Percent
All other Federal spending	99.58
USAID	.42

USAID's programs advance both our foreign policy goals and the well-being of some of the world's neediest people. The fiscal year 1998 funds will:

—Help eradicate polio globally by the year 2000, saving American taxpayers $230 million a year in domestic immunization costs;

—Save more than 3 million lives through immunization programs;

—Help developing nations build their capacity to open their markets and tear down barriers to U.S. trade;

—Extend family planning services to more than 19 million couples around the world who could not otherwise afford them, thus averting thousands of needless deaths of mothers and children;

—Provide assistance to millions of victims of flood, famine, conflict and other crises around the globe.

—Combat worldwide environmental degradation, including global climate change, biodiversity loss and natural resource depletion; and,

—Provide credit to hundreds of thousands women "microentrepreneurs" starting small businesses.

The request for fiscal year 1998 USAID managed programs represents an increase of $476 million over fiscal year 1997—including, principally:

—An additional $292 million for programs in Central and Eastern Europe and the NIS;

—$135 million more for the Economic Support Fund; and

—An increase of $65.5 million in USAID's Sustainable Development Assistance.

—The fiscal year 1998 request also includes economic growth activities aimed at improving food security in Africa to help feed the hungry and support for agricultural research through the agency's central Global Bureau.

The request also includes a decrease of $15.3 million in the agency's operating expenses.

The fiscal year 1998 USAID request reverses the agency's downward budget trend of the last several years, and represents the minimum level necessary to implement a balanced program of sustainable development and humanitarian assistance that will significantly contribute to achieving the administration's foreign policy objectives in the post-Cold War era. USAID is now at a point where after four years of implementing a comprehensive set of management reforms, the Agency's program quality has greatly improved; is increasingly concentrated on results, improved efficiencies and more effective programming; and is more focused in defining its goals and objectives.

[Discretionary budget authority—in millions]

	Fiscal year—		1998 request
	1996 appropriated	1997 appropriated	
Development assistance (DA)	1,619	1,132	998
Child Survival and Disease Program [1]	.....	500	.....
Development Fund for Africa (DFA)	([2])	([2])	700
International disaster assistance	181	190	190
Credit programs:			
Micro and small enterprise development	2	2	2
Urban and environmental credit	11	10	9
Operating expenses—USAID [3]	494	489	473
Operating expenses—USAID IG	30	30	30
Subtotal—development assistance	2,337	2,352	2,401
Economic support fund	2,360	[4] 2,363	2,498
Eastern Europe	522	475	492
New Independent States	641	625	900
Subtotal—USAID appropriated	5,854	5,815	6,291
Public Law 480 through USDA Title II	821	837	837
Title III	50	30	30
Total USAID administered	6,725	6,682	7,158

[1] These programs are funded under Da in fiscal year 1996 and DA/DFA in fiscal year 1998.
[2] Africa program funding included in DA in 1996–97.
[3] Operating Expenses includes use of DA funds in 1996–97.
[4] ESF includes $52.5 million requested for the Middle East Development Bank in fiscal year 1998.

USAID DEVELOPMENT AND HUMANITARIAN PROGRAMS ($2.445B)

This request includes funding for bilateral Sustainable Development which is funded out of the Agency's Development Assistance (DA) and the Development Fund for Africa (DFA). In addition, USAID requests funding for the International Disaster Assistance account; USAID's credit, guaranty subsidy and administration programs; food assistance under Titles II and III of Public Law 480; USAID's and the Inspector General's Operating Expenses; and a mandatory payment to the Foreign Service Retirement and Disability Fund.

Sustainable Development ($1.698B):

This request, which compares to an fiscal year 1997 level of $1,632B (after transfers to UNICEF, the IAF, ADF and USAID's OE account), is the core of USAID's program. It is funded from the DA ($998M) and DFA ($700M) accounts.

Sustainable Development is based on four integrated, interrelated and mutually reinforcing goals that are aimed at addressing the long-term economic interests of the United States. (The fifth goal, Humanitarian Assistance, is part of the programs described under USAID's request for the International Disaster Assistance and Food for Peace accounts.)

—Encouraging Broad Based Economic Growth ($507.5M): This goal is centered around improving market efficiency and performance, expanding access and opportunity for the poor including food security, and ensuring that young women and men enter adulthood with basic education skills. Within the overall allocation for this goal $90.7M will support basic education for children. (FY 1997 funding is $517.7M for this goal).

—Stabilizing world population and protecting human health ($765M): This goal is centered around four objectives: reducing unintended pregnancies through increased use of family planning ($400M), reducing child mortality (220.5M), reducing the spread of HIV/AIDS ($117.5M) and for a variety of other activities to help reduce maternal mortality and the effects of other infectious diseases ($27M.) (FY 1997 funding is $764.6M for this goal)

—Protection of the environment ($290M): This goal centers on reducing threats to the global environment, particularly conservation of biodiversity, reduction of threats to global climate change, reduction of pollution and promotion of sustainable urbanization, provision of environmentally sound energy activities and sustainable natural resource management. (FY 1997 funding is $227.6M for this goal).

—The increase in environment funding in fiscal year 1998 reflects support of important activities in Africa, Latin America and the Asia and Near East (ANE) Bureaus.

—Funds will be provided to Guinea's Fouta Djallon Highlands program to support environmental aspects of the Greater Horn of Africa work on related food security issues; assist community-based wildlife management initiatives in Southern Africa; biodiversity conservation in Madagascar, and provide additional funds to better service existing activities in countries serviced by REDSO/WCA.

—In Latin America additional monies will be used to make up for deferred environmental funding in El Salvador, Jamaica and Peru as well as for a program expansion in Guatemala into the Maya forest areas; the result of the peace accords.

—In ANE the increase in environmental funding will be used to make up for deferred funding in fiscal year 1997.

—Supporting democratic participation ($135.5M): This goal is achieved through strengthening rule of law and respect for human rights, fostering more genuine and competitive political processes, increasing the development of politically active civil society, and supporting the establishment of more transparent and accountable government institutions. (FY 1997 funding is $122.5M for this goal)

OTHER DEVELOPMENT ASSISTANCE PROGRAMS

Credit programs

USAID believes that there are significant instances in which U.S. development priorities can be best funded through credit, especially in emerging market countries and in countries moving toward graduation status.

Credit resources permit the leveraging of important amounts of private sector resources to support sustainable development. Credit programs also enable USAID to reach large populations that it would not otherwise be able to reach.

Important beneficiaries of credit programs are the "poorest of the poor" in both urban and rural areas.

—Urban and Environment program: USAID requests a total of $9M for this program. This includes $3M for subsidies and $6M for program administration. (This compares to the fiscal year 1997 appropriated level of $9.5M.)

—The subsidies will leverage approximately $45M in loan guaranties to help credit worthy borrowers to address pressing urban and environmental problems.

—Emphasis is placed on addressing urban and environmental problems that impair human health, decrease child survival rates and prevent economic progress.

—Micro and Small Enterprise Credit program: USAID requests a total of $2M for this program including $1.5M for credit subsidies and $500,000 for program administration. (The same amount was appropriated in fiscal year 1997.)

—The program uses loans and guarantees to encourage financial institutions to extend and expand credit to microentrepreneurs and small businesses.

—The primary financial instrument is the Micro and Small Business Loan Portfolio Guarantee (LPG).

Enhanced Credit Authority: As part of USAID's fiscal year 1998 request, the Agency seeks the use of up-to $10M in Sustainable Development funds (including up to $1.5M for administrative expenses).

—The ECA will provide USAID with an important tool to leverage its limited resources more effectively to pursue its global development priorities.

International Disaster Assistance (IDA)

—USAID requests $190M for this program including $165M for disaster relief managed by the U.S. Office of Foreign Disaster Assistance and $25M for programs managed by the Agency's Office of Transition Initiatives. (The IDA request is the same as the fiscal year 1997 level.)

—OFDA funds support emergency relief for natural and man-made disasters, and disaster preparedness, mitigation and prevention.

—OTI activities address the head-line grabbing crises of failed states as they attempt to reconstitute social and political structures.

USAID Operating Expenses (OE)

USAID requests $473M to cover the salaries and other support costs of USAID operations in Washington and at overseas locations. This compares to an fiscal year 1997 level of $488.5M (including $17.5M transferred from the DA account), or a reduction of $15.5M.

—This decrease is due to a reduction in overall OE funded staffing levels combined with the completion of the move of the Agency headquarters, with associated one-time cost savings.

—The savings are offset, in part, by increases associated with worldwide inflation and the impact of pay raises for both U.S. and foreign national staff.

Inspector General (IG) Operating Expenses

USAID requests $29.047M for the IG operating expenses to cover the costs of domestic and overseas operations of the Agency's Inspector General. This compares to an fiscal year 1997 level of $30M.

Foreign Service Retirement and Disability Fund (FSRDF)

These funds are not included in USAID's tables on discretionary funding because it is a mandatory appropriation (required as a result of the inclusion in fiscal year 1974 of USAID career foreign service employees in this fund), and it is set at $44.208M for fiscal year 1998 to cover associated costs of that fund. This compares to the fiscal year 1997 level of $43.826M.

OTHER USAID-MANAGED PROGRAMS ($4,756.5B)

Economic Support Fund (ESF) ($2,497.6B)

The ESF account addresses economic and political foreign policy interests of the United States by providing economic assistance to allies and countries in transition to democracy, supporting the Middle East peace process and financing economic stabilization programs, frequently in a multi-donor context.

The largest share of these funds will go to supporting the Middle East Peace Process ($1.2B for Israel, $815M for Egypt, $75M for the West Bank Gaza, $25M for Jordan, $12M for Lebanon and $52M for transfer to the Middle East Development Bank) and $17M to assist other non-peace process countries and programs in that region.

The Latin America region will receive $116M, with the largest share of those funds going to Haiti ($70M), Guatemala ($20M), and $10M for the ICITAP program that funds administration of Justice and police training programs in that region.

ESF will be used to fund continued support of programs for "fledgling democracies" in Cambodia ($37M) and Mongolia ($7M) as well as provide on-going assistance to the International Fund for Ireland (19.6M). $25M of ESF will be used for assistance in Sub-Saharan Africa for elections, political party building and legislative training for countries in transition such as Angola, the Congo and Sierra Leone, as well as support for U.S. NGOs to provide assistance in training local human rights and civil society networks in Cameroon, Rwanda and the Seychelles.

(The ESF request compares an fiscal year 1997 level of $2.363B.)

Assistance for East Europe (SEED): ($492M):

This is a transitional program designed to aid Central and Eastern European countries through their difficult passage to democracy and market economies. As countries consolidate their political and economic transitions they will be graduated from the assistance category and funding for bilateral SEED programs will be phased out. However, the program will remain flexible to accommodate uneven political and economic progress.

The broad objectives of this program are to build market economies and strong private sectors, consolidate democracy, and improve the basic quality of life throughout the region.

—Of the amount requested, $225M will be allocated for Bosnia reconstruction and reform programs including activities associated with the Dayton Peace Accords.

—Of the non-Bosnian resources, 45 percent will go to Southern Tiercountries, which have gotten off to a slower start then countries in the Northern Tier, and which up to now received a much smaller share of resources.

(This request compares to an fiscal year 1997 level of $475M).

Assistance for the New Independent States of the Former Soviet Union ($900M):

—Funds under this request will be used to support these countries as they make the transition to market economies and democracies as responsible members of the international community.

—In fiscal year 1998 a new initiative will be undertaken, Partnership for Freedom, that will build on achievements to date, reorient our assistance program, first to Russia and then for the other NIS countries, towards longer-term and more cooperative activities to spur economic growth and develop lasting links between our peoples.

(This compares to an fiscal year 1997 level of $625M.)

Public Law 480 Food for Peace Titles II and III ($867M):

—Title II: USAID requests $837M (the same as the fiscal year 1997 level) to address food insecurity through emergency response, increased agricultural productivity and increased household nutrition activities.

—Title III: USAID requests $30M (compared to $29.5M in fiscal year 1997) to fund food aid to low-income, food-deficit counties to encourage policy reforms aimed at achieving long-term food security.

Country level detail for all USAID administered programs will be presented in USAID's fiscal year 1998 Congressional Presentation to be submitted to the Congress in late February/early March.

IRI RAPID RESPONSE REQUEST

Senator MCCONNELL. Thank you, Mr. Atwood.

What I am going to do, since we have several Senators here, is to limit the first round to 5 minutes each so that everybody can get a fairly early opportunity to question Mr. Atwood. And for those who want to stay, they will get more time on subsequent rounds.

In your testimony, you identified Cambodia and Mongolia as examples of our support to fledgling democracies. In Cambodia, IRI struggled with the AID office for more than 1 year and eventually terminated the relationship when the program officer tried to steer subgrants to personal friends.

After Mongolia's June elections, the Asia Foundation and IRI submitted requests for support from AID's rapid response fund. After extensive negotiation over plans, I am told the request sat in one office for further review from October until February.

We finally received the notification just this week, which means that no funds will actually be released until March.

Do you have any idea why it took nearly 10 months for a rapid response mechanism to release crucial funds for Mongolia?

Mr. ATWOOD. Mr. Chairman, I have looked into this question because I knew that you were concerned about it. There were, indeed, two offices involved here. But let me make clear that IRI did use core funds to begin moving very quickly. They did have $110,000 available.

There is no reason why it should have taken so much time to get the request, the notification, up to you, I can assure you. Having been the head of an NGO that was the partner of IRI at one point, I can understand their deep frustration. I can also understand the problems they have in trying to make ends meet.

So I am pleased that at least we are able to get the notification up to you. I assume that within the next few weeks, when that notification clears, we will be able to make them whole again.

I want to make clear that they were not restricted from moving. They did move, in fact, using their own funds and also the core funding that was made available under the umbrella contract for democracy.

Senator MCCONNELL. So it was a reimbursement issue?

Mr. ATWOOD. That's right.

SUSPENSION OF AID

Senator MCCONNELL. You also said in your testimony that nations that do not embrace democracy will not receive U.S. aid. Can you give me some examples of where we have suspended aid because of that policy?

Mr. ATWOOD. Yes; I will.

Given the fact that we suspended a lot of these programs when we announced our first list of 21 countries back in 1993 and that, indeed, some of those countries have improved their situation since that time, although because of budget considerations we have not resumed our aid programs, I think every time I mention countries I get messages, telegrams from Ambassadors, saying you know, the situation has improved here so you don't need to keep blasting this country.

But I think one of the countries that I do not have any hesitancy in talking about, because the country is falling apart and we are trying desperately to put it back together again, is Zaire. There is an example of a country where abuse of human rights, corruption, and everything else brought the per capita income down from about $2,000 to less than $200, despite the fact that we put $2.2 billion worth of aid into Zaire over the years.

Now a lot of it was because we wanted Mr. Mobutu to vote right in the United Nations and be on our side in the East-West struggle. But we do not have to politicize our aid any longer. We don't have to work with governments that abuse human rights.

In some cases we have the option of working only with NGO's in countries where we think we are making progress. That is true in a place like Kenya, where we are not exactly happy with their pursuit of democratic practices. But we are making a lot of progress in a lot of areas, working with nongovernmental organizations, and we expect that our contribution there will help change the situation over time.

So I would say that I would be happy to share these countries with you privately, if you wish. But for me to now go over decisions that we took 3 years ago, when I know that in some cases the situation has improved, I think might be counterproductive from a foreign policy point of view.

Senator MCCONNELL. I'm curious as to what the criteria are. For example, would you consider forcible repatriation of refugees consistent with democratic practices?

Mr. ATWOOD. Forcible repatriation of refugees?

Senator MCCONNELL. Yes.

Mr. ATWOOD. Generally speaking, I would not. I mean, it depends on the situation you want to cite. Then we can argue whether or not it was forcible.

Senator MCCONNELL. The reason I raised that is a government that clearly has been a friend of ours most of the time, the Thai Government, is forcing Burmese women and children across the border into SLORC gunfire. That has happened just in the last 3 days. That is the sort of thing, it seems to me, that ought to get our attention and cause a review of our assistance policy, including Thailand's IMET program.

I wonder if you have any reaction to that.

Mr. ATWOOD. My only reaction is that we have had the celebration of the graduation of Thailand from our aid program because they have achieved a sustainable economic system and political system.

Senator MCCONNELL. I understand that. But I just cite that as an example of the kind of thing that, I gather from what you say, would meet the criteria.

Mr. ATWOOD. I don't want to talk about Thailand specifically because it is a closeout post. But the fact of the matter is when those kinds of things happen, I think it is important for us to take those issues up with the government because forced repatriation into a state such as Burma is not something that we approve of. We are trying our best to be supportive of those refugees on the Thai border, as a matter of fact, through humanitarian and other assistance that we provide.

Senator MCCONNELL. I am out of time on the first round.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

I have a number of questions that I will submit for the record.

FLEDGLING DEMOCRACIES

Mr. Atwood, you spoke about the use of ESF funds to support fledgling democracies. What is democratic about Cambodia? They had an election a few years ago, but Prime Minister Hun Sen lost the election and forced his way into a coalition government, probably one of the most corrupt anywhere.

Do we send aid to the government itself of Cambodia? I know we use the Leahy war victims fund for land mine victims. But do we give aid to the government itself?

Mr. ATWOOD. We do aid that transition, as does the entire international community. I think that we understand exactly what you are saying about the state of democracy in Cambodia. We worry about it a great deal. We believe that the intent continues to be that they are going to pursue democracy and democratic institutions, and it is an important transition given the history of that country and the devastating civil war with the reign of the Khmer Rouge that we have experienced.

So we are not happy with all things that are going on there. We did help sponsor an election which then resulted in a compromise and coalition government. They are preparing for another election.

We feel we have to engage to make that situation better.

Senator LEAHY. Does that mean any pressure is being brought? I mean, we send aid. Do we have any strings tied to that aid?

Mr. ATWOOD. There are clear conditions in our aid program. Most of them are in the law. If a country does absolutely turn its back on democracy, for example, by stealing an election—we have had that situation in Niger—under the law, we have to close our AID mission and only pursue humanitarian goals in the country.

I just had a meeting with our mission director the other day. There are clear standards for our involvement. But I think even the law, which was passed by both branches of government—obviously, in every case—tends to lean toward engagement versus absolute decisionmaking. There is still a good deal of flexibility on the part of the administration to work a situation to improve it.

USAID BUDGET REQUEST

Senator LEAHY. I'm looking at the increase over last year's appropriation, the budget request. I hope we can find the money because our foreign policy programs are underfunded. But it seems AID is still on the short end of the stick. The request is about a $1 billion increase above last year's level. But only $65 million of that $1 billion is for AID's Development Assistance programs, to protect the environment, to stabilize population growth, to stop the spread of infectious diseases. These are not glamorous programs. All they do is help the people.

Why do they always end up in last place?

Mr. ATWOOD. There are all sorts of pressures, Senator Leahy, as you know well. The most dramatic pressure that we are all under nowadays is to balance the budget. But within the 150 account, there are also tremendous pressures.

I certainly understand the need to pay our arrearages to the World Bank, for example, and have had meetings with Secretary Rubin. We both understand the importance of the overall system, the multilateral and the bilateral.

We need to pay our arrearages at the United Nations, too, although there is a supplemental being considered, or at least being discussed with the Congress on that score. But the 150 account is squeezed, even at $19.4 billion.

CHILD SURVIVAL AND NGO'S

Senator LEAHY. We appropriated $500 million for AID's Child Survival and Disease programs last year, and another $100 million for UNICEF. This year that is being cut to $455 million.

I think we are only sending about 4 percent of it to NGO's. A great deal of it goes to for-profit contractors.

Are we getting the biggest bang for the buck?

Mr. ATWOOD. We have increased the amount that we provide through NGO's, NGO partnerships, from something like 22 percent to 34 percent.

Senator LEAHY. I'm told it is 4 percent.

Mr. ATWOOD. No; in 1992, 24 percent of our aid went through NGO's. In 1996, it was 34 percent, Senator.

Senator LEAHY. Can you give me an example of the type of NGO it might be going through?

Mr. ATWOOD. Well, there are hundreds of NGO's that we work with. I mean, some of them are doing our humanitarian programs,

of course—the Catholic Relief Service, World Vision, and CARE. A lot of them are working with us on microenterprise programs. Some of them are working with us on family planning programs, some of them on democracy programs.

It is a varied group. I would be happy to give you a list of all the NGO's that we work with.

Senator LEAHY. Yes; and I would also like to know whether it includes for-profit contractors.

Mr. ATWOOD. No.

Senator LEAHY. It does not?

Mr. ATWOOD. No; not that category. That is just NGO's.

Senator LEAHY. Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Leahy.

[The information follows:]

PRIVATE VOLUNTARY AND NONGOVERNMENTAL ORGANIZATIONS

A nongovernmental organization (NGO) is defined broadly as an organization organized formally or informally that is independent of government. For-profit firms, however, are excluded from this definition for USAID's internal coding system, and data about the amount of assistance USAID provides to NGOs does not include for-profit firms. Some for-profit firms have established separate non-profit organizations which meet the criteria for a private voluntary organization (PVO) and have so registered with USAID. The terms NGO and PVO are often used interchangeably, but USAID's definition of NGO for internal coding purposes includes not only PVOs but also universities and selected other non-profit organizations such as research institutions.

The 24 percent and 34 percent figures I used above represent development assistance funding for PVOs as a percent of USAID's total development assistance funds.

With regard to NGOs and child survival, USAID's total fiscal year 1996 child survival funding from all accounts was $301 million. NGOs, including universities, received about 36 percent of this funding.

I do not recognize the 4 percent figure which you mentioned. Until I know how it was calculated, the number is difficult to comment on.

It might be helpful to note that some people think of the Office of Private and Voluntary Cooperation in our Bureau for Humanitarian Response (BHR/PVC) as the primary source of USAID funding for PVOs. In fact, while BHR/PVC plays an important capacity-building role for PVOs, this Office's funding for PVOs in fiscal year 1995 was about 4.5 percent of USAID's total development assistance funding for PVOs, which in fiscal year 1995 amounted to over $715 million.

Following is a list of registered U.S. private and voluntary organizations.

REGISTERED U.S. PRIVATE AND VOLUNTARY ORGANIZATIONS THAT WORK WITH USAID

The Academy for Educational Development;

ACCION International;

AVSC International, Inc.;

Action for Enterprise Adventist Development and Relief Agency International, Inc.;

African Christian Relief, Inc.;

African Community Resource Center, Inc., African Medical and Research Foundation, Inc., The African Methodist Episcopal Church Service & Development Agency

African Wildlife Foundation;

The African-American Institute;

African-American Labor Center;

Africare;

Aga Khan Foundation U.S.A. Agricultural Cooperative Development International;

AICF/USA;

Aid to Artisans, Inc.;

Air Serv International, Inc.;

America's Development Foundation, Inc. America-Mideast Educational & Training Services American Association for International Aging, Inc.;

American College of Nurse-Midwives American Committee for Shaare Zedek Hospital in Jerusalem, Inc.;

American Council on Education American Federation of Teachers Educational Foundation American Institute for Free Labor Development The American Jewish Joint Distribution Committee, Inc. American Medical Resources Foundation, Inc.;
American National Red Cross;
American Near East Refugee Aid;
American ORT, Inc.;
American Red Magen David for Israel;
American Refugee Committee;
AmeriCares Foundation, Inc.;
Andean Rural Health Care, Inc.;
Appropriate Technology International;
Armenian Assembly of America, Inc.;
The Armenian Relief Society, Inc.;
Armenian Technology Group, Inc.;
The Asia Foundation;
Asian-American Free Labor Institute Bethany Christian Services International, Inc.;
Bicentennial Volunteers, Inc.;
Blessings International, Inc.;
Books for Africa, Inc.;
Brother's Brother Foundation;
Caribbean Conservation Corporation;
The Carter Center, Inc.;
Catholic Near East Welfare Association;
Catholic Relief Services;
Center for Citizen Initiatives The Center for Health, Education and Economic Research, Inc.;
Center for Marine Conservation Center for Strategic and International Studies, Inc.;
Center for Victims of Torture The Centre for Development and Population Activities;
ChildHope Foundation;
Children International;
Children of Chornobyl Relief Fund, Inc.;
Christian Children's Fund, Inc.;
Christian Reformed World Relief Committee;
Christian Relief Services, Inc.;
Church World Service, Inc.;
Citizens Democracy Corps, Inc.;
The Citizens Network for Foreign Affairs;
Community of Caring;
CONCERN Worldwide (U.S.), Inc.;
The Conservation International Foundation The Consortium for the MBA Enterprise Corps, Inc. Cooperative for Assistance and Relief Everywhere, Inc.;
Cooperative Housing Foundation Cooperative Office for Voluntary Organizations, Inc.;
The Corporate Council on Africa;
COUNTERPART Foundation, Inc.;
Covenant House;
Credit Union National Association, Inc.;
Delphi International;
Dian Fossey Gorilla Fund;
Direct Relief International;
Doctors of the World, Inc.;
Doulos Community, Inc.;
Ecologically Sustainable Development, Inc.;
Education Development Center, Inc.;
Enersol Associates, Inc.;
Environmental Law Institute;
Esperanca, Inc. Ethiopian Community Development Council, Inc.;
Eye Care, Inc.;
Family Health International;
Feed My People International, Ltd.;
Financial Services Volunteer Corps, Inc.;
Floresta USA, Inc.;
Food for the Hungry, Inc.;
Food for the Poor, Inc.;

The Foundation for a Civil Society, Ltd. Foundation for International Community Assistance, Inc.;
Freedom from Hunger;
Fund for Democracy and Development;
The Fund for Peace The German Marshall Fund of the United States;
Global Health Action, Inc.;
Global Operations and Development;
Goodwill Industries International, Inc.;
Habitat for Humanity International, Inc. Hadassah, The Women's Zionist Organization of America, Inc. The Harry T. Fultz Albanian-American Educational Foundation;
Health Alliance International;
Health and Education Volunteers, Inc.;
Health Volunteers Overseas;
Heart to Heart International, Inc.;
Heifer Project International, Inc.;
Helen Keller International, Inc.;
Hermandad, Inc.;
High/Scope Educational Research Foundation Holt International Children's Services, Inc.;
Institute for a New South Africa;
Institute for Development Research, Inc.;
Institute for EastWest Studies;
Institute of International Education, Inc.;
International Center for Research on Women;
International Child Care (USA), Inc.;
International Church Relief Fund, Inc. International City/County Management Association International Clinical Epidemiology Network;
International Development Enterprises;
International Executive Service Corps;
International Eye Foundation, Inc. International Foundation for Education and Self-Help;
The International Human Rights Law Group International Institute for Energy Conservation International Institute of Rural Reconstruction;
International Law Institute;
The International Medical Corps International Partnership for Human Development International Planned Parenthood Federation, Western Hemisphere Region;
International Rescue Committee International Services of Hope/Impact Medical Division;
International Voluntary Services, Inc.;
IPAS, Inc.;
ISAR, Inc. Islamic African Relief Agency, United States Affiliate;
Island Resources Foundation, Inc. Joint Center for Political and Economic Studies, Inc. Katalysis North/South Development Partnership;
Larry Jones International Ministries, Inc.;
The Life Link;
LightHawk;
Lithuanian Children's Relief, Inc.;
Lutheran World Relief, Inc.;
Magee-Womens Hospital;
Manomet Observatory, Inc.;
MAP International, Inc.;
Medical Benevolence Foundation;
Medical Care Development, Inc.;
MEDISEND Melwood Horticultural Training Center, Inc. The Mennonite Economic Development Associates;
Mercy Corps International;
Minnesota International Health Volunteers;
Mission Without Borders International;
Missouri Botanical Garden;
The Mountain Institute, Inc.;
National Cooperative Business Association;
National Council for International Health;
National Council of Negro Women, Inc. National Council of the Young Men's Christian Association of the USA;
National Fish and Wildlife Foundation;
National Planning Association National Rural Electric Cooperative Association National Rural Electric Cooperative Association—International Foundation;

National Telephone Cooperative Association;
The Nature Conservancy;
Nazarene Compassionate Ministries, Inc.;
Near East Foundation;
New York Botanical Garden;
New York Zoological Society Northwest Medical Teams International, Inc.;
Obor, Inc.;
Operation California, Inc. Opportunities Industrialization Centers International, Inc.;
OPPORTUNITY International, Inc.;
Organization for Tropical Studies, Inc.;
Pan American Development Foundation;
Park West Children's Fund, Inc.;
Parliamentary Human Rights Foundation;
Partners in Economic Reform, Inc.;
Partners of the Americas;
Pathfinder International;
The Pearl S. Buck Foundation, Inc. The People-to-People Health Foundation, Inc.;
The Peregrine Fund;
Philippine American Foundation;
PLAN International USA, Inc., Planned Parenthood Federation of America, Inc.;
Planned Parenthood of New York City, Inc.;
Planning Assistance Polish American Congress Charitable Foundation;
The Population Council;
Population Services International Private Agencies Collaborating Together, Inc.;
PRO Women Program for Appropriate Technology in Health;
Project Concern International;
Project Dawn, Inc.;
Project ORBIS International, Inc.;
Rodale Institute The Rotary Foundation of Rotary International;
Sabre Foundation, Inc.;
Salesian Missions;
Salvadoran American Health Foundation;
The Salvation Army World Service Office;
Samaritan's Purse;
Save the Children Federation, Inc.;
Search for Common Ground;
Shelter Now International, Inc.;
Small Enterprise Assistance Funds;
St. David's Relief Foundation;
State of the World Forum;
Strategies for International Development;
Support Centers of America;
TechnoServe, Inc.;
Trees for Life, Inc.;
Trickle Up Program;
United Methodist Committee on Relief;
Viet-Nam Assistance for the Handicapped;
Vietnam Veterans of America Foundation Volunteers in Overseas Cooperative Assistance;
Volunteers in Technical Assistance, Inc. Winrock International Institute for Agricultural Development;
World Association for Children and Parents;
World Concern Development Organization;
World Education, Inc.;
World Emergency Relief;
World Environment Center;
World Learning, Inc.;
World Rehabilitation Fund, Inc.;
World Relief Corporation;
World Resources Institute;
World SHARE, Inc.;
World Vision Relief and Development, Inc.; and
World Wildlife Fund, Inc.

ADMINISTRATION OF JUSTICE PROGRAMS

Senator MCCONNELL. Senator Campbell.

Senator CAMPBELL. Thank you, Mr. Chairman.

I, frankly, have no problem supporting the administration's modest request for a budget increase. I think the efforts of the USAID have made for stronger democratic nations. That has led to better trading partners, increased sales of American products, and certainly less conflict in those areas, too.

I note with interest in your testimony the efforts you have made to streamline the Agency, to reduce regulations, to close some of the offices, things of that nature, and I certainly commend you on that point.

The bottom of page 11 in your testimony leads me to ask a couple of questions. You talk about increased and escalating violence, which I guess is one of the unfortunate parts of democracy, and I would like to focus on this a little bit.

The AID Program funds the Administration of Justice Program which primarily supports courts and prosecutors in developing countries. Support for other law enforcement activities is provided through the State Department's Bureau of International Narcotics and Law Enforcement, and the Justice Department operates an international criminal investigation training program. There are a number of other law enforcement programs, too.

I know that we probably have more expertise on what works and what does not work in fighting crime, drugs, and gangs than anybody in the world. We have had certainly more experience at it.

I, like anybody else, read a lot of accounts of the increased criminal activities in Russia, for instance, since they have tried democracy.

I want to ask how do you ensure cooperation between your agency and other Federal agencies to support various international crime fighting programs so that we do not have duplications of effort?

Mr. ATWOOD. I'm glad you asked because we have been involved in Administration of Justice Programs for many, many years, and there is more of a developmental aspect to our programs. We work in partnership. We understand what is needed in a country to create an institution that will do that kind of work.

The State Department's relatively new Office on International Crime has the obvious interest in making sure that we can work with other governments to catch criminals and to try to prevent the flow of narcotics through countries and into our country, and the like. And then the Justice Department likewise has interests in this area. They have a very good operation that trains police officers.

We have gotten out of that business long ago because of a lot of controversy. But it is an important function.

So we have an interagency group that meets to talk about those issues and to talk about where we are working, what we are doing, and how we can collaborate to make all of our programs more effective.

Senator CAMPBELL. Are there three agencies involved in that interagency group?

Mr. ATWOOD. Three agencies. That's right.

Senator CAMPBELL. How often do you meet?

Mr. ATWOOD. I don't know, exactly, Senator. I don't attend the meetings myself. They are done at a lower level. But I could get you that information.

Senator CAMPBELL. OK, if you would, and I have several other questions related to that.

[The information follows:]

ADMINISTRATION OF JUSTICE: INTERAGENCY COORDINATION

USAID participates in the inter-agency coordination process, led by the Democracy, Human Rights and Labor Bureau at the Department of State. The State Department's Bureau for Narcotics and Law Enforcement (INL) chairs an Interagency Working Group to coordinate various U.S. Government agencies' respective law enforcement training programs. An interagency working group meets regularly on ENI rule of law programs under the direction of the Coordinator's Office. Interagency coordination for other, long-term institutional building administration of justice programs is carried out in countries, through the country team under the direction of the U.S. Ambassador.

Senator CAMPBELL. I won't take any more time, Mr. Chairman. But I did want you to know that that is kind of a special interest for me.

I thank you for your testimony.

Mr. ATWOOD. Thank you, Senator.

Senator MCCONNELL. Thank you, Senator Campbell.

Senator Lautenberg, your arrival is quite timely. As a matter of fact, you can take your turn if you'd like.

Senator LAUTENBERG. That would be very nice.

Senator MCCONNELL. This has probably never happened in your entire Senate career, that you've arrived and immediately been called upon.

Senator LAUTENBERG. That may be right.

Senator MCCONNELL. Let me just say that we are limiting this round to 5 minutes.

Senator LAUTENBERG. OK. So I ought not take all of it trying to find my paper.

Mr. Atwood, it's good to see you.

Mr. ATWOOD. Likewise, Senator.

WAR CRIMES TRIBUNAL

Senator LAUTENBERG. One of the things that has concerned me, and I'm sorry that I was not able to be here for your testimony, but I will certainly read it with interest, is implementation of a section of the Foreign Operations Appropriations Act that gives the President authority to withhold assistance from a country which knowingly grants sanctuary to indicted war criminals. I do not know if this subject has already been brought up.

Senator MCCONNELL. No; so go ahead.

Senator LAUTENBERG. I am talking about countries that provide sanctuary to persons evading prosecution by the International Criminal Tribunal.

I believe our foreign assistance program can be used to secure greater cooperation from the parties to the Dayton Agreement in arresting and transferring indicted war criminals to the tribunal.

Has any funding been withheld thus far under the provision in fiscal year 1997?

Mr. ATWOOD. We are obviously trying in Bosnia to work with officials who comply with the Dayton accords. We are also working with the War Crimes Tribunal to enhance their capacity to do their work. We are calling for the arrest of war criminals in Bosnia and the like.

The answer to your question is that to date we have not withheld resources because we think it is more important to engage there and to try to change the conditions on the ground that caused those war criminals to be harbored, not by government officials in either Republika Srpska or the Government of Bosnia and the Federation, necessarily, but by other individuals within those societies.

REPUBLIKA SRPSKA

Senator LAUTENBERG. It is a tough decision that you make, only because we have a statutory obligation to try and do this. It seems to me that we are walking delicately all over the place. I'm not sure who is going to object to these people being picked up and tried.

It is reported that more than one-half of the 75 individuals indicted for war crimes by the ICT have been seen—this is in the papers—by journalists and nongovernmental organizations that live in Croatia and Republika Srpska. Earlier this year, my office was informed that our government plans to allocate about one-third of the roughly $200 million in funding appropriated by the Congress for Republika Srpska.

Is that still the plan?

Mr. ATWOOD. We are looking at what we can do. What we have done in Republika Srpska is not to work with the government that has been elected there, by the way, but more with nongovernmental groups, independent media, and the like to try to bring about reconciliation in the country.

If we work in the government in the area of Republika Srpska, our intention would be to work to strengthen democratic elements within that part of Bosnia, not in any way to aid people who might be implicated, or whatever, but, rather, to isolate them.

We need to pull that republic into the Bosnian Federation, but, more importantly, into the international community, and we cannot do it by just sitting back and not working with the mayors, for example, of small villages that really do believe that they ought to see a democratic change in those particular municipalities.

On the other hand, our requirements ring hollow if we do not indicate in specific ways our unwillingness to accept the status quo.

Senator LAUTENBERG. Now I know that you and your department are not in this alone by a long shot. But I would hope that our government can intervene. Whether it is financially or otherwise—I don't want to make the decision at this committee table—we need to move this thing along and show that we are serious.

It is an insult that they are able to thumb their noses at us. The fact is that their conduct is unacceptable under any condition in the civilized world. We are the only ones who can really make a difference to impact on their behavior.

So I would hope that we could condition that funding in some way and resist funding everything unless we get more cooperation from the people we are entrusting.

Senator MCCONNELL. Thank you, Senator Lautenberg.

NIS ASSISTANCE

Mr. Atwood, of the $900 million for the new NIS effort in the President's proposed budget, the largest portion is, once again, allocated to Russia. I am curious. What was the thinking behind allocating Russia $241 million, flat-lining Ukraine, reducing Armenia, and continuing support for Belarus, where a dictator has recently seized control?

Mr. ATWOOD. The funding for Russia, as you know, Senator, has gone down considerably from over $2 billion—I believe 1 year we handled about $1.2 billion of it—down to $95 million last year.

We think, given the challenge that still exists there to bring about a democratic market economy and the goodwill that exists to try to pursue those issues under the Yeltsin regime, it warrants our increasing funding to $240–$241 million under this new arrangement of the partnership for freedom.

The technical assistance aspect will continue. We still want to see that country break down the obstacles to trade and investment so that we can, indeed, follow an exit strategy that will have us leaving there within the next few years altogether.

So I think the increase is in light of the fact that the pipeline is being expended very fast, that we are moving away, really, from government-to-government types of assistance to outside of Moscow, into the hinterlands. This is a very large country.

I am not saying that one country is more important than the other. I think most people understand how important Russia is to the entire region, including the people of Ukraine, who want to see Russia become more democratic and a part of the international community.

So that is our intention. It is our intention to begin to phase down our program. But we see the need and we see the importance of moving ahead with a program that will eventually become taken over by trade and investment, we hope, and linkages between democratic institutions.

Senator MCCONNELL. Any response to my observations about the other countries that I mentioned in my question?

Mr. ATWOOD. Again, you know, I give you credit. You pushed us to some extent in a direction we wanted to go in the case of Ukraine.

The problem, the only problem we face is that we had a finite amount of money for the former Soviet Union and you earmarked $225 million. I think that we have made some progress there. We clearly would always like flexibility. If we don't see reform happening, we'd like to move money from one place to the other.

Nonetheless, I think we've made a great deal of progress with President Kuchma. Right now, we are waiting for the Rada, the parliament of the Ukraine, to vote for privatization and for further economic reforms so that we can make more progress. But we have made progress in Ukraine, and I think when the history of this era is written, the name "McConnell" will be part of it. [Laughter.]

Senator MCCONNELL. That's certainly not required. [Laughter.]

And what about Armenia and Belarus? Any thoughts about those?

Mr. ATWOOD. Again, we are moving, in the case of Armenia, from a mostly humanitarian program to really working with them. I have to tell you that we are troubled by what happened in the last election.

The Government of Armenia knows that. A new prime minister has been named. We think that he is a real reformer and we are working with all sides in Armenia, including the government and the opposition. We have only requested $80 million this year, as opposed to what we asked for last year for Armenia. But a lot more of that is going to go to actual development assistance, as opposed to humanitarian assistance.

I am not as familiar with the request for Belarus right off the top of my head. I would be happy to give you more information for the record on that country, Senator.

[The information follows:]

CONTINUED USAID ASSISTANCE FOR BELARUS

The USAID program in Belarus aims to promote a market-oriented economy and democracy, including strengthening the independent media, non-governmental organizations and private enterprise. Because the environment for political and economic reforms in Belarus is increasingly inhospitable, we will provide assistance at only very modest levels ($5 million, or less than one percent of the FSA request level).

However, we believe it important to encourage support for reforms, and to do this by directing our assistance primarily through non-governmental channels in the few areas where progress has been made and where USAID can effectively counter the weakening of democracy. Thus, our assistance request reflects the fact that opportunities to support reforms are limited under the current regime in Belarus, as well as the fact that other NIS countries that are willing to reform and seek U.S. assistance deserve the lion's share of our assistance resources.

AFRICAN ELEPHANTS

Senator MCCONNELL. On another subject, I recently sent you a letter regarding the Zimbabwe Government's Communal Areas Management Program for Indigenous Resources [CAMPFIRE] and that is a mouthful. I have been contacted by a number of people from my State who are worried that AID is contributing to the wholesale slaughter of endangered species, such as elephants.

Understanding that it is AID's position that CAMPFIRE is designed to ensure that the rural poor are active participants in the national development process, I wonder if you are prepared to address the concerns that were raised by the communication that I sent you.

Mr. ATWOOD. First, yes. Any time you express those kinds of concerns, we are concerned as well. We are certainly concerned about the misinformation that has been going around the country as a result of a National Enquirer article, a newspaper not always known for its accuracy. In this case we can give you very good details as to how inaccurate the article was.

But what I want to assure you of is, No. 1, we're looking into your concerns. Very specifically, David Hales, the head of our environment center, has been in Zimbabwe since last week. He is coming back on Monday. I would be happy to have him come up here and brief you and your staff on what his findings were because there were serious allegations that, for example, the group that we were supporting was lobbying to change the status of elephants

under the Endangered Species Treaty and a number of other things that we believe not to be true. But David Hales is there to investigate these charges for me.

What I want to emphasize here is that our interest is in conserving the natural resource base of Zimbabwe, and that includes the elephant, which is an endangered species. We tried it every other way over the years. Because of poaching, and because of corrupt governments, and because the communities weren't involved, the park areas of these countries were intruded upon. We saw the elephant population go down to about 32,000 in the 1950's.

That population is now up to 66,000 elephants because we have adopted community-based conservation techniques. We give the community a stake in taking care of the natural resource base, which includes the elephant, which is obviously a tourist attraction.

Now as in every case of any animal population, whether it is deer here in this area or in Kentucky, or elephants in Africa, you need to cull the herd on occasion. They have created a tremendous amount of damage in the region. But there are 3,000 more elephants being born every year and about 100 or so taken as a result of hunting season permits that are granted and strictly regulated by the community in the area.

If you don't give the community in the area a stake in this, then you are going to see that elephant population going down. Our interest is in preservation of the elephants and helping the communities to preserve the natural resource base of their own community and of their country.

There are serious allegations beyond that. But I wanted to make it clear for the record that we are not sponsoring anyone going in and hunting trophies on an indiscriminate basis. What we are interested in is seeing that elephant population continue to grow and to protect the park areas where they live.

Senator MCCONNELL. I'm going to let Senator Lautenberg have another round. Then I will have one final question to wrap it up.

DEVELOPMENT ASSISTANCE CUTS

Senator Lautenberg.

Senator LAUTENBERG. Thank you. I will be fairly brief, Mr. Chairman.

Mr. Atwood, what is the impact of the cuts on our ability to carry out the Development Assistance Program?

Mr. ATWOOD. Well, Senator, we are losing some influence. That is my most important message to you.

We have never claimed to do it all in terms of the gains that we made in development. Over the last 30 years, we have made some tremendous progress in reducing infant mortality by one-half, by providing clean drinking water to 1 billion more people, by increasing literacy rates by 75 percent, by providing food for a growing world population through the Green Revolution Program and by all of our contributions to agricultural research. But we have maintained our leadership capacity by convincing other countries to share the burden with us.

In about 1960, we were providing 60 percent of all of the official development assistance in the world. Today we only provide 17 percent.

But if we do not go to the table with something other than good ideas—and we continue to go to the table with good ideas, I think—and if we go to the table as No. 4 in overall contributions, compared to countries that are one-half the size of our economy, we cannot influence the other donors. In fact, we are influencing them in a negative way. They are cutting back as well.

I think, given the progress that has been made and the need that is still out there, American leadership is still vital in this area. In addition, we've got diseases that we can control that affect Americans, for example. We did succeed in eradicating smallpox. We are able to save this country and all of its people $280 million each year in immunization costs for our children.

We are on the verge of eradicating polio. That will save us $230 million per year for immunizations for our children against polio.

Those kinds of things redound to the benefit of the American people. In addition, our exports have soared, which is why our economy is so strong versus that of other countries. We still have a lot of room for growth, but we have to realize that four out of five people will be living in the developing world by the year 2000. Those are either going to be consumers or they are going to be wards of the international community.

Either we are going to benefit in terms of increased exports or we are going to lose in terms of increased costs for peacekeeping, refugee assistance, and the absence of economic growth.

Senator LAUTENBERG. Unfortunately, it is sometimes hard to get the message through here, as we look primarily at the budget cuts, to remember that moral leadership is incumbent upon this democracy of ours because we are a nation with a conscience. We are a nation with concerns about other people. But also it follows on that our economic interests, as you indicate, are also very well served. If you have friends, just like within business circles in the country, if you have people to whom you can present product ideas, development ideas, or what have you and with whom you can work in cooperation, there is an opportunity for you. That is not the primary mission, I point out.

We are, again, a country with a conscience. So it should be. Otherwise America is not the America that so many of us think about and are so proud of.

But we are slashing away at programs where there has been remarkable success. I think of river blindness, for instance. We did not have to do much there but carry a product to the source of this, and it has been almost eliminated. Can you imagine? Hundreds of thousands of people each year are not going blind who otherwise might, who would have to walk with a young child in front of them to lead them to wherever they want to go. There has been some marvelous work done and your agency should be very proud, Mr. Atwood, for the contributions it has made over the years.

Mr. ATWOOD. Thank you.

WEST BANK AND GAZA MICROCREDIT PROGRAM

Senator LAUTENBERG. I would ask one last question, Mr. Chairman, and this has to do with the program, the development program, that we had, the microcredit program for the West Bank and Gaza.

It was part of a $500 million 5-year pledge to the Palestinians. To date, if I am not mistaken, we have about $4.5 million worth of expenditures made. What are the plans for the microcredit programs in the area? Will we continue to expand the programs now in place in the West Bank and Gaza? What kind of progress has been made in helping create financial institutions that would specialize in the extension of credit to these new enterprises?

Mr. ATWOOD. Senator, before I answer your question specifically, let me say that I think we have made a major contribution to peace in that region and in the West Bank and Gaza in particular. We have done a lot to create wastewater facilities to deal with the water issue, which is a huge issue in that area. But there is something you may not be aware of. In the case of the tense negotiations over the city of Hebron at the last minute, one of the crucial issues was a road that went through the center of the city and how that road would look, how it could contribute to the peace. That was holding up the final agreement on Hebron.

We sent a USAID engineer in from our office in Tel Aviv, into Hebron, to look at that situation. He provided architectural plans for redirecting that road and creating some security barriers and the like that really did push that agreement over the edge in the end.

So I feel very proud of the contribution that we made there. We also have made a contribution generally in the sense that when people in the West Bank and Gaza feel a hope that their future is going to be better, indeed, that they will have access to jobs and the like, the polls—which, by the way, the International Republican Institute sponsors—are quite positive. When they poll the Palestinians on their attitude toward peace, they go all the way up to 70 percent in support of the peace process now.

When you have problems, they tend to come down. The number of people that will say in a poll that they support violence against the State of Israel also goes way down when there is more hope and when they can see that jobs are being created.

That is why, among other things, our credit programs are very important. We provided $14 million for the microenterprise sector—a loan guaranty facility, which has supported 270 small loans, 8,500 short-term working capital loans to microentrepreneurs, of whom 75 percent are women, equipment loans to help more than 200 vocational graduates get started in business, and loans averaging $23,000—which is not a microloan—to small Gazan businesses that are creating something like 800 to 1,000 jobs over a 3-year-period.

So we believe very strongly that this is one way of doing it. There are other ways as well, and we need to continue, I think, to be leaders there. While our program isn't the largest—the World Bank's and the European Union's are—we still have led the way in helping others see how we can create a peaceful situation in that part of the Middle East.

Senator LAUTENBERG. Not only did we help in the pursuit of peace, but we helped in the pursuit of expectation for an improvement in life. I think you said it clearly, but I would emphasize that unless the Palestinian people see some opportunity for personal im-

provement, family improvement, and so forth, they get disillusioned and I can understand why.

Thank you, Mr. Chairman.

POLIO PROGRAMS

Senator MCCONNELL. Thank you, Senator Lautenberg.

Just to wrap up, Mr. Atwood, you said that we sort of pushed you to where you wanted to go in Ukraine. Would you put the polio program in that category, too, that there also we pushed you where you wanted to go?

Mr. ATWOOD. Absolutely, Senator.

ROTARY INTERNATIONAL

I had a wonderful meeting with Rotary International the other day and I think that we are in accord with what we ought to be doing together with Rotary. I have to commend them. They've put something like $100 million of privately raised money into this program and they deserve a lot of credit.

AFRICA 10-YEAR ASSESSMENT

Senator MCCONNELL. As a polio victim myself when I was a youngster—and I was lucky—I've always taken a great deal of interest in that. I am glad that you are doing the same.

While I think we probably do too many studies, last year the subcommittee asked you to take a look at Africa in terms of economic growth. We asked you to carry out a comprehensive 10-year assessment of anticipated needs and the appropriate role the United States might play in addressing those requirements.

I wonder if you have a status report on where you might be going with that report?

Mr. ATWOOD. Yes, Senator. That report is being worked on as we speak. We have even come to some preliminary findings. I would be happy to provide those for the record.

[The information follows:]

STATUS OF USAID'S 10-YEAR ASSESSMENT FOR DEVELOPMENT ASSISTANCE TO AFRICA

USAID's "vision" for development assistance to Africa over the next decade is premised on a "new vision" for a 21st century Africa—one in which elected leaders are committed to equitable growth as a key principle of nation-building; where Africans take the lead in maintaining peace and resolving crises across the continent; where Africa's children are well-fed, healthy, and in school; and where Africa's adults are healthy, literate, active in civil society and working as productive citizens in a global economy. This vision is based on four principles:

(1) Africa's success depends on Africans themselves.—The Development Fund for Africa (DFA) has long advocated that consultation with and participation of our African partners would enhance the results of our assistance. Today, nearly 10 years later, we can see that African leadership and ownership of the "development agenda" are essential for success. Where leaders have made hard choices for the good of their people, USAID-supported programs have succeeded.

(2) Social and economic gains are not sustainable without broad-based economic growth.—Growth, to be effective, must not only focus on increasing the productive capacity of and economic opportunity for all Africans, but support programs that stabilize population growth, protect the environment, and foster democracy and participation.

(3) Crisis prevention is critical.—While no nation is immune from the spill-over effects of crisis, stronger nations and economies are better able to cope. Addressing

the critical issues of food security, conflict resolution, and post-crisis rehabilitation on a national and regional basis will help instill this strength and resilience.

(4) Strategic coordination is essential.—Coordination intensifies the effectiveness of our resources. USAID's presence in Africa, while increasingly limited, nonetheless gives us an understanding of conditions that is unmatched by any other donor. This is key to influencing our partners and ensuring that our collective investments will have the greatest impact.

Our 10-year Report is guided by these four basic principles, all of which are derived from experience in implementing the DFA. Our vision for future assistance to Africa is one that builds on past successes, adapts them to future conditions, and positions the U.S. to take advantage of new opportunities. Preliminary findings include:

(1) We must pay even greater attention to food security.—Without access to adequate food, child survival is threatened; without greater food production and the incomes to buy it, child and adult health are compromised. USAID's Africa Food Security Initiative will help promote food security in Africa over the next decade by focusing on key aspects of agricultural policy, regional trade, technology, infrastructure, and integration of child survival and nutrition.

(2) We must strengthen the links between development assistance and trade and investment.—The global economy is growing, and African economies must become part of this growth. USAID, with a view toward "getting the enabling environment right", will help committed African nations become full partners in the world's economy. A key outcome is enhanced trade that is mutually beneficial to Africa and the U.S.

(3) We must continue social sector investments, especially in health, child survival, and basic education.— Such investments must be linked to economic growth activities in ways that help alleviate poverty and promote a better quality of life for all Africans.

(4) We must sustain our support for strengthening civil society and preventing crises.—Strong civil societies and functioning democracies are essential for food security, growth, social sector development, and trade and investment to occur. These are also the building-blocks needed to avert or mitigate the devastating effect of natural and man-made disasters.

(5) We must emphasize regional approaches to regional problems.—Promoting regional economic cooperation in Southern Africa, through the Southern African Initiative; supporting African-led efforts to achieve food security and overall stability in East Africa, through the Greater Horn of Africa Initiative; and promoting food security, regional cooperation, and further democratic transition in West Africa, are some of the more promising regional approaches USAID and other agencies are using to complement and add-value to our bilateral programs.

(6) We must continue our efforts to strengthen African capacity.—This means increasing our engagement with a host of public and private African institutions and networks in ways that build leadership and self-reliance.

The Assessment, which is now being drafted, will be ready for discussion with the Senate by May.

DEVELOPMENT FUND FOR AFRICA

Mr. ATWOOD. I want to say that your requesting us to look strategically is a good complement to what has been done in past years under the Development Fund for Africa, which is to talk about the results that we achieved and assist those countries that make greatest use of our assistance. This pushes us to look forward.

We clearly believe that the food security request that we have made is extremely important in light of the fragility of some of these countries with respect to growing crops. We believe that a great deal of progress has been made in opening up African societies through the so-called Leland initiative, the Internet and the like.

What we need to do is to put those kinds of changes that are occurring in Africa in a strategic context as you have asked us to do.

I am told that we are planning to provide that report this spring. I will be happy to give you an exact date when I get back to the office and look at it. But let me just say one thing about Africa.

I think you can look at our programs in Africa from the point of view of an optimist and say you can see real progress there. The economic growth rates overall in 1995 were 4.4 percent and then 5.3 percent in 1996.

We also know that a lot of those African countries are failing. So if you look at Africa and you say you are a pessimist, that we have not succeeded much in the past—and one has to give some credibility to that argument—then at a minimum we need to prevent the worst from happening because it is going to cost us a lot more money if we look at it from that perspective.

We are looking at putting together a trade initiative for Africa. As we look at that, we realize that African Governments still need to reform their economies if they are going to have any prospect of joining the global economy. I'd say there are about a dozen countries that are ready to take off in Africa now because the old East-West debate over whether or not they ought to have a socialist economy has really ended. And we are not working, in any case, in those countries which still do not wish to reform their economies and privatize.

So I think whether your view is the glass is half empty or half full, or whether you're an optimist or a pessimist, it is important to look strategically. Again, you happen to be pushing us in exactly the right direction.

Thank you very much, Mr. Chairman.

ADDITIONAL COMMITTEE QUESTIONS

Senator MCCONNELL. All right. Thank you very much. We are going to leave the record open for any members to submit questions and your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing.]

ADDITIONAL COMMITTEE QUESTIONS

FREEDOM HOUSE

Question. Your prepared statement also mentions a Freedom house report which documents improvements in political freedom in 48 countries and a deterioration in 30 countries. You go on to say in 29 countries showing the most dramatic improvements, most were recipients of U.S. aid.

—How many constitutes most?

—Of the countries where political freedom eroded, how many received U.S. aid?

Answer. Twenty-seven of the twenty-nine countries that showed the most dramatic improvement were USAID recipients during the period in question. Benin, Mali, Malawi, South Africa, Mozambique, Chile, Madagascar, Argentina, Uruguay, Bolivia, Central African Republic, Nicaragua, Guinea-Bissau, Ethiopia, Congo, Guyana, Guatemala, Panama, Haiti, Bangladesh, Jordan, Ghana, Philippines, Paraguay, El Salvador, Guinea, and Pakistan. The others were Korea and Taiwan, both earlier aid recipients. An improvement of 3 points or more on a scale from two to fourteen was considered large.

Of the nineteen moderate improvers (a one or two point improvement), seventeen were USAID recipients. Twelve of these countries were in Africa.

Only seven countries showed large declines (3 points or more) in political freedom—Dominican Republic, Kenya, Colombia, Sri Lanka, Sudan, Gambia, and Nigeria. All have been USAID recipients, and USAID has responded according to the circumstances. We have withdrawn from Gambia and restricted programs in the other six countries.

Twenty-three other countries showed moderate declines impolitical freedom. We have had little or no role in six of these countries: Syria, Venezuela, Papua New Guinea, Malaysia, Greece, and Burma. We have restricted programs or exited from

ten others: Lebanon, Zimbabwe, Ivory Coast, Zaire, Tunisia, Liberia, Costa Rica, Swaziland, Burundi, and Rwanda. The remaining countries are Peru, Indonesia, Ecuador, and Egypt (declines of two points): and Morocco, Honduras, and India (declines of one point). In each of these seven countries we are achieving important development results.

QUESTIONS SUBMITTED BY SENATOR LEAHY

SENIOR MANAGEMENT

Question. You say in your statement that you have cut senior management by 38 percent. How many people does that represent? Which positions have been eliminated?

Answer. At the beginning of fiscal year 1993, there were 310 senior managers at USAID. As of December 31, 1996, there were 186 senior managers. This was a cut of 124 people, actually a cut of 40 percent.

These cuts resulted from our efforts to "flatten" USAID's management structure. We eliminated a number of deputy positions, e.g., some deputy mission director, deputy assistant administrator, and deputy office director positions. We also closed a number of missions, eliminating several senior management positions with each closing. And we consolidated several bureaus and offices in Washington further reducing senior management position requirements.

Budget limitations, as well as streamlining our operations, are the reasons for these cuts.

USAID DEPUTY ADMINISTRATOR POSITION

Question. Does AID have a Deputy Administrator? Who is dealing with the day to day operations of the Agency?

Answer. Since my Deputy, Carol Lancaster, left, we have used several different means to fill the role of the Deputy. I first rotated my Assistant Administrators to the Deputy spot for 30-day periods. I did this to broaden their agency-wide knowledge as well as to provide appropriate management controls. We are now actively recruiting with the White House for a new deputy.

AID DOWNSIZING

Question. You say you have closed 26 missions overseas. Since when? How many new missions have you opened during that same period?

Answer. As of September 30, 1996, 26 mission or country programs have closed since fiscal year 1994. This counts as separate events the Thailand bilateral mission closing in 1995 and the Regional Support Mission in Bangkok, Thailand closing in 1996. During the same period, USAID has opened eight missions, including West Bank/Gaza, Eritrea, and Bosnia.

OUTREACH FOR CONTRACTORS

Question. The contracting process at USAID is legendary. There has been a perception that USAID favors the beltway bandits, and that the process of awarding contracts takes ages. I gather you have cut the red tape considerably. What progress have you made in creating a level playing field for contractors outside the beltway and not-for-profit NGOs?

Answer. First, we put all of our upcoming procurement opportunities on the Internet at the planning stage so all potential bidders get an early, equal opportunity to know what USAID is planning to procure during that fiscal year. Second, we have continued our outreach program with vendor conferences in New Orleans, Chicago and Cleveland during the past year. These conferences were widely attended and we hope that the interest generated will lead to further diversification of our contractor/grantee community. As a result of these and other outreach efforts, 800 vendors new to USAID have begun working with the Agency during the last three years.

INDEFINITE QUANTITY CONTRACTS

Question. One thing I have been concerned about is the use of "indefinite quantity contracts." You give a large amount of money to a contractor with few of the specifics spelled out. It gives you flexibility to shape the program as you go, but it also cuts down on competition and gives a few people control over a huge amount of money.

An example I recently heard about is $100 million indefinite quantity contract with the "International Resources Group" and others for environmental policy work. Why put so much money in this one basket? How much of these funds will go to contractors, versus not-for-profit NGOs? How do you make sure you are getting your money's worth, and how do you hold anyone accountable?

Answer. Indefinite quantity contracts (IQCs), while usually having a fairly high monetary ceiling, initially only obligate a small amount of funds for a limited amount of services. They do provide the opportunity for the ordering of additional services which are defined at the time of order. They are a very necessary quick response mechanism wherein USAID can define actual requirements and obligate funds at the time of the actual need. Appropriately defined and awarded IQCs can be crucial during times of emergency response.

However, the use of IQCs for program implementation is becoming limited. Rather, we are, in accordance with the new Federal Acquisition Streamlining Act (the Glenn Bill), awarding more Task Ordering contracts. While Task Ordering contracts have several features of IQCs, such as a limited original obligation with the capability of future additional orders, they are generally awarded to more than a single organization with the resultant orders subject to competition among the contract holders. This permits USAID maximum flexibility, but also provides the Agency with the advantages of multiple sources of supply.

The International Resources Group (IRG) contract was a task order contract that for very unique reasons, went against our general policy of multiple awards. A single contract was awarded because we needed cohesive environmental policy from a coordinated source. An advisory group had to be set up under the contract, and if multiple awards had been made, the contractor selected to form the advisory group would have had an unfair competitive advantage over the other firms competing for task orders. The alternative, an advisory group for each contractor, would create divergent policy groups and a costly administrative burden for the Agency. While IRG is the prime contractor, and ultimately responsible for performance, they have an impressive array of subcontractors and plan to implement approximately 40 percent of their contract through non-profit organizations. The task orders to IRG will contain performance-based scopes of work ensuring better performance and achievement of desired results.

EGYPT

Question. Maybe Egypt is a good test of the effects of re-engineering. We have been pouring economic aid into Egypt for years. USAID talks a lot about getting results, and Egypt's centralized economy is desperately in need of reform. The Egyptian Government says it is committed to privatizing its economy. I have heard that for a dozen years or more. Do you see any way to get more results from the huge amount of aid we give to Egypt, especially in economic reform?

Answer. Since 1991, U.S. assistance has significantly contributed to Egypt's progress on its reform agenda. The Egyptians have unified and stabilized their three parallel foreign exchange rates into one market-determined rate; liberalized interest rates; made deep cuts in consumer subsidies; slashed the budget deficit from about 20 percent of GDP to less than 1 percent, reduced inflation from 25 percent to around 7.2 percent and accelerated the process of public sector reform and privatization. Substantial improvements have also been made in the foreign trade sector, including reduction in non-tariff barriers and cutting the maximum tariff on imported goods from 70 percent to 55 percent.

The international investment community has also taken notice. Standards and Poors gave Egypt sovereign debt an investment grade rating, on par with Greece and Poland, and over $300 million in new foreign investment poured into Egypt in January and February alone.

USAID's programs have also had a significant impact on the quality of life for all Egyptians. Over 80,000 Egyptian children are saved each year through the use of USAID-financed oral rehydration therapy and immunizations. Infant mortality rates have declined by over 25 percent. Family planning programs have increased the contraceptive prevalence rate to around 50 percent, resulting in a significant decrease in fertility and a decline in the population growth rate from 2.9 percent to 2.1 percent over the past ten years. USAID has built more than 1,950 primary schools. Our infrastructure activities have provided water and wastewater services to over 22 million people; provided 12 million residents of Cairo and Alexandria with reliable telephone service and built 40 percent of Egypt's electricity generating capacity.

Much remains to be done. The cash transfer program, which supports the GOE in making needed policy reforms, is a very persuasive method of encouraging reforms. Furthermore, the high level dialogue directly with President Mubarak, as a

result of the Gore-Mubarak Initiative, has been extremely successful in accelerating the pace of reform. Egypt is now, more than ever before, at a point of take-off. We expect to see an acceleration of reforms in the next year due in part to the influence of the U.S. and other donors such as the IMF and the World Bank. This should produce the kind of economic results that will enable Egypt to create jobs and a decent standard of living for all its inhabitants.

EGYPT

Question. Otherwise, aren't we throwing away good money after bad?

Answer. As you can see from my previous response, we feel that Egypt truly is at a turning point. The pace of economic reform is picking up and key members of the government believe that not only is reform something required by foreign donors, but that it is the only long-term solution for Egypt's economic problems. Without reform there can be no growth and, without growth, Egypt will not be able to create enough jobs for its citizens.

I believe that you will see economic changes in Egypt. The financial markets are growing and privatization is accelerating. This will result in a stable Egypt, a key objective of our foreign policy in the Middle East.

It would be a mistake to look at Egypt's past performance and judge its future potential. The climate is changing and we, therefore, need to keep up the pressure, and the incentives, to encourage the Egyptians to make the needed change. With our continued technical advice and the financial support provided by the USAID program, the outlook is more optimistic than it has been.

As I stated previously, I think that USAID can demonstrate tremendous results in Egypt, in all sectors. The results of our program are particularly obvious in the power, telecommunications and water/wastewater sectors. Without the improvements made in these sectors, Egypt would not be in the economic position it is in now and economic growth would be a dream and not the reality that it is today.

GUATEMALA—FISCAL YEAR 1998 ESF FUNDING FOR THE PEACE PROGRAM

Question. The peace agreement signed in Guatemala in December ended thirty years of one of the bloodiest wars in this hemisphere. However, it will take a huge effort and a lot of luck for peace to survive there. You expect to obligate $25 million in development aid to Guatemala in fiscal year 1997. Yet you are requesting just $23 million for fiscal year 1998. What does that say for supporting the peace agreement there?

Answer. We have requested a total of over $60 million for Guatemala in fiscal year 1998 in Development Assistance (DA), ESF and Public Law 480 Title II resources. Over 4 years (fiscal years 1997–2000), we are planning to provide $100 million in ESF funding to help Guatemala implement its historic peace accords. These ESF resources, in addition to our ongoing DA and food aid programs, will bring the total planned commitment to Guatemala to $260 million over the four years.

Question. How much ESF (Economic Support Funds) do you expect to make available for Guatemala in fiscal year 1998?

Answer. We expect to provide $25 million in ESF for fiscal year 1998 under the LAC Regional Democracy Fund.

MIDDLE EAST DEVELOPMENT BANK

Question. Can you explain to me why funding for the Middle East Development Bank—which we incidently cannot afford—is coming out of the Economic Support Fund, rather than out of the multilateral assistance account, where the other development banks are traditionally funded?

Answer. The Bank originated as a joint proposal by the key parties in the peace process: Egypt, Jordan, the Palestinians and Israel. The primary reason the Administration proposes funding the Bank from the Economic Support Fund is that it is an integral part of the peace process and is closely linked to the political and economic objectives of the ESF resources. It is my understanding that a secondary reason for this decision, on which Treasury and State consulted, is a concern not to have to set aside resources within the Multilateral Development Banks account for a new institution at a time when we are trying to clear U.S. arrears to existing multilateral development banks.

TUBERCULOSIS

Question. In your statement you cite USAID's leadership in the effort to eradicate polio. I think it is worth mentioning that Congress had to push USAID to take that on.

What you didn't say is how little you are doing to combat tuberculosis which kills more people than any other infectious disease—3 million annually, even though it can be cured for as little as $11 per person.

If current rates continue, more than 30 million people will die from TB in the next decade.

I have tried to find out how much USAID spent on TB, without a lot of success. I gather it's a few million dollars, which is hard to comprehend. Why so little?

Answer. TB experts have recognized that treatment and control of TB is among the most labor-intensive of health interventions, since the most effective approach is Directly Observed Therapy Strategy (DOTS). Under DOTS, the patient is observed actually taking the prescribed medication by a trained health worker . The $11 per person you cited is the additional cost of drugs in a situation where the DOTS approach simply can be added on to an already fully functioning health care and outreach system. However, we have found that in the vast majority of the developing world where TB is most prevalent, we have had to start more or less at the foundation of building a health care delivery system before it would be appropriate or effective to launch DOTS. In fact, a high proportion of USAID's health budget, ($27.4 million or nearly 9 percent) is aimed directly at health systems development and strengthening. Without this, efforts at TB control would be futile. While we do not "count" this funding as TB-related because it has effects on the control of virtually all major public health problems, our efforts mean that the more closely targeted TB efforts of others have a chance of succeeding where they otherwise would not.

These others include other U.S. government agencies (e.g., the Centers for Disease Control and Prevention and the National Institutes of Health) and universities, as well as other international agencies and organizations (e.g., The Joint United Nations Programme on HIV/AIDS, the World Health Organization, the International Union Against Tuberculosis and Lung Disease). To maximize the impact of funds available to combat tuberculosis, we are supporting work of these groups in areas in which we have a comparative advantage. For example:

(1) Capacity Building: We have a cooperative agreement with the Centers for Disease Control and Prevention (CDC) to develop operational research projects related to HIV and TB, especially in sub-Saharan Africa. Through the agreement, we support work of the World Health Organization's (WHO) Global TB unit (approximately $650,000) on incorporation of DOTS style interventions in home and community based TB and HIV care through an operations research training project in seven sub-Saharan countries.

(2) UNAIDS: USAID has also provided $1.75 million in TB-designated funds to the Joint United Nations Programme on HIV/AIDS (UNAIDS) for use in defining cost-effective TB treatment regimes, including DOTS-style management, for HIV-infected individuals; for surveillance of multidrug resistant disease as a part of a multi-donor international effort; and for training of 200 national TB program managers worldwide.

(3) Prevention initiatives: In 1996, USAID allocated over $7.5 million for infant BCG immunization to minimize the complications and shorten the course of pediatric tuberculosis infection.

(4) Disease Management and control: USAID is developing a CD ROM-based interactive computer-based program for TB case management which may be implemented throughout the developing and developed world, if found to be effective. We are also supporting field evaluations of national TB control programs and studies on the cost effectiveness of different TB control interventions among HIV-infected persons, and on the policy implications of the increasing threat of TB. About $500,000 is allocated for these purposes.

MALARIA

Question. Each year, more than 2 million children around the world die from malaria. USAID has led the international effort to develop a malaria vaccine and drugs to combat malaria. Yet your annual budget for this and other anti-malaria programs, like the development of repellant impregnated mosquito nets, is only about $8 million. Why so little?

Answer. USAID recognizes the importance of malaria as a leading killer of children in Africa. Unfortunately, as overall funding levels have decreased, we have been forced to cut back on resources for this program and others. To maximize our

investment, in the last few years, we have strengthened the focus of the program making it more results oriented.

—In vaccine development, USAID's Malaria Vaccine Development Program (MVDP) is now focused on finding a vaccine that is effective for children in high endemic areas. We have partnered closely with the National Institutes of Health (NIH) and the Walter Reed Institute of Research (WRAIR) to maintain a substantial U.S. effort in all of the necessary stages of malaria vaccine development, and coordinate well with WHO, EU and other donors. This enables us to translate current knowledge into experimental vaccines which can be tested in humans. In fiscal year 1996, initial safety studies of a new USAID initiated experimental malaria vaccine were conducted in cooperation with other USG Agencies, and a second experimental vaccine is scheduled for testing in fiscal year 1997.

—Africa Integrated Malaria Initiative (AIMI): Using the technologies now known for combatting malaria, last year, USAID established the Africa Integrated Malaria Initiative (AIMI) that promotes a comprehensive "package" of approaches, including the first large scale, sustainable impregnated mosquito net program in Africa. The initiative is designed to make it easier for our field missions to support malaria programs through a variety of central, regional and country specific mechanisms, including CDC, and we anticipate substantial growth in the program.

—Extensive malaria control activities take place under other USAID programs. We are the lead bilateral donor in WHO's initiative for the Integrated Management of Childhood Illness (IMCI), which sets clear clinical standards for treating malaria and its complications. Our support for the development of new technologies has produced two promising diagnostic tests that health workers in the field can use to rapidly confirm malaria parasite infection in a cost-effective manner. USAID continues to train national malaria program managers, in Africa especially, in information systems and operations research.

FAMILY PLANNING

Question. I am told there are very few family planning services in the West Bank and Gaza, where the crush of people is already out of hand. Does USAID have a family planning program there?

Answer. We agree that population growth is a big concern for the West Bank and Gaza. None of USAID's bilateral program, which is focussed on promoting the private sector, addressing the shortage and economical use of water, and facilitating accountable democracy and governance, is used for family planning. However, through centrally-funded programs, USAID has provided a small amount of funds for contraceptives and demographic data initiatives. USAID also provides centrally-funded assistance to the International Planned Parenthood Federation (IPPF) which, in West Bank and Gaza, assists with family planning delivery services. The European Union and UNFPA are contributing with $6 million and $7 million, respectively, for family planning and reproductive health services in the West Bank and Gaza.

DEMOCRACY

Question. While we are on the subject of the West Bank, there is a lot of concern that the Palestinian Authority is becoming more and more authoritarian. What are you doing to support civic organizations, human rights groups, or other democratic institutions?

Answer. Democracy/Governance is a cornerstone of the USAID WB/G program and promoting civic participation is a key part of our entire program. This fiscal year, about 15 percent, or $11 million, of our budget is for democracy activities. We are supporting civic organizations and their increased participation in society through grants to U.S. PVOs such as the International Republican Institute and the National Democratic Institute. We estimate that their activities reach more than 30,000 Palestinians through community level civic forums and activities that increase the flow and diversity of information to citizens. These programs involve Palestinians in discussions on their rights and responsibilities in a democracy.

In addition, USAID soon will directly support selected Palestinian non-governmental organization activities such as women's rights watchdog groups, posting draft laws on the Internet, televising town hall meetings on proposed laws, training for civil society organization staff and reporting on Legislative Council and Executive Authority actions. USAID is funding proposals from several local organizations to increase their ability to conduct policy analysis and fulfill advocacy and govern-

ment monitoring functions. All these combined civil society efforts reach, directly or indirectly, at least one-fourth of the Palestinian population—over 600,000 people.

Other USAID democracy/governance activities entail working with the Palestinian Legislative Council to help them be responsive to the concerns of their constituents. We fund public opinion polls to inform the Council and the Palestinian Authority of constituent concerns. We are also promoting linkages between civic groups/nongovernmental organizations and the Council and the Palestinian Authority to help set common policy goals and increase cooperation among them.

In supporting the creation of a democratic system, our total democracy/governance efforts benefit the two million Palestinians in the West Bank and Gaza, directly or indirectly.

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

ADMINISTRATION OF JUSTICE PROGRAM

Question. USAID funds the Administration of Justice which supports courts and prosecutors in developing countries to strengthen democracies. Many developing countries are inflicted by rising crime rates, increasing violence, and a breakdown of law enforcement.

Please provide the subcommittee with information on the current activities of the Administration of Justice program and activities which USAID plans to support in the coming year. Please include information on the impact which these activities have on the justice problems the activities were designed to address and any independent evaluating which have been conducted.

Answer. USAID undertakes programs to strengthen the rule of law (ROL) (including the administration of justice) as part of its overall efforts to strengthen democracy and governance. Promoting democracy and governance advances key U.S. foreign policy objectives and is an essential part of USAID efforts to contribute to sustainable development.

The approach undertaken by USAID in its rule of law (ROL) programs is determined in part by the most pressing needs within countries or regions. Crime control and law enforcement are important components of USAID's rule of law work in many regions, and USAID works in close coordination with the Department of Justice and the State Department in undertaking activities.

For example, in Latin America, programs that address this issue tend to focus on enforcing due process and reducing abuses of basic human rights. A major element of these programs in several countries is a component related to enhancing the crime fighting capabilities of the police and investigative entities.

In the Europe and New Independent States (ENI) region, the initial focus of USAID's rule of law (ROL) approach was related to creation of market based economies, including rewriting of legislation and judicial training in the commercial area. More recently, programs to address crime control and the strengthening of police and prosecutorial investigative capabilities have been undertaken.

USAID is currently developing strategies for applying lessons learned in these regions to its programs in other parts of the world. In Africa, crime and violence are problems in many countries, but their solution is further complicated by cultural diversity, limited access to the judicial system, and weak or nonexistent legal institutions.

In all regions there is now an added emphasis on the expansion of access to justice for marginalized groups (including women) and, in a number of failed states, efforts are directed toward recreating institutions destroyed by internal violence and assisting with reconciliation programs. The mix of objectives and the extent of change sought varies from country to country.

USAID undertakes regular evaluations of particular projects. In 1993, an overall evaluation of all USAID programs in rule of law was undertaken which documented the "lessons learned" so far in this critical sector. A copy of the report, Weighing in on the Scales on Justice is available upon request.

Results achieved in USAID's ROL programs to date have been impressive. In Latin America, the region with the longest-running ROL programs, documented progress has been made in reducing human rights abuses and increasing the observance of due process rights. USAID programs have created viable public defense systems in Bolivia, Panama, and El Salvador, and are supporting their establishment in Colombia and Guatemala. Uruguay has made measurable progress in reducing the average time for handling of civil disputes. Cooperation from the judiciary ranges from very high in El Salvador to negligible in Colombia. However, the highest levels of judicial cooperation were reached with the small Costa Rican project

where USAID supported the creation of an extremely active Constitutional Chamber; Costa Rican judges are now promoting reform efforts throughout the region. The Panama program has made significant progress in coordinating police and prosecutorial investigations, and the methods used there are now being adopted in a redesigned Guatemala program.

Despite these important gains, clearly a number of challenges remain. The difficulties of reorienting and coordinating the activities of four independent agencies (police, courts, defense and prosecution) have taken time and required creative and flexible approaches. Mid-term evaluations of progress in Colombia and El Salvador, while generally positive, suggest the need for further actions to improve the skills of legal practitioners and improve the coordination of the various entities associated with the legal system.

Programs in other regions are newer and thus more difficult to assess. An evaluation of the Russian program is scheduled for this spring. Programs elsewhere in ENI and other regions will be subject to normal evaluations.

Question. The United States has a wealth of expertise in "what works" to fight crime, drugs, and gangs. Experts who have first-hand experience in these areas could be invaluable resources to other countries experiencing these problems if some technical assistance were available. What additional steps can you take to expand the scope of the Administration of Justice Program so valuable technical assistance in the United States can be provided to those countries which need it most?

Answer. USAID is already tapping into a variety of resources for implementation of its rule of law programs, including administration of justice (AOJ) activities. For example, the Department of Justice's prosecutorial and police training entities—Office of Professional Development and Training (OPDAT) and International Criminal Investigative Training Assistance Program (ICITAP), respectively—have been key components of USAID's AOJ programs in Latin America, the Europe and New Independent States (ENI) countries and, most recently, in Africa.

USAID also draws on the wealth of expertise available in the U.S. non-governmental sector. For example, efforts to improve court administration have drawn on resources from entities like the National Center for State Courts. This Center, as well as the Reno Judicial College, and various state entities have been used to improve judicial and prosecutorial training programs. USAID is also attempting to draw on state prosecutor organizations to assist with setting up basic prosecutorial organizations and we have used U.S. juvenile court judges and staff to give assistance in treating youth crime and gangs, and supported NGOs to set up legal assistance, advocacy, and alternative dispute resolution programs in disadvantaged communities.

USAID is constantly looking for additional U.S. sources of specialized expertise in this area. This fiscal year, additional mechanisms will be established to allow USAID to expand access to appropriate U.S. technical expertise in this area.

Question. As I previously noted, USAID funds the Administration of Justice program which primarily supports courts and prosecutors in developing countries. Support for other law enforcement activities is provided by the State Department's Bureau of International Narcotics and Law Enforcement. And, the Justice Department operates the International Criminal Investigative Training Assistance Program (ICITAP) which is funded by the State Department's Bureau of Latin American Affairs.

How do you ensure full coordination between USAID and the other federal agencies which also support various international crime programs?

Answer. Effective inter-agency coordination of all USG democracy programs occurs in the field, under the direction of the Ambassador. All overseas posts have established inter-agency coordinating committees on democracy promotion, including rule of law programs. For example, in the case of ICITAP's Latin American programs, agreement on country program directions and benchmarks to measure progress toward critical objectives related to these efforts is reached in a joint exercise in which ICITAP, Department of State's Office of Inter-American Affairs (ARA), and USAID all participate. U.S. Ambassadors in Eastern Europe chair democracy commissions, which review programs proposed by USG agencies and by various non-governmental organizations receiving US assistance.

In Washington, there are a number of task forces, usually focussed on country specific issues, that also ensure close collaboration among the various USG entities as well as coordination with other donors engaged in similar efforts. Washington task forces are particularly important for countries like Haiti, Guatemala and El Salvador where major assistance efforts in this sector are underway and include not just USG entities but a variety of other donors, both bilateral and multilateral.

Question. Is there an inter-agency working group which would ensure coordination of international crime programs: If so, which federal agencies are represented and how often does the group meet?

Answer. USAID participates in the inter-agency coordination process, led by the Democracy, Human Rights and Labor Bureau at the Department of State. The State Department's Bureau for Narcotics and Law Enforcement (INL) chairs an Interagency Working Group to coordinate various U.S. Government agencies' respective law enforcement training programs. An interagency working group meets regularly on ENI rule of law programs under the direction of the Coordinator's Office. Interagency coordination for other, long-term institutional building administration of justice programs is carried out in countries, through the country team under the direction of the U.S. Ambassador.

MICROCREDIT SUMMIT

Question. On February 2–4, 1997, the Microcredit Summit was held in Washington, DC. This international conference considered the microcredit program which provides small loans to the poorest of the poor to help them become economically self-sufficient.

In 1994 USAID launched a microcredit initiative with half of the resources targeted to the poorest to support loans under $300. Please provide the Subcommittee with information on the status of this initiative and its impact. Also, please provide the Subcommittee with information on any plans to expand the microcredit program.

Answer. The Microenterprise Initiative was launched in 1994 and renewed this year. Its primary goal is to assist the efforts of the poor to increase their income and assets. Two additional goals are to increase skills and productivity to enhance economic growth, and to facilitate the development of "economic democracy."

USAID has worked conscientiously to fulfill the commitments it made for the Initiative, though circumstances have required some adjustments in targets.

USAID provided $137.4 million and $140.5 million of support to microenterprise activities in 1994 and 1995, respectively. USAID's budget contracted significantly in 1995 and 1996, forcing us to trim overall funding targets for microenterprise. Provisional figures for fiscal year 1996 show USAID directing $118.9 million to microenterprise. USAID plans to continue supporting microenterprise at the $123 million in 1997 and $122 million in 1998.

To spearhead the initiative, we established the Office of Microenterprise Development in the Bureau for Global Programs, Field Support, and Research to manage the Initiative. Accomplishments include: The Microenterprise Implementation Grant Program has awarded $30 million to 17 US PVOs and international organizations, expected to be serving over 400,000 clients by the end of the grants. The Prime Fund provided $17 million to USAID missions in 20 countries for institution-building, promoting an enabling environment for microfinance, and providing credit and savings services to over 300,000 clients. The Microenterprise Best Practices Subgrant facility, which supports capacity-building, has awarded small grants to 13 organizations. USAID has also expanded microenterprise in other programs: The Matching Grant and Cooperative Development Programs have provided $25 million to 16 US PVOs and Cooperative Development Organizations for microenterprise development in 29 countries. The Micro and Small Enterprise Development loan guarantee program manages loan and guarantee facilities supporting microenterprise credit in six countries, as well as "bridg funds" for two US PVOs. At the mission level, USAID has active microenterprise programs in all regions, covering 45 countries, and serving nearly 5 million clients.

BULGARIA ECONOMIC CRISIS

Question. Recent news reports show that Bulgaria is in the midst of a severe economic crisis. Bulgarians are facing a great deal of deprivation, including a shortage of food and medicine. And, because of a poor grain crop last year, there is a shortage of bread and bread lines are forming.

Please provide the subcommittee with information on what steps USAID is taking to provide assistance to Bulgaria, and what additional steps you plan to take in the future.

Answer. The USAID/Bulgaria program has been designed to proactively address the Bulgarian situation. Aware that this would be a hard winter in Bulgaria, USAID/Bulgaria, U.S. Embassy/Bulgaria, and USAID/Washington worked hard on an assistance package for the beleaguered Bulgarians. USAID has committed $2.1 million to the procurement and delivery of much needed pharmaceuticals to populations at risk. Distribution to seven targeted cities is scheduled to begin as early

as April. An additional $400,000 has been designated for the International Red Cross/Red Crescent to contribute to their ongoing emergency appeal, mostly to support the distribution of food aid to over 41,000 needy beneficiaries.

USAID/Bulgaria is working with other donors, especially the European countries, and donor organizations, to coordinate relief efforts in Bulgaria. USAID/Bulgaria is looking at potential follow-on programs as a recent UNDP assessment reported that the need for additional assistance is clear. USAID/Bulgaria continues to monitor closely the political and economic developments that impact on the standard of living for Bulgarians and remains ready to respond should a crisis situation arise.

AID TO THE MIDDLE EAST

Question. In signing the Hebron agreement with the Palestinians, Israel's Prime Minister, Benjamin Netanyahu, has demonstrated Israel's continuing commitment to the peace process and to the willingness to take risks for peace. Yet the toughest issues in the peace process now will be addressed in the negotiations, making it more important than ever that the U.S. stand by its friend and ally Israel. Do you think that maintaining aid to Israel at current levels is important for the peace process to succeed?

Answer. I fully support the President's fiscal year 1998 assistance request for Israel. Assistance to Israel remains a concrete demonstration of our unshakable commitment to the security and well being of a key ally.

Question. What do you think the connection is between U.S. aid to Israel and Israel's ability to take risks in the peace negotiations?

Answer. U.S. assistance to Israel represents a concrete demonstration of our support for a key peace process partner.

Question. What message would a cut to Israel send to Israel's Arab negotiating partners?

Answer. As I indicated, we support full fiscal year 1998 funding for assistance to Israel as a clear demonstration of our unshakable commitment to a key ally.

Question. How would you assess the effectiveness of our aid programs to the other nations of the Middle East, particularly Egypt and Jordan?

Answer. There is no question that our assistance to Egypt has had significant impact on its development. During the past year, we have seen significant policy reforms, essential to sustainable economic growth, and we are optimistic that this trend will continue. Our more modest assistance program to Jordan has produced significant results in the key areas of water conservation and use and population planning. We are requesting an increase in fiscal year 1998 funding levels to expand programs designed to enhance Jordan's economic stability, thereby bolstering its position as a key partner in the peace process.

Question. Given the helpful role that Jordan has played in advancing the Middle East peace process, do you believe your request for aid to Jordan is sufficient to meet Jordan's needs?

Answer. Ultimately, Jordan's needs must be met by market forces. Jordan has experienced strong economic growth in the past year, but its economy remains extremely vulnerable to regional events. Our assistance can help create the conditions for growth, but it cannot substitute for private sector growth. Obviously, we could do more with additional aid and bring Jordan more quickly to a stable economic situation. Our request for aid to Jordan is a compromise among Jordan's needs, the needs of other countries, and our assessment of how our resources can best be utilized.

FOREIGN AID

Question. This year the Administration requested a modest increase in spending on international affairs, after more than a decade of successive annual cuts.

In your view, why is foreign aid so critically important? What does foreign aid do for the United States? Can America continue to lead without this program?

Answer. Our foreign assistance programs directly advance America's interests in three ways: by helping to prevent crises; by generating dynamic opportunities for expanded trade; and by providing protection from specific global health and environmental threats. In the post Cold War era it is arguably more important than ever for U.S. leadership.

One of the most profound areas of concern for the United States and its allies is the growing phenomenon of failed states that trigger conflict and economic collapse. The staggering human, financial, and political costs of these conflicts are reflected in the increasing scope and complexity of peacekeeping operations, the loss of human life, and the exploding numbers of refugees around the globe. The U.S. has a compelling national interest in preventing and averting crises before they occur.

Development programs have a lead role to play in these efforts. Crises erupt when countries lack the institutional capacity to deal with internal conflicts. Two groups of countries are clearly the most vulnerable in this respect, and most cases of failed states fall into one of these two groups. First, many of the countries that were formerly communist are struggling to establish new institutions to replace those associated with Communism. Until they succeed in this daunting task, they are highly vulnerable to crisis. Second, the least developed countries of the world are (almost by definition) those with the weakest human resources and institutions, e.g. Rwanda, Somalia, Sudan, Zaire, Afghanistan, and Liberia. In contrast, developmentally more advanced countries such as Sri Lanka, India, Indonesia, Malaysia, and others have been able to avoid collapse despite serious internal conflicts and tensions.

Our programs in developing and transitional countries are aimed at enriching human resources, strengthening institutions, and supporting political and economic reform. They are part of a much larger international effort. By fostering stronger institutions, a richer human resource base, and economic and social progress countries are better able to manage conflict and avoid crisis and dissolution.

Where economic interests are concerned, developing countries provide the most dynamic and rapidly expanding markets for U.S. goods and services. U.S. exports to developing countries since 1990 have expanded at 12 per cent annually, more than double the growth rate of our exports to industrial countries. This trend has been evident since the mid-1980's.

USAID programs that help create a better enabling environment for markets make a significant and fairly direct contribution to expansion of U.S. exports. While U.S. exports have expanded rapidly overall (much more rapidly than those of our competitors), they have grown much more rapidly to some developing countries than to others. The major factor explaining the difference is differential progress among developing countries in terms of improved policies and institutions that support markets.

Finally, foreign assistance programs are vital in protecting the United States against many dangers that are global in scope. By taking on the challenging task of preventing and controlling infectious diseases like AIDS, polio, and emerging viruses like Ebola before they reach our shores, USAID lowers health costs here at home. Our environmental programs help protect the air and water than Americans share with the rest of the world.

No less important, our foreign aid programs provide a critical foundation for continuing U.S. leadership in the global community. This is increasingly important in the post Cold War era.

During the Cold War, U.S. leadership was central and unmistakable as the protector of the free world against the threat of communist expansion. U.S. military power and economic dynamism were seen as essential to resisting that threat. But America's leadership, then as now, had a foundation stronger than our military or our economy. The United States projected a compelling, and widely shared vision of a world order where democracy and open systems were respected. Our vision of political and economic freedom, of social justice and respect for the individual was as powerful as any missile or other defense system. The U.S. offered the world not only security, but a better alternative to the Communist vision.

Leadership in foreign aid, starting with the Marshall Plan and renewed by President Kennedy, was a critical element of U.S. leadership and vision during the Cold War. Others followed our example and non-U.S. aid expanded rapidly, to the point where the share of global foreign aid provided by the U.S. has fallen from about 50 percent in 1960 to around 15 percent today.

The Cold War is over. We still have the strongest military and the strongest economy in the world. But leadership depends on more than strength. America's position in the 21st century will increasingly depend on the perception that we understand and appreciate the broad interests of the international community, and that we act with these interests in mind; and on the perception that we still have the best, most compelling vision of a global world order. International development cooperation, including foreign aid provided by rich countries to needy countries that are making reasonable self-help efforts, is a vital part of this.

Expressed negatively, a perception that America sees foreign aid as simply a Cold War tactic cloaked in lofty rhetoric, to be discarded now that the threat of Communist expansion has subsided, would cause irreparable damage to any U.S. claim to international leadership.

Development cooperation, including support for countries making the transition from Communism and humanitarian assistance for countries in crisis, remains an essential part of a credible and compelling vision of how the international community should function. A lead role for the U.S. in development cooperation is a vital

part of American leadership in the post-Cold War era, arguably more important now than ever.

QUESTIONS SUBMITTED BY SENATOR STEVENS

THE U.S. RUSSIA INVESTMENT FUND (TUSRIF)

Question. Mr. Atwood, as Chairman of the Appropriations Committee and the Senator of a State which is very interested in the continued development of business relations with the Russian Far East, I have heard some complaints about the performance of one of the enterprise funds (TUSRIF). Would you explain to me the formula which USAID intends to use when allocating funding to TUSRIF for fiscal year 1998? Please detail to me the oversight responsibilities of USAID toward TUSRIF.

Answer. USAID has tentatively budgeted $33 million to TUSRIF in fiscal year 1998. The final obligations will depend on TUSRIF's need for funding based on their expenditure rate.

Oversight of the enterprise funds, including TUSRIF, has evolved and expanded since the first grant agreements were signed for Poland and Hungary in 1990. Oversight is based on periodic written reports from the Fund Managers, on-site reviews and other interviews with Fund Managers, review and authorization of specific types of activity and documentation, and Inspector General reviews of external audits. The written reports submitted by Fund Managers include annual reports, including audited financial statements; semi-annual reports; monthly cash transaction reports; and ad-hoc reports submitted by the Fund Managers. In addition to USAID's oversight, the State Department Coordinator for NIS Assistance meets with TUSRIF management regularly. USAID Technical Office Reviews are comprised of semi-annual reviews in Washington and/or the field; semi-annual field trips to host country offices; site visits to selected investee firms; and annual visits to U.S. offices. USAID Authorization of Specific Types of Activities include structural changes; investments in financial institutions; investments in defense related enterprises; changes/additions to the Boards of Directors; non-investment related technical assistance; articles of incorporation, bylaws, company policies, etc.; and detailed statement of Fund objectives. In addition, the USAID Inspector General reviews and audits working papers of Fund's external auditors and does other ad-hoc reviews of enterprise fund activities.

PROJECTS OUTSIDE MOSCOW, ESPECIALLY THE RUSSIAN FAR EAST

Question. Mr. Atwood, I have been encouraging USAID to support projects in the Newly Independent States, specifically in the regions outside Moscow. Please explain your plans for increasing project activity in these areas, specifically the Russian Far East.

Answer. Historically, about 75 percent of USAID's projects in Russia have been located in regions outside Moscow. USAID has always pursued a two-pronged strategy in Russia, working simultaneously with national and "grassroots" organizations to accelerate the process of economic and democratic reform. Under the Administration's proposed fiscal year 1998 Partnership for Freedom (PFF) initiative, USAID proposes to place even greater emphasis on the "grassroots"—towns, regions, local organizations both public and private, and business associations and firms, both small and large. Other changes include greater emphasis on the development of sustainable trade and investment linkages between American and Russian companies and fostering mutually-beneficial partnerships between American and Russian nonprofit and nongovernmental organizations.

Even though most of Russia's population is concentrated west of the Urals, the Russian Far East offers attractive investment opportunities because of its rich natural resources, access to the ocean, and proximity to Asia and the United States. As oil investments develop off Sakhalin Island, we see that an increased role for USAID assistance on economic planning, regional development, and training-related activities might be extremely useful in underpinning the commercial development of Sakhalin.

It is likely that the Russian Far East will be selected as one of the regions to participate in the Regional Investment Initiative that was signed by Vice President Gore and Prime Minister Chernomyrdin at the February 1997 meeting of the Gore-Chernomyrdin Commission. Under this new arrangement, U.S. Government assistance will be focused on several regions in Russia to stimulate real economic growth by reducing impediments to trade and investment.

FORMER SOVIET UNION

Question. I am considering a Full Committee hearing on all facets of our relationship with Russia and the former Soviet countries. Please tell us what activities do you have in each area of the Former Soviet Union. I'm interested in generic programs and the allocation for each such country including Russia.

Answer. USAID would be pleased to participate in such a hearing. Our programs in the twelve NIS (New Independent States) of the former Soviet Union are broadly organized into four generic categories, each with one or more "Strategic Objectives" (or generic programs). The four categories are (a) economic restructuring, (b) democratic transition, (c) social stabilization, and (d) cross-cutting and special initiatives. As an example of the subdivision of these four broad categories into Strategic Objectives, within "economic restructuring" there are five: privatization, fiscal reform, private enterprise support, financial reform, and energy. Every program activity in each NIS country falls within one of our twelve Strategic Objectives.

In order to provide you with the information you have requested on each country, I am attaching the most recent Congressional Presentation subsections on the twelve NIS countries. These subsections will give you a feel for current programs, as well as plans for activities in fiscal year 1998. The discussion on each country is organized by Strategic Objective and contains information on proposed allocation of funds in fiscal year 1998. I am also attaching a table that shows cumulative obligations through the end of fiscal year 1996 for each country, by Strategic Objective.

QUESTIONS SUBMITTED BY SENATOR BENNETT

WASTE AND FAVORITISM IN BELARUS

Question. Ambassador Richard Swartz was our envoy to Belarus until January 1994. Did you ever receive warning cables from him warning of waste and favoritism in our bilateral assistance programs? If so, what action did you take regarding these warnings?

Answer. While we cannot cite specific cables from Ambassador Swartz on this subject, we are aware of his concerns about waste and favoritism, which he expressed in meetings with us and in his writings on the subject.

Ambassador Swartz has been critical of USAID's conceptualization and administration of the U.S. assistance program in Belarus. He has argued that U.S. assistance should, but has not, supported assistance efforts that show quick results to the people of Belarus and that support reform-minded elements, especially through non-governmental organizations. In fact, we can demonstrate that we have had some success in our modest assistance program, especially considering the difficult environment in Belarus, and that our program of working through non-governmental channels and targeting the grass-roots level has made in-roads in supporting reform in Belarus.

The U.S. assistance program in Belarus has been very limited due to the unwillingness of the Government of Belarus to implement economic and democratic reforms. Nevertheless, to encourage reform where possible, U.S. assistance is geared toward grass-roots efforts in small-scale privatization, democracy initiatives, humanitarian assistance, and support for non-governmental organizations (NGOs). Most assistance is provided through non-governmental channels.

Since late 1993, USAID has been funding the International Finance Corporation's (IFC) small-scale privatization program, which has resulted in a steady movement of communally-owned trade, catering and service enterprises into the private sector. In November 1996, IFC completed its 100th auction, with 14 percent of small-scale enterprises now privately owned.

USAID also supports the democracy-building work of the American Bar Association Central and East European Law Initiative (ABA/CEELI), which contributed to the opening of Belarus' first publicly accessible international law library. This program is also strengthening legal organizations and the judiciary. An important new focus of the program is strengthening independent media, with technical assistance provided by the International Research and Exchanges Board (IREX) to expand access to and distribution of international and domestic news to independent media outlets, and help publishers, editors, and journalists improve their effectiveness.

Since 1994, the USAID-funded Counterpart Humanitarian Assistance Program has organized the delivery and distribution of humanitarian shipments throughout Belarus with a total value of about $6 million. The USAID-sponsored hospital partnership program has resulted in Belarusian physicians being able to meet the pressing need to improve detection and treatment of an increased number of pediatric thyroid cancers resulting from the explosion of the Chernobyl Nuclear Power Plant.

The partnership program has also helped to establish a contemporary poison information resource database and an intensive training program for clinical toxicologists.

Finally, USAID has played a significant role in the development of NGOs, having contributed to the creation and strengthening of a large number of NGOs and having trained over 125 NGO leaders. The new NGO Democratic Social Service Activity will focus on strengthening NGOs to assist the elderly, disabled and other vulnerable groups in Belarus.

We recognize that Ambassador Swartz has not always agreed with USAID's conclusions concerning the most cost-effective use of U.S. assistance funds. However, both as Ambassador and now, his opinions have been taken into account, with a final decision based on consensus of a variety of government and non-government opinions. In our selection of assistance activities, we have and will continue to choose projects that best support U.S. foreign policy and have the greatest potential for return on each assistance dollar. We are not aware of any waste or favoritism in USAID assistance to Belarus.

RUSSIAN INTER-REGIONAL BAR ASSOCIATION

Question. What relationship, if any does the Russian Inter-Regional Bar Association have with the Russian Intelligence services or their Soviet predecessors?

Answer. USAID has no contacts with, nor knowledge of this association.

LESSONS FROM PRIVATIZATION

Question. Will you please comment on the problems of fraud of U.S. supported privatization programs in Russia, what the lessons are, and how they are being addressed in the Ukraine?

Answer. The USAID financed programs have facilitated broad popular participation in the market reform revolution taking place in Russia. Privatization was an essential prerequisite for building a market-based economy to replace the bankrupt Soviet command economy. The USAID programs have actually restrained the influence of criminal activity as demonstrated by the following facts:

The privatization program created 40 million Russian shareholders in private enterprises across Russia, making Russia the country with the largest group of shareholders in the world.

Entrepreneurs are getting together, buying blocks of shares, and removing old managers. Boards of Directors are being formed with outsider shareholder participation on the boards. Shareholder rights groups have been formed which are lobbying to protect the rights of investors. Self-regulatory organizations equivalent to the NASD (National Association of Securities Dealers) have been created and are establishing practices and ethical standards for their membership.

International investors are gaining control of enterprises.

New laws and reforms together with enforcement agencies such as the Russian Securities and Exchange Commission are having an impact on investor protection, transparency and fair play.

These are just a few examples of activities USAID is financing which are helping create a stable, fair and predictable business environment in Russia. Admittedly, there remain old policies, laws and regulations that continue to provide an incentive for fraudulent activities. For example, the high tax rates encourage corruption, payoffs and non-compliance through the use of mafia organizations. [Anecdote: Ask a small shop owner whether he would rather pay 30 percent protection tax to the Mafia or 80–90 percent of his profits to the tax authorities. The answer is obvious.]

The point is that progress has been made. But if we want to continue to deepen these reforms and complete the enormous process of economic restructuring, we must continue to work with the Russian reformers to make this happen.

In the Ukraine, measures are being taken to protect the rights of shareholders and investors, as the efficient and transparent operation of capital markets is critical to mass privatization and the restructuring of Ukraine's economy. Three independent share registrars have been established to help ensure shareholder transparency; a capital market monitoring unit has been established to monitor, on behalf of the government, the activities of investment intermediaries; the Ukraine Securities Commission is drafting regulatory normative acts insuring shareholder and investor rights; model investment funds and a self regulatory association have been established to increase professional standards within the fund industry; mass privatization and public awareness programs have provided training materials, seminars for managers of privatized enterprises, and mass media education to the public on the principles of shareholder rights and corporate governance; an over-the-counter trading system has been established for trading shares of privatized enter-

prises and a self regulatory organization for broker dealers established to ensure shareholder rights and broad market participation in the trading of shares; and instituting the use of internationally accepted accounting standards for reporting, disclosure and other purposes to standardize industry practices and attract a broad range of domestic and international investors.

PRIVATIZATION IN RUSSIA

Question. On June 13, 1996, former CIA Director James Woolsey told the House National Security Committee the following: "The unfairness of privatization in Russia, which has led to most ownerships being concentrated in the hands of the former factory managers and nomenclature, and increasingly also in the hands of organized crime figures, adds substantially to the average Russian's dissatisfaction with the current political and economic system." Is Director Woolsey's analysis correct?

Answer. Director Woolsey has expressed some reasonable concerns regarding Russia's privatization. However, it is important to understand the broader institutional context which USAID and other donors are establishing to mitigate such potential problems.

The privatization program in Russia envisioned 51 percent ownership being retained by company managers and workers to encourage, in the first instance, acceptance of the program. The mass privatization program in Russia resulted in over 40 million individual ahareholders, and 15,779 medium and large enterprises privatized in 86 regions of Russia. This was the largest privatization in world history, and there are now more shareholders in Russia than in the United States. Against this background, individual cases of management manipulation and malfeasance at individual firms, while unfortunate, cannot invalidate the historical importance of dismantling a state-controlled economy and giving market forces a chance to operate.

The design of the mass privatization program in Russia limited criminal interference from the outset. Every Russian citizen was eligible to receive and use only one Privatization Voucher upon presentation of appropriate personal identification. In addition, the methods for voucher distribution, cancellation, and destruction were developed with anti-fraud controls and were very closely and successfully monitored. Even if criminal elements attempted to use outside means, such as creating investment funds, to control portions of privatized enterprises, the investment funds are highly regulated by the Russian Commission on Securities and Exchanges.

It is important to note that one of the main strategies behind Russian privatization was to break the old branch Ministries' influence over enterprises and distribute the ownership as widely as possible among the entire population. The program was extremely successful in this regard. Russia's enterprises are owned by 40 million shareholders, and most branch ministries were completely cut out of the privatization process. Shareholders are insisting on enterprise restructuring, efficiency, and profits, and do not want criminals hijacking their investments. USAID has responded to these demands by:

—Assisting Russian legal drafters on appropriate commercial legislation, particularly for the tax code, law on pricing, anti-monopoly law, contractual law, and securities law;
—Helping the Russian government establish appropriate regulatory bodies such as the Securities and Exchange Commission and Anti-Monopoly Commission;
—Fostering the development of capital market institutions, corporate governance, independent share registries, and self-regulatory organizations for capital markets professionals; and
—Assisting and training Russian law enforcement officials and helping to develop the judicial system.

To further the objective of regulatory compliance and oversight in the business community, the Russians have developed capital markets and private sector self-regulatory organizations which promote professional standards and business practices. An example is the Professional Brokers Association that is creating a national trading system modelled after the American National Association of Securities Dealers (NASD). This association is promoting transparency and recognizes that it is in their interest to restrict mafia or other criminal participation in capital markets. The Professional Brokers Association started in May 1995 with 5 members and 8 privatized enterprises listed. It has since expanded nationwide with hundreds of brokers and listed enterprises, creating competition and transparency in the process.

The ultimate goal of these USAID interventions is to create a stable, transparent, fair and predictable business environment. The best defense against organized crime is promoting continued economic stabilization and reform.

WHISTLE-BLOWER PROTECTION MEASURES

Question. There have been some question of pressure on those who criticized USAID programs in the former Soviet Union. Will you pledge to protect whistle-blowers and honest critics from retaliation?

Answer. This Administration welcomes robust debate on important issues, and strongly supports whistle-blower protection measures. It has been and will continue to be my practice to encourage free discussion that will help us improve the efficiency of our operations and combat waste, fraud and abuse without fear of reprisal.

AGRICULTURE

Question. In previous administrations assistance to international agricultural research had a high priority.

What is in your budget this year for crop research programs such as the International Rice Research Institute (IRRI) in Manila?

How does this compare with prior years?

Answer. USAID's support to international agricultural research has declined substantially since fiscal year 1993. The decreased funding is the result of a severe and continuing decline in unearmarked funds made available to the Agency. In some cases, although not in the case of agricultural research, unearmarked programs have been eliminated entirely.

There are three major components of USAID's support to international agricultural research. The Collaborative Research Support Programs (CRSPs) draw on the expertise of more than 40 U.S. universities to pursue research on topics of mutual interest and benefit to developing countries and U.S. agriculture.

The International Agricultural Research Centers (IARCs), sponsored by the Consultative Group on International Agricultural Research (CGIAR), constitute the major multilaterally supported agricultural and natural resources research program for developing countries; the International Rice Research Institute (IRRI) is part of the CGIAR system of research centers.

Our third effort is through USAID funding to enhance the effectiveness of National Agricultural Research Systems (NARS) through our bilateral and regional programs. Together, these three approaches bring the best tools of modern science to bear on the problems affecting small-farmer agriculture and natural resource management in Asia, Africa and Latin America.

All three of these efforts have suffered during the budget cuts of recent years. After deep cuts in fiscal year 1994, the CRSP budgets have recovered to approximately the level of previous years. In the case of the CGIAR, USAID's funding declined from a fiscal year 1993 level of $38 million to $28 million in fiscal year 1994 and fiscal year 1995, and to $23 million in fiscal year 1996. In fiscal year 1997, USAID will increase funding of the CGIAR centers to $26 million; of this amount, $2 million will be used by the centers to increase their collaborative research linkages with U.S. universities. Funding for the third category of activity, National Agricultural Research Systems (NARS), has declined even more sharply than CGIAR funding during the last 4 years.

Turning to IRRI specifically, USAID's funding declined from $5 million in fiscal year 1993 to $2.9 million in fiscal year 1996, a reduction of 42 percent. We recognize that rice research is a critical factor in the global food supply equation; in Asia, rice production must nearly double in the coming two decades to meet rising demand. For fiscal year 1997, we have yet to allocate our exact level of support to the center; however, it is certain that IRRI will emerge as our top priority for a budget increase within the limitations of our overall resource envelope for the CGIAR.

MICROENTERPRISE

Question. In the Committee report of last year's Foreign Operations bill, we requested a report from USAID on the amount of funding going into poverty lending programs.

When can we expect this report?

Answer. USAID is preparing a survey of its 1996 portfolio, to be completed in the fall of this year.

Question. In your 1994 Microenterprise Initiative you set a goal by the end of 1996 of half of your total Microenterprise resources would be devoted to loans of less than $300.

Have you reached this goal?

Answer. Analysis of 1995 programming shows that about 42 percent of USAID's total microenterprise support was aimed at poverty lending. Poverty lending amounted to over half of our support to microlending. As I said to you earlier,

USAID is preparing a survey of its 1996 portfolio and will provide the results to you as soon as they are available.

QUESTIONS SUBMITTED BY SENATOR ALLARD

CAMPFIRE

Question. Mr. Atwood, are you familiar with the USAID CAMPFIRE program? Could you please provide a brief explanation of the purpose behind the CAMPFIRE program, including the exact recipients, and their allotment, of program funds?

Answer. USAID is the lead bilateral donor in the environment in Africa, providing over $80 million a year to support biodiversity, tropical forest management, and sustainable agriculture practices. The CAMPFIRE program, one of our more successful efforts in Africa, seeks a long range, sustainable balance of lands, people, and wildlife. CAMPFIRE was established by Zimbabweans in the mid-1980s; USAID support for CAMPFIRE began in 1989.

Our expanded assistance to CAMPFIRE (currently planned at US$20.5 million) supports:

—Wildlife conservation ($3.1 million). Primarily executed by the World Wildlife Fund and the Zimbabwe Department of National Parks, activities include research and field work on the ecology of wildlife habitat, alternative resource options, and other issues needed by the CAMPFIRE members.

—Community development ($3.9 million) including training staff at the district level, and providing technical support so that district councils can fulfill the technical and financial requirements required if they are to make use of the "appropriate authority" provided them by the Government of Zimbabwe. The majority of funds go via Zimbabwe Trust, which works with district councils, wards, villages and households to strengthen their capacity to manage their natural resources.

—Grants to communities and Rural District Councils ($6 million). Includes capacity building activities, payments for animal damage, and support for the establishment of nature-based tourism infrastructure, such as electric game fencing, waterhole development, trail establishment.

—Regional communications and training ($1.2 million). Includes exchange of information between nations with similar resource applications, and sharing lessons learned beyond Southern Africa. This component is implemented by ACTION, an environmental magazine; and the African Resources Trust.

—Planning and applied research ($2.1 million). Socio-economic and biophysical research, monitoring and evaluation of program impact, and coordination with the Government of Zimbabwe and Southern African Development Conference (SADC). Under this component the University of Zimbabwe (Centre for Applied Social Sciences) collects and analyzes social and economic data from participating project areas.

—Technical/administrative assistance ($2.7 million). Includes grant management, assistance to the CAMPFIRE Association and other members in setting up administrative, financial and technical support systems. This component is primarily implemented by U.S. consulting firms (Development Alternatives, Inc and Price, Waterhouse and Company).

—USAID management/audit and evaluation. Technical oversight by USAID mission, as well as audits and evaluations ($1.5 million).

Question. To your knowledge, are any USAID funds being used to underwrite the cost of trophy hunting expeditions in countries targeted by your CAMPFIRE program?

Answer. No. Taxpayer funds do not subsidize trophy hunting of elephants and other wildlife.

However, CAMPFIRE does assist local communities, some of which do generate revenues by granting licenses to hunters. The revenues earned from these licenses are used to benefit the communities in a variety of ways, such as building schools. At the same time, by helping communities to manage resources in a responsible way, this has reduced unregulated hunting and poaching, and benefited the animal population.

Question. What is the USAID time frame for completion of the CAMPFIRE program? Are there any indications that USAID will need to extend the time frame and/or the United States' commitment to the CAMPFIRE program? If there is no need for extending the program, are there indications that the CAMPFIRE program will arrive at its end goal of self-sufficiency for the native people within the preestablished time frame?

Answer. The USAID bilateral program is now in the process of developing a revised strategic plan, targeting the year 2003 for mission closeout. The CAMPFIRE program is meeting its intended results. During the planned review of this plan, whether continued USAID involvement will be necessary in order to successfully build the institutional and individual capacity leading to improved rural livelihoods will be considered. If there are continued CAMPFIRE activities after the planned USAID/Zimbabwe mission closeout in 2003, management of those activities probably would be transferred to the regional mission in Botswana. Activities could include extending the lessons learned under CAMPFIRE to other countries in the region. While some rural district councils and communities will be self-sufficient at the end of USAID bilateral involvement, we do not believe that this will constitute the critical mass required to ensure the sustainability of the greater CAMPFIRE program.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

STATUS OF VITAMIN C PILOT PROGRAM

Question. The increasing awareness of the role of vitamin C in preventative health care prompted Congress, beginning in 1992, to recommend that A.I.D. increase the fortification level of vitamin C in A.I.D. food/grain exports under the Public Law 480 Food Aid Program. In subsequent years, congressional appropriations committees, relying on studies which showed that new mothers and infants can readily improve their health through vitamin C consumption, appropriated funds and requested A.I.D. to perform a pilot program fortifying Public Law 480 Program food with higher levels of vitamin C. Would you please comment on the current status of the pilot program, including: What is current status of the pilot study?

Answer. USAID has assessed, at the point of manufacture, the uniformity of vitamin C in both wheat soy and corn soy blends, at conventional and elevated levels of vitamin C fortification. In progress are reviews in Haiti, Tanzania and India to assess the stability of vitamin C under actual field conditions. Assays of vitamin C in the blended food samples collected from the field are being conducted by a reputable laboratory in the U.S.

Question. What are your preliminary findings?

Answer. Vitamin C uniformity was poor in the corn soy blend at the point of manufacture. Commodity manufacturers, USAID and USDA are seeking to rectify this. Preliminary indications suggest some loss of vitamin C potency during shipment and storage of the blended commodities overseas. Preliminary results also indicate that vitamin C is lost during the normal food preparation of these commodities. Perhaps only a small part the vitamin C added may be consumed by food aid program recipients. This still needs to be confirmed.

Question. When will you complete the pilot study and submit a report to the Appropriations Committee?

Answer. We expect a preliminary report to be ready by mid-June and a final report by Fall 1997, following an Institute of Medicine/National Academy of Sciences review.

SUBCOMMITTEE RECESS

Senator MCCONNELL. We appreciate your coming up. We look forward to working with you on getting a more adequate, shall I say, 150 account for the coming year. Thank you, the subcommittee will stand in recess until 10:30 a.m., Thursday, March 20 when we will receive testimony from FBI Director, Louis Freeh and Hon. Robert Gelbard, Assistant Secretary of State.

[Whereupon, at 11:40 a.m., Thursday, February 27, the subcommittee was recessed, to reconvene at 10:30 a.m., Thursday, March 20.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

THURSDAY, MARCH 20, 1997

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:35 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Specter, Shelby, Campbell, and Leahy.

DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

STATEMENT OF HON. LOUIS J. FREEH, DIRECTOR

DEPARTMENT OF STATE

BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS

STATEMENT OF HON. ROBERT S. GELBARD, ASSISTANT SECRETARY OF STATE

OPENING STATEMENT OF SENATOR MC CONNELL

Senator MCCONNELL. The hearing will come to order.

The ranking member, Senator Leahy, is in the Judiciary Committee but will be here in just a little while.

With a Senate vote likely today on Mexico's cooperation in the drug war and the continuing swirl of allegations about Chinese influence peddling, our hearing on international narcotics and crime is obviously timely.

I do not think our Founding Fathers' vision of America as a land of opportunity includes foreign governments corrupting our democratic system with illegal campaign contributions. And, when they endowed our citizens with the inalienable rights of life, liberty, and pursuit of happiness, they expected the American Government to uphold and defend those principles. This means taking the drug war seriously, not making excuses for confusion, incompetence, or corruption. This means protecting American citizens at home and abroad—citizens like Paul Tatum, a well known U.S. businessman

who was gunned down in Moscow 100 yards from the Radisson Hotel.

In 1993, when Senator Leahy and I visited Moscow, every businessman we met with said that the problem of crime and corruption, the lack of both enforceable laws and law enforcement were the biggest impediments to investment.

Few ventured out without bullet proof cars and heavily armed body guards. Most had been victims of extortion attempts. Many had moved to the suburbs where they lived in fortified villas, hoping to protect their families from kidnapping.

Four years ago, Senator Leahy and I returned with the business community's message. We urged the administration to develop a major effort to combat crime and corruption. Short of a serious undertaking, investment and economic growth, the foundation of real stability, would obviously crack.

Unfortunately, the business community's predictions have now come true. There has been a steady increase in capital flight and foreign investment is stagnant. Billions of dollars in U.S. grant aid will not make a dime's worth of difference if this problem is not solved.

Russian police now claim over 400 banks are controlled by organized crime. Are these the same institutions that the administration's new investment partnership intends to financially back?

The Interior Ministry has said at least 40 percent of the economy is in the mafia's hands, control gained through exploiting the privatization process. Our privatization program was the centerpiece of the U.S. effort from 1993 through 1995. I think we need to be clear that we have not subsidized a transfer of economic power to the mafia.

International crime is obviously not confined to Russia or NIS borders. Los Angeles, Miami, and New York are among several United States cities where 26 Russian organizations are basing their drug trade, prostitution rings and extortion, fraud, and counterfeiting operations. And if the stories are true, we are facing a whole, new threat to our democratic process if foreign governments are illegally contributing to our political system.

In this troubling context, let me be clear on one point. Judge Freeh, you deserve the credit for the only serious effort this administration has made to tackle international crime and we thank you. In the face of strong opposition, you have continued your fight to increase funding for global FBI training programs and, more particularly, the International Law Enforcement Academy in Budapest. ILEA is one of the most impressive facilities I have ever had the privilege to visit. I am proud to have offered support through foreign operations funding for ILEA and we want to thank you for your leadership in seeing this through. It is an organization that is making a real difference.

When I was there in January, the academy was running an 8-week class with 50 midlevel police officers from Latvia, Lithuania, and Estonia. The deputy police commissioner from Buffalo was lecturing for a week on community policing techniques, a class each student could take with simultaneous translation.

For a few million dollars a year, we are strengthening the professional skills of hundreds—hundreds—of police officers in Europe

and the NIS as we improve regional law enforcement cooperation and our cop-to-cop relationships that directly serve American safety and security.

While I am pleased with the FBI's effort, let me note my concern that, once again, the administration's international crime budget fails to meet the urgent requirements and the ever expanding scope of the problem. This year, the administration has asked for a 44-percent increase in overall funding for the NIS, an increase from $625 million to $900 million. Of that, they are requesting $10 million to combat crime in Russia, which triples the past budget request, but still is inadequate.

We have spent over $4.5 billion in aid to Russia; $10 million to combat a problem which directly affects America's security is simply not enough.

Let me now turn to the second half of today's agenda, the international narcotics control effort. The administration seeks a sizeable increase, from $213 million to $230 million. Before I make a decision to commit more resources, I must be satisfied the effort is better managed.

Today, the administration's effort suffers from a fundamental if not fatal flaw, which is the basic lack of coordination between agencies.

Over the past several weeks, my staff has tried to respond to my request to build a matrix identifying the dollars we spend along with the agencies and number of personnel assigned in each country where we engage in international narcotics control efforts. They have been told it is not and cannot be done.

For example, no one in the administration can provide an accounting of the number of FBI, DEA, DOD, and INL staff in Mexico. No one can tell me how much all agencies spend on counter narcotics in Mexico. The most questionable response actually came from the drug czar's office, where it was claimed they simply do not have the resources or staff to develop the data.

If no one knows which agencies and how much we are spending in any given country, how can we possibly hope to measure the cost effectiveness and success of the effort?

Judge Freeh, let us begin with your assessment of where we stand in our effort to combat crime, corruption, and narcotics trafficking. We will then hear from Ambassador Gelbard, Assistant Secretary of State for International Narcotics and Law Enforcement, the office with the key policy coordination role.

I want to welcome my friend and colleague, Senator Campbell, here as well. I am glad to have him.

As I said, Senator Leahy will be here shortly.

Judge Freeh, why don't you proceed.

SUMMARY STATEMENT OF HON. LOUIS FREEH

Mr. FREEH. Thank you, Mr. Chairman and good morning, Senator Campbell.

Let me just give a brief overview of what I think the issues of continuing interest are to the committee and, with your permission, I will submit a longer written statement for the record.

The international training and law assistance programs that the FBI are engaged in are, in my view, not only appropriate but also

a very good return for the tax dollars being expended. In addition to the ILEA Academy in Budapest—which is a partnership, a joint venture, between the State Department, the FBI, the Department of Treasury and some other agencies—for a very small amount of money, we are not only able to bring training and assistance to many different countries, but we have also established through our Legal Attaché Program [LEGAT] what I like to call our first perimeter of defense around the world.

We have an interest certainly in giving to new democracies and new police forces the fundamentals of policing. For instance, I am very proud of the 375 students who have now graduated from the ILEA. Upon completion of the course, we asked them to rate the most important course for them and the one from which they derived the most benefit. The course which receives that vote is the course on human dignity, which we think is a tribute to the curriculum. This course is designed to teach policing in a democracy and the balancing of public security with civil rights and human rights.

But more importantly, the presence of the FBI Legal Attaché Program and the in-country training which is supported in large part by the Department of State gives us the ability to protect Americans in a way that a global world with transnational crime and no borders requires us to do.

Let me just sketch a couple of cases very, very briefly.

The *Tatum* case, which you referred to, Mr. Chairman, is a case which is now being actively investigated by the Ministry of Interior in Russia with the assistance and input of our FBI legal attachés in Moscow. We have a strong and abiding interest in the resolution of that case.

Very recently, we had a case involving Citibank. An individual sitting in St. Petersburg, Russia, with access to a laptop computer broke into Citibank accounts in New York and moved several millions of dollars into his own accounts, or attempted to move them into accounts where he would get access to them. Because of our relationship with the Ministry of Interior and our presence in that country, we were able to quickly address that particular episode.

In another recent case, an individual in Sweden with a laptop computer hacked his way into some switching systems in the United States and proceeded to shut down several 911 systems in northern Florida for several hours at a time. Those are systems which deliver not just police, but emergency and rescue services too.

We recently have been successful in taking back many fugitives, not only in counterterrorism cases but in homicide cases. One in particular is an individual who is a member of a very notorious drug gang here in the District, the First and Kennedy crew. A member of this gang was responsible for walking into Washington Metropolitan Police Headquarters in November 1994, killing two of my FBI agents and a metropolitan police sergeant. A fellow gang member, an individual named Kobi Mowatt who was wanted for a triple homicide in the District of Columbia, fled first to Russia and then to Eastern Africa. He was found as a result of our relationships with the MVD in Russia, who traced some Aeroflot records,

and through our Legal Attaché Program was apprehended, brought back, and pled guilty to that particular crime.

There are many, many other instances where we are working cooperatively in what we call our practical case training program, where we actually partner up with police officers in various countries—Kazakhstan, Uzbekistan, Latvia, and Russia being some examples—and work on cases which impact directly on the United States.

One particular case which we worked with Kazakhstan under this program was responsible for the seizure by Russian customs of 1.1 tons of cocaine. We are seeing to a greater extent alliances between criminal elements and criminal groups in the United States and organized crime groups, not just in Eurasia, looking to now import and ship cocaine into what are potentially vast markets in Eurasia.

In a recent case in Florida, a Russian national planned to bring large amounts of narcotics into the United States. He was involved in negotiations to purchase a submarine from the Russians that would be used to clandestinely move cocaine from South America to Florida.

There are a whole series of cases which give us the ability to not only fulfill our mission but protect Americans—in the counterterrorism area, in the drug trafficking area, and in the financial crimes area, even coming down to the matters that affect local jurisdictions, such as the triple homicide that I mentioned.

We have now 81 agents overseas in our Legal Attaché Program and 30 different offices, which are up and running. We just opened offices in Cairo, Tel Aviv, and Riyadh, which, for the first time in the history of the FBI, gives us the ability to directly deal with and work with our counterparts in that very critical region where our counterterrorism interests are of great particular moment.

The training that we have done through the FSA programs and the SEED programs have been, in my view, extraordinarily successful. The State Department supported all of our requests for 1996, and our 1997 requests are being quickly attended to.

I want to take a moment to thank Ambassador Gelbard particularly for his leadership in that regard for both the ILEA Academy and FSA and SEED support. The Antiterrorism Training Assistance Program, which is terrorism training that the FBI performs at the request of the Department of State, has also added at a very low cost, in my view, to extraordinary relationships with our foreign counterparts and the ability to project American law enforcement interests into places in the world where, heretofore, we really had no representation.

Many of the other programs which are subject to funding by this committee have given law enforcement a very immediate and very successful derivative benefit. We routinely now, through our Legal Attaché Program, discharge leads for State and local officers. Many of the police departments in the United States are very small and do not have this capability, except through Interpol, which is really a warrant service, not an investigative service. So they come to the FBI with requests which we pursue for them through our Legal Attaché Program and through the Department of State.

So all in all, I think the return on the dollar which is being given to the American taxpayers in terms of security, investigative capability, and protection is really very, very well received, given the amount of money that is being spent. Both the ILEA Program and the other training programs are, in my view, being conducted very successfully. We trained approximately 1,900 foreign police officers last year under the FSA and SEED authority of the State Department.

We have a series of 40 courses which we regularly present around the world, courses such as hostage negotiations. The Russians asked us recently to teach their rescue team hostage negotiations, which we are in the process of doing. There is an internal control seminar on how to make a police force work with the standards of integrity which are necessary for people to have confidence in it. There are bomb detection courses, courses in crisis management, money laundering, and financial crimes. We have done that now in 21 countries just in fiscal year 1996, all with State Department funding which comes from this committee.

The other long-range benefit that is being derived from this training is that the police officers being trained—the officers that you saw, Mr. Chairman, in ILEA—will be in 5 or 10 years the chiefs of police or the commissioners of many of their departments. Those relationships with the FBI and the State Department will continue and will inure to the great benefit of our country.

So both in terms of the dollars being spent, the return that we are getting, and the coordination between the two departments represented here, I think the benefits are very, very high.

When we submitted to the Congress last year our 4-year Legal Attaché Expansion Program, it was written jointly with Ambassador Gelbard and approved by the Attorney General and the Secretary of State. That has given us the planning, the knowledge and the coordination to take these very important steps in an effective and manageable way.

PREPARED STATEMENT

I am very appreciative to you, Mr. Chairman, for your continuing interest in law enforcement, particularly the international capability that our country must have, and I thank the other members of the committee for your continuous support and your leadership in the area of international law enforcement. As always, it is a pleasure to appear before your committee.

I would be happy to answer all of your questions.

Senator MCCONNELL. Thank you, Judge Freeh.

[The statement follows:]

PREPARED STATEMENT OF HON. LOUIS J. FREEH

Recognizing the fluidity of crime around the world, the FBI has worked closely with the Department of State to develop a strategy which facilitates our ability to protect Americans' and American interests. Without the support and vision of Ambassador Gelbard, Secretary Christopher, and now Secretary Albright, the United States' response to international crime would have been disjointed and inefficient. Their leadership and assistance has been particularly helpful to the FBI as we have developed a response to this problem. The FBI is particularly indebted to Ambassador Gelbard for all he has done for law enforcement over the last several years.

The United States cannot simply fight crime on our own soil; we must be proactive to prevent these criminal organizations from gaining strength. Therefore,

the FBI has underway a multi-faceted approach to better protect Americans at home and abroad, and to train and assist our fellow law enforcement organizations in fighting crime within their own countries. We have expanded our Legal Attache program, increased our international training efforts, and developed programs to open the lines of communication among law enforcement officials. Crime is a transnational phenomenon; it knows no boundaries. By slowing the spread and development of complex criminal enterprises in their home country, we can prevent their establishing a foothold within the U.S.

One of the first areas where the FBI proactively sought partnerships was the countries of Eastern Europe, the Baltics and Russia. The responses of these countries to our offers of assistance have been overwhelmingly positive. One of our first activities in this region was the opening of the Legal Attache office in Moscow to work closely with Russian police against a variety of costly crimes. From July 1994 to the present, the number of cases worked by the FBI agents in Moscow has increased from 20 to approximately 275. Since that time, we have also opened offices in Tallinn, Estonia; Kiev, Ukraine; and Warsaw, Poland. Our 1998 budget proposes opening additional offices in Almaty, Kazakhstan; Prague, Czech Republic; and Tashkent, Uzbekistan; as well as other locations.

The strength and success of organized crime has become an increasing problem in this region of the world as it is in the United States. According to the Nezavisimaya Gazeta, (Moscow, 1996), Moscow police break up at least two organized crime gangs each day, but each gang is replaced by a new one. There are now more than 200 groups active in Moscow; bloody "altercations" between groups are an almost daily occurrence. In Lithuania there are an estimated 100 organized criminal groups with total core membership of about 1,200 criminals. Latvian and Estonian police estimate that there are 10–15 such groups operating in each of their countries. In Vilnius, the crime rate is high, and it is estimated that 70 percent of the offenses are not reported to police. The situation is far worse in Estonia and only slightly better in Latvia.

Through cooperative efforts, we have begun to achieve successes. The June 1995 arrest and subsequent prosecution in New York City of Vyacheslav Kirillovich Ivankov and five of his associates on federal charges of conspiracy to commit extortion continues to be recognized in Russia and the U.S. as a shining example of FBI-Russian police cooperation. Ivankov, convicted in U.S. District Court last July, was sentenced in January to over nine years in prison. More recently, in July 1996, an Ivankov associate was killed in a gangland-style shooting in Vienna, Austria. Efforts by the FBI Legal Attache office in Vienna helped authorities identify and arrest two Georgian suspects in the shooting.

In another successful cooperative effort, a major computer fraud investigation continues into the diversion of over $10 million by a St. Petersburg, Russia, gang to dummy accounts at Citibank in New York. Russian Ministry of Interior (MVD) officers and FBI Agents have worked closely to investigate this case. For instance, Russian police officers traveled to New York last August to obtain evidence. Russian investigators assigned to this case also attended the Computers Crimes Conference in New York earlier this month.

However, the success of these cooperative efforts does not lessen the danger which exists for these countries and the U.S. The FBI is supporting the ongoing MVD investigation into the November 1996 murder of American citizen Paul Tatum in Moscow. Mr. Tatum was murdered November 3, 1996, in a subway station outside of a hotel whose ownership he was disputing. While this killing of a businessman was the first involving a U.S. citizen, this use of force has become far too common in Russia. The cooperation occurring in the investigation of this case continues to strengthen our law enforcement relationship and provides a glimpse into the crime and corruption problem which still plagues the Russian democracy. Through our cooperative efforts, we hope to help the Russian authorities develop law enforcement tools and investigative techniques to assist them in their battle against this problem.

One of the most difficult law enforcement problems facing many of the New Independent States (NIS) and Eastern European nations is drug trafficking. The scourge of drug trafficking has had a devastating impact on the entire global community. Russia, the NIS, and Eastern Europe are certainly not immune to this epidemic. Criminal organizations in these emerging democracies are taking advantage of the relaxed borders and improved telecommunications systems that have emerged in recent years to facilitate their illegitimate operations. These countries are targets of opportunity for the major drug trafficking organizations, like the Colombian cartels, which seek to establish new and lucrative markets.

Our increased cooperation has netted some success. For example, the FBI's Miami office in January 1997, arrested Ludwig Fainberg on racketeering charges. Fainberg

was indicted by a Federal Grand Jury, along with two associates, on 30 counts of RICO conspiracy, narcotics conspiracy, interstate transportation of stolen property, and other crimes. As part of a plan which illustrates growing drug trafficking efforts between elements in Russia and South America, Fainberg proposed the purchase of a Russian diesel submarine to smuggle cocaine, according to the charges.

The FBI, in coordination with the Department of Justice, the Department of State and others, completed a four-year expansion plan for our Legal Attache program. I am happy to say that we have met our initial goals in this plan and continue to open offices. Last fiscal year, we opened three offices (Cairo, Egypt; Islamabad, Pakistan; and Tel Aviv, Israel) and this fiscal year we have already opened four (Warsaw, Poland; Riyadh, Saudi Arabia; Tallinn, Estonia; and Kiev, Ukraine). We plan to open three more offices this year (Pretoria, South Africa; New Delhi, India; and Buenos Aires, Argentina). Presently, we have 82 agents and 61 support employees in 30 nations around the world. During fiscal year 1996, these offices handled 3,355 cases and 5,767 lead assignments.

The FBI's Legal Attache program is the single most significant factor in the Bureau's ability to detect, deter, and investigate international crimes in which the United States or our citizens are victims. By stationing agents abroad and establishing operational links with foreign police, the FBI substantially expands the nation's perimeter of law enforcement protection.

The Legal Attaches play an important role as conduits for information regarding international criminals and crime. They also act as facilitators for our international training programs. Through the Legal Attaches, foreign law enforcement officials become aware of the training opportunities which are open to them. At the host governments invitation, the FBI conducts an analysis of that country's crime problem and police training needs. We then provide the host government with recommendations to enhance their techniques and capabilities with FBI assistance and training initiatives. Several assessments have been conducted in the last two years with additional assessments planned for fiscal year 1997. The Legal Attaches also screen potential students and make recommendations regarding student's attendance.

Combating this growing international crime problem cannot be done by the FBI alone. We rely on our partners within the United States Government to work together to fight this problem. Recently, the FBI and Department of State have undertaken a number of efforts to clarify our roles and increase cooperation between our employees. The most important result of these efforts was the negotiation and signing of a comprehensive Memorandum of Understanding (MOU) regarding the Legal Attache's relationship to the Chief of Mission. This MOU clarifies the importance of our relationship and the need for cooperation in order to be successful overseas. In addition, a Diplomatic Security Special Agent has been detailed to the FBI to help ensure open and clear communication on policy and operational issues. In the future, we also hope to implement a comprehensive training program to sensitize DOS and FBI personnel to interagency issues. Through these efforts, we have strengthened our relationship and ensured a coordinated strategy overseas.

The FBI also works closely with other government agencies in one of the United States finest law enforcement achievements—the establishment and opening of the International Law Enforcement Academy in Budapest, Hungary. I know, Mr. Chairman, that you recently visited the ILEA and saw firsthand the importance that this facility plays in developing working relationships among law enforcement officials. The ILEA is a direct outgrowth of our trip to Eastern Europe in 1994 and President Clinton's direction to U.S. Government agencies to join together to build the world's capabilities in fighting international crime. The Academy represents the combined efforts of the Department of State (DOS), the Department of Justice (DOJ), the FBI, the Drug Enforcement Administration (DEA), the Internal Revenue Service (IRS), the United States Secret Service (USSS), the Federal Law Enforcement Training Center (FLETC), the Alcohol Tobacco and Firearms (ATF), and other agencies and countries. It is truly a case where all of these law enforcement agencies are working together as partners toward a common goal. I cannot speak highly enough about the contributions ATF, DEA, Secret Service, IRS, the Federal Law Enforcement Training Center in the Department of Treasury and the Department of State's Bureau of Diplomatic Security have made in making the Academy succeed. The Academy brings together seasoned investigators as instructors and law enforcement officers from across Eastern Europe, Russia, and the NIS to learn policing under the rule of law.

The opening of ILEA in April 1995, was an important step toward establishing a mechanism for regional law enforcement training in Eastern Europe. At ILEA, police officers from Eastern Europe, Russia and the Baltic states are being trained in techniques used to combat modern criminal activity, including organized crime and terrorist groups. To date, 377 students from 19 countries have graduated from the

eight-week professional development seminar which is the cornerstone of activity at the ILEA. In addition, 18 other courses have been taught by six different U.S. Government agencies. For example, the FBI taught a footwear and tire impression class for 20 students from Poland, Slovenia, Slovakia, Hungary, and the Czech Republic. The United States Secret Service has taught two counterfeiting courses for 53 students from Belarus, Ukraine, Russia, Hungary, the Czech Republic, Slovakia, Slovenia, and Estonia. In addition, ILEA instructors participated in the United Nations sanctioned training initiative, under the auspices of the Austrian Interior Ministry, for 300 Bosnian police officers in Vienna.

The FBI also conducts training courses with funds allocated to the FBI by the U.S. Department of State Bureau for International Narcotics and Law Enforcement Affairs (INL) and funding from Freedom and Support Act (FSA) and Support for Eastern European Democracies (SEED) funds. In fiscal 1997, the FBI will receive $1,341,000 from FSA; $1,074,000 from SEED; and $3,168,700 from INL for a total of $5,583,700 in funding from the Department of State. These funds are used to support the teaching of a variety of courses designed to meet particular needs of the host country.

Through the FBI's in-country training program, the FBI conducts one and two-week schools in foreign nations which concentrate on police operations and technical skills. Our in-country training is very broad, ranging from basic investigative techniques to police integrity internal control courses. We use seasoned, senior FBI street agent instructors who use their extensive practical experience in training our foreign counterparts in policing under the rule of law. The instructors in these programs have an established expertise in criminal investigations, especially organized crime and white collar crime. Their credibility is not only essential for effective instruction but also is very effective in building the cop-to-cop bridges that we so critically need.

During fiscal year 1996 the FBI, provided over 52 training courses in 21 countries for 2,078 foreign law enforcement personnel through FSA and SEED funding. In 1997, the FBI plans to conduct 170 training courses for 59 countries for an estimated 4,606 foreign law enforcement personnel. This dramatic increase in training is due to the increase in funding made available by the Department of State for world wide training. The FBI projects a 10 percent increase in training courses to be conducted in fiscal year 1998.

One beneficial part of this training is the opportunity it provides the trainers and the trainees to interact about specific crime problems being encountered in their countries, how to address the problem, share experiences learned in the process and forge new relationships for future cooperation on matters of mutual interest and concern. To further build upon these initial training courses, the FBI has also begun another initiative—Practical Case Training (PCT). The PCT initiatives allow the FBI to invite law enforcement officers from abroad to take part in hands-on, on-the-job practical case training regarding mutual investigative interests. The program also sends FBI Agents to foreign countries to train their counter-parts in the same methodology.

The PCT serves as a forum in which case information and investigative techniques can be shared in effort to combat those criminal elements that are common to both nations. This program has been extremely well-received and successful. Currently, an FBI agent with an expertise in financial crimes is assisting the Czech government in its efforts to investigate financial fraud, specifically irregularities in the Czech banking system. As a result, Czech authorities are becoming much stronger in their ability to thwart future criminal bank failures. For example, the Czechs are in the process of forming financial crime task forces modeled after US examples. The PCT serves as a forum in which case information and investigative techniques can be shared in an effort to combat those criminal elements that are common to both nations.

In another example of this cooperative program, Russian police officers have now worked side-by-side with Agents in ten FBI field offices, resulting in testimony and other support by Russians in major FBI cases such as the Ivankov organized crime and Citibank fraud investigations. In Russia, an ambitious FBI commitment to training has already resulted in 36 one-week seminars throughout Russia, with at least ten more slated for the remainder of this fiscal year. The practical result is that there now exists a network of Russian investigators who are better prepared to not only meet their own crime challenges but to assist the FBI in its responsibility to protect American citizens.

Under the auspices of the State Department's Antiterrorism Training Assistance (ATA) program, and working with the Department of Defense, the FBI has also developed two training courses which attempt to counter threats of concern to the United States—terrorism and those involving weapons of mass destruction. In con-

junction with the ATA program, the FBI will be conducting multiple sessions of three specific anti-terrorism courses this year. Countries being considered as attendees include Brazil, Egypt, Morocco and Turkey. The first two-week course, the Criminal Justice Executive Forum (CJEF), provides senior level law enforcement officials with current leadership, management, and organizational concepts and experiences critical to the direction of national law enforcement agencies and the coordination of multi-agency crisis management policy and strategy. CJEF was first conducted in May 1996, and the FBI plans to conduct three of these seminars this year.

We are also working with the ATA program in developing a Major Case Management course to provide the basis for managing the investigation of terrorist crimes. It specifies the procedure for forming an investigative task force. The course will enhance the abilities of foreign criminal investigation agencies to investigate, arrest, prosecute and convict perpetrators of terrorist crimes. The first country to be invited to participate in this training was El Salvador. From March 3–14, 1997, the FBI taught this course to 25 law enforcement officials from the government of El Salvador. This course was the first time that judges, prosecutors and police officers from El Salvador had been brought together under their new constitution to discuss issues such as how to conduct a major case investigation and how to form an investigative team.

We have also developed with ATA a two-week Terrorist Crime Scene Investigation course. This course teaches investigators the principles of crime scene management and seeks to provide the participants with the skill to conduct crime scene searches, to process physical evidence, and to provide testimony in judicial proceedings. An important part of crime scene management involves principles of searching for perishable physical evidence, such as fingerprints and impressions of tires and tools. The majority of this course is conducted in an academic learning environment using lecture, group discussion, case studies, and practical exercises.

Proliferation of weapons of mass destruction and their delivery systems poses one of the greatest threats to our national and international security now and for the foreseeable future. A recent example illustrates the extent of this threat. In December 1994, Czech authorities seized 2.72 kilograms of weapons grade uranium 235 in Prague. Three persons were arrested including the leader, a Czech nuclear engineer who had been trained in the former Soviet Union and had personal ties with two Russian businessmen. The Czechs had no information about the destination of the shipment, but estimate that the uranium was worth "several million dollars." This case represents the largest quantity of weapons-usable material seized outside Russia. In another case, one man died and at least four others were hospitalized from overexposure to radiation after a tiny sliver of Cesium 137, a radioactive source, was found inside the man's home in Estonia. The United States must take a proactive role to assist these countries with this serious threat.

Last July, Secretary of Defense William J. Perry and I submitted a joint report to the Congress titled," DOD-FBI Counter Proliferation Program" which called for the development of a training program to improve the ability of states of the Former Soviet Union, the Baltic countries, and Eastern Europe to prevent, deter and investigate any aspects of crimes related to the proliferation and/or diversion of nuclear, biological, and chemical weapons and their delivery systems, as well as to prevent the illicit trade in related materials. This training program will be developed for the entire law enforcement community—from investigators to prosecutors to judges. The plan calls for U.S. representatives to discuss and evaluate the existing counter-proliferation and anti-nuclear smuggling apparatus and the legal structures and principles for the development of legislative, regulatory, and law enforcement frameworks. In addition to the FBI and DOD, participating agencies include the DOS, Intelligence Community, DOE, DOC, and USCS. Training outside the U.S. will take place at the ILEA.

The FBI realizes the threat which international crimes pose to the American public and the importance that international partnerships play in the effort to stop these crimes. However, we cannot do this alone. Without the support of the Congress, the Department of State, and our other law enforcement partners here in the U.S., this effort will be fruitless. Through our joint endeavors, we have seen positive results; however, we cannot stop now. As long as criminals and their organizations believe they can exploit the law, we must continue our quest to educate and assist our law enforcement partners around the world—and in turn receive their assistance and cooperation.

SUMMARY STATEMENT OF HON. ROBERT GELBARD

Senator MCCONNELL. Why don't we go to Mr. Gelbard and get his opening statement. Then we will get to our questions.

Ambassador GELBARD. Thank you, Mr. Chairman.

I would like to submit a written statement for the record, please.

Senator MCCONNELL. Without objection, that will be made a part of the record.

Ambassador GELBARD. The importance of the issues which we are here to discuss has become ever more acute in recent years. As Director Freeh has said, there has been a dramatic change in the world. And, as you, too, said in your opening statement, Mr. Chairman, the world has seen a dramatic shift, particularly in the wake of the end of the cold war.

Senator MCCONNELL. Why don't you pull the microphone a little closer.

Ambassador GELBARD. In October 1995, President Clinton spoke at the 50th anniversary of the United Nations in New York. The subjects he decided to address were not the traditional ones that one might have expected. Instead of talking about issues related to what might have been expected to be a geopolitical tour de raison, he focused on the issues that this hearing is about. He focused on the new foreign policy and international security issues, of drug trafficking, transnational crime, terrorism, traffic and weapons of mass destruction, and money laundering.

Along those same lines, he identified new instruments, new tools, new weapons which we needed to bring to bear on these problems.

On the one hand, we are focusing very strongly on the need to protect American citizens because the nature of these transnational criminal enterprises, as Director Freeh has said, has now meant that either organizations are working worldwide, as we particularly see in the case of Nigerian drug trafficking and other criminal enterprises, or through linkages which we see, that have been brought about between criminal organizations on the basis of telecommunication advances, transportation changes, and computers.

As a result, we in the State Department changed the shift rather dramatically of what had traditionally been the Bureau of International Narcotics Matters. When then-Secretary Christopher asked me to take this job, we focused on the need to change the focus, to broaden it to include law enforcement issues, international crime issues, and other related matters.

Between my Bureau, and other law enforcement entities, and other parts of the U.S. Government, we have developed new relationships which now result in much stronger exchanges of personnel, much stronger communication, and much closer working relationships.

Director Freeh mentioned, for example, that we have jointly worked to establish the International Law Enforcement Academy in Budapest. We are now looking, between the State Department and the rest of the law enforcement community, at establishing another such regional entity for the Latin American and Caribbean region in this fiscal year, and, funding permitting, we want to look at the prospects of establishing a similar entity in Southeast Asia in fiscal year 1998.

At the same time, the relationships between the State Department and the FBI in particular have developed in closer ways than ever before. I accompanied Director Freeh on his trip to Russia, Ukraine, and other parts of central Europe in the summer of 1994, which produced the idea for establishing the International Law Enforcement Academy. The director of that academy is, as you know, Mr. Chairman, an FBI official. We have provided approximately $11.2 million in funding to support the activities of that academy and have now earmarked approximately $5 million for the establishment of the regional institution in Latin America and the Caribbean this fiscal year.

As we deal with these problems, we recognize that this involves a fundamental shift in the way we look at international affairs. The issues of international crime, the issues of drug trafficking, money laundering and other related problems have clearly become among the fundamental priorities for us not only as they affect American citizens but as they affect the stability of our friends and allies around the world.

We do not see to the degree as we did before the threats to international security coming from the traditional left and the traditional right. But instead we do see some fundamental attempts to try to erode or destroy the efforts to develop strong democratic institutions coming from international crime.

Clearly, the most dramatic example that we see of that is in Colombia, where drug trafficking organizations and other criminal enterprises have made woeful, successful attempts, efforts to undermine democratic institutions, economic, and social institutions in one of the oldest democracies in the Western Hemisphere.

Similarly in Nigeria we have a regime which is completely linked into criminal enterprises. And, of course, as you know well, Mr. Chairman, in Burma, the SLORC has a strong alliance with criminal enterprises. It is no accident that in these three countries we see a complete disregard for the rule of law and a complete alliance between those who would violate human rights and those who are engaged in criminal action.

We are deeply concerned in central Europe and in Eastern Europe with similar efforts by criminal enterprises to try to attack the new democratic institutions as well as economic and social institutions which those countries are trying to develop and consolidate.

As a result of that, what we are trying to do, whether based on the INL budget, my own bureau's budget, or funds we receive from the Freedom Support Act or the Seed Act is work with the Federal Bureau of Investigation and other law enforcement entities to try to develop strong institutional defenses in those countries, to try to develop what is needed to combat these threats.

I should note, too, that we are also working in South Africa to try to do the same. The government of President Mandela has requested our assistance as they try to change what were repressive law enforcement institutions, akin to those in the former Soviet Union and central Europe, to democratic police agencies and to try to develop the structures that are needed to really defend against the threats that exist in that country.

As a result, we are now working to provide support in counternarcotics, border controls, advice to the Ministry of Justice

on developing reviews of their criminal laws and criminal procedures, and the DEA and Customs have now set up offices with the FBI scheduled in this fiscal year.

We see the efforts that are involved, whether it is in Russia, Ukraine, South Africa, Colombia, Mexico, or in Southeast Asia as fundamental to the establishment and consolidation of democracy as well as for the protection of American citizens.

PREPARED STATEMENT

As a result, we have tried to be as careful as possible to support our colleagues in the law enforcement community as well as in the Department of Justice and other parts of the U.S. Government in our mutual efforts to train and equip their counterparts and develop the appropriate institutional frameworks that are needed in the effort against these problems.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Mr. Gelbard.

[The statement follows:]

PREPARED STATEMENT OF HON. ROBERT S. GELBARD

INTERNATIONAL NARCOTICS CONTROL BUDGET AND PROGRAM

Good afternoon Mr. Chairman, Members of the Subcommittee, ladies and gentlemen.

I appreciate the opportunity to discuss the program that will be funded by $230 million requested by the President for the International Narcotics Control account for fiscal year 1998. A unique specific purpose of this element of our Foreign Operations account is to directly protect American citizens within the U.S. from illicit drugs produced abroad, and from other transnational crime.

NEW UNDER THE SUN

Abuse of psychoactive substances, and criminal acts by one person against another, are as old as human society. Protecting individuals from crime is traditionally one of the fundamental responsibilities of government. In an earlier time, it was an area in which a government might occasionally ask assistance of another, as when we sought extradition of Butch Cassidy and the Sundance Kid when they evaded U.S. prosecution by fleeing to Bolivia. Mostly, though, crime and criminals were a domestic matter.

The extent to which things once exclusively domestic have become internationalized is almost a cliche. What is true of industry, science and trade is true of crime. Once, criminals in one country might occasionally have dealt with those in another. Now, criminal enterprise is as truly transnational as any other business. The financial and geographic scope of transnational criminal enterprise has grown beyond the reach of any individual government. It equals or exceeds even the proverbial scope of multinational corporations.

This is something new under the sun, as different as a Butch and Sundance from the Cali Cartel. A global economy with global communications compels governments to address new issues, and in so doing to recognize that no one government can respond without the effective collaboration of all. A truly global reach of illicit drugs and other transnational crime is similarly something new under the sun. It compels innovative and nontraditional responses. The President's guidance regarding the International Crime Initiative (PDD–42) and on international efforts against cocaine and heroin (PDD–14 and –44) has provided the basis for defining such responses. The International Narcotics Control request for fiscal year 1998 is an integral part of that response.

NARCOTICS: OLD PROBLEM, NEW APPROACHES

Illegal traffic in heroin and cocaine has existed since the pharmaceutical industry discovered a century ago how to refine these potent and tremendously addicting drugs. Both originate from raw material produced outside the U.S. Raw material for the entire world supply of cocaine originates in only three South American coun-

tries. The international community worked for decades to establish a treaty regime to regulate and control production, traffic and abuse of these drugs, based on the Single Convention on Narcotic Drugs and other elements of the United Nations drug control regime.

More recently, a new level of multinationalization and polycriminality arose in illegal international drug trade. Transnational criminal enterprises originated with drug trafficking in Colombia and Mexico, but grew to New York and Houston, carrying other forms of crime and violence with them. Asian criminal enterprises smuggle drugs and illegal aliens alike into the U.S. and other countries.

Virtually all nations are now committed by treaty to prevent cultivation of crops that are raw material for drugs of abuse, illegal processing of those crops to dangerous drugs, and international smuggling of such drugs to their consumers. But treaty commitments, however significant, are of value to the U.S. and other nations only if backed by government capability to implement them. The International Narcotics Control program is an essential element of the cooperative effort of the international community to control production, international smuggling and abuse of illegal drugs. It implements elements of our National Drug Control Strategy calling for reducing production of these drugs abroad, and preventing their smuggling to the U.S. It provides training, advice and material support to equip other governments with institutional capabilities to make their treaty commitments effective enough in practice to protect the American people from dangerous drugs originating abroad.

In fiscal year 1998, the INC program will again fund training by DEA, Customs, Coast Guard and other USG agencies to improve capabilities of drug law enforcement agencies throughout the world, and in doing so will build relationships that enhance the ability of our law enforcement agencies to carry out their own missions of enforcing U.S. law. The INC program supports activities by the UN International Drug Control Program and promotes support by other donors to reduce production and attack trafficking in illicit drugs in countries, especially the major Asian producers of heroin, where our bilateral access is limited. Bilateral INC projects in selected countries where heroin and cocaine trafficking are most significant provide sustained training, advisory and material support to enhance the capabilities of their drug law enforcement institutions.

This program is not limited to drug trafficking. As important as it is, taken alone, this is like giving aspirin for a fever without antibiotics to cure the infection causing it. Our National Drug Control Strategy prescribes a comprehensive effort to break foreign drug sources of drug supply and production. The INC program includes significant elements whose purpose is not just to reduce the symptoms but to cure the problem, to permanently reduce production of the crops from which illicit drugs of abuse come.

The INC account includes a regionally funded aviation component that supports reduction of illicit drug crops by destruction with herbicides applied by USG-owned and -supported aircraft. These have operated effectively in Colombia, Guatemala, Panama, Venezuela and other countries. It also supports aviation aspects of our bilateral country projects in the three principal cocaine raw material source countries, Peru, Bolivia and Colombia. In 1993, the President decided that the INC account should include economic (formerly ESF) and military (formerly FMF) assistance provided since the 1980's to advance our drug control goals. The equivalents to these former programs are also now included in the INC drug source country projects.

In fiscal year 1998, over half of our INC request is devoted to bilateral projects in the three coca source countries, and aviation support for them. In these countries, our goal is not limited to drug law enforcement. We promote and support comprehensive programs by those countries to reduce and, within the decade of our National Drug Control Strategy, eliminate commercial-scale cultivation of coca destined for illicit cocaine production. This demands robust, efficient host government institutions for drug enforcement and interdiction, to control prices the illegal drug industry can offer farmers growing drug crops. It demands equally robust, efficient development of licit economic livelihood, to enable farmers to escape dependence on illegal coca and prevent re-establishment of the crop.

INC-funded assistance has helped implement a design worked out in the Peruvian government national drug control plan approved in 1994. By 1996, coca cultivation was reduced by 18 percent, to the lowest level since the mid-1980's. The National Drug Control Strategy identifies the enhanced support for INC activities in Peru reflected in this fiscal year 1998 request as one of its most important foreign drug supply control initiatives for the coming decade. Implementing the important long-term goal of eliminating illicit coca cultivation in Peru and the other cocaine source countries, will not be quick or easy. The INC program for 1998 and future years is an important part of the means by which we intend to get there. With continuing

support from Congress, we are persuaded that it is possible to do, and that we must do it.

CRIME AND CRIMINAL JUSTICE: NEW OCCASIONS TEACH NEW DUTIES

In fiscal year 1997, for the first time, the INC appropriation included a separate sub-element devoted specifically to assisting the criminal justice institutions of other countries to define and implement activities against forms of crime other than illegal drug production and traffic. The types and manner of assistance are familiar to us: funding the provision of training, professional and technical advice, providing material and financial support to criminal justice institutions, is something the INC program has been doing for drug law enforcement for two decades. The reasons our activities have been expanded to more aspects of the general issue of crime and criminal justice institutions, and some of the consequences of this expansion, are new and different occasions for the INC program. I would like to devote somewhat greater time and attention today to them.

Drug trafficking, in today's world, is far from the only criminal activity that reaches from beyond a country's borders to victimize its citizens. The same explosive economic, technological and social developments that globalized legal activities, and production and trade in illegal drugs, affected other types of lawbreaking. Once, it took being in a village to perpetrate a fraud. Today, a swindler can be physically half a world away from a victim. As the scope for illegal activity expanded, so did its organization; as legal businesses got bigger, so did illegal ones. Criminal organizations like the Sicilian Mafia, well known for centuries, expanded to global dimensions. Criminal organizations that gained transnational scope trafficking drugs from East Asia or Mexico entered allied forms of illegal activity, like smuggling aliens.

Crime on an organized, transnational basis has become a fact of the modern world. Cars stolen in the U.S. are sent illegally to other nations to avoid high import tariffs. The National Insurance Crime Bureau reports that 40 percent of all vehicles stolen off U.S. streets ultimately are moved to other countries, costing insurance companies and customers millions of dollars a year. Illegal immigration and alien smuggling reach into the U.S. and other industrialized countries; in Washington a year ago, a seemingly legitimate U-Haul truck had a minor accident, and was found to be packed with illegal Mexican migrants who had been smuggled some 3,000 miles in deplorable conditions.

The smugglers were tied to criminal organizations in Mexico. Nigerian criminal groups are wreaking havoc with American, European and Asian citizens. Last year, it is estimated that Americans lost $20 billion to Nigerian fraud scams—mostly in the insurance industry, but also with credit cards. In one recent instance, the trail of a costly telephone swindle in the U.S. led to Moldova, others to otherwise obscure island ministates in the South Pacific. Asian criminal groups in the U.S. and Europe exploit their own countrymen. Promising a better life, these groups smuggle illegal aliens into the U.S. or other countries, and then hold them hostage to large sums of money they will never be able to pay. Money launderers use sophisticated international banking and financial systems to legitimize the illegal proceeds of drug trafficking or other criminal activity, or illegally evade tax or other laws of individual countries.

The reach and complexity of these activities is by itself sufficient to compel us and the international community to recognize them as a greater and more immediate threat than our domestic law enforcement agencies have dealt with. However, the matter does not rest with this. Transnational criminal groups find a favorable business environment in debilitated legal institutions of formerly totalitarian states, like the former Soviet Union or Eastern Europe. Those criminal groups thus acquire a vested interest in perpetuating that institutional debilitation. They bring to corruption resources far greater than weak governments can dispose to prevent it. Where transnational criminality on a vast scale has an interest in seeing that courts belong to the highest bidder, impartial and authoritative judicial institutions essential to democracy will be stillborn.

The advance of democracy thus brings with it special challenges. As politically authoritarian or totalitarian systems break down, whether of the left, as in Russia, or the right, as in South Africa, their countries must develop new legal and institutional capacities characteristic of democracies to maintain law and order. Police officers whose approach to investigation was to round up usual suspects are utterly unequipped to deal with criminals experienced in evading mature law enforcement institutions in established and stable democratic states. The resulting political and social environment has tremendous possibilities for individuals interested in making money from others, without regard for law.

Transnational crime thus has two significant new dimensions. It reaches to subject ordinary American citizens in their home states and cities more directly to crime whose perpetrators are beyond the reach of U.S. law enforcement than has ever been the case before. The corrosive effect of transnational crime can debilitate, subvert, even destroy the institutions of a state responsible to act against it. Without functioning criminal justice institutions, there is no law. Without law, democratic political institutions that our foreign policy is to promote cannot function.

These are the twin elements of explanation and justification for this new component of the INC account. Projects and activities begun over the past few years, and sustained through fiscal year 1997 by the first INC criminal justice appropriation, will be maintained and enhanced under this requested appropriation for fiscal year 1998 to more effectively protect Americans from crime initiated abroad, and to further the development of criminal justice institutions indispensable to our foreign policy goals of preserving peace and stability and promoting democracy.

President Clinton used his address to the 50th Anniversary session of the UN General Assembly to call the attention of the global community to the emergence of nontraditional threats to the security of nations and the safety of citizens, including transnational organized crime. The U.S. has led industrialized countries through groups of experts of the G–7/P–8 countries to concert national policies and approaches to transnational crime issues. The Summit of the Americas follow-up ministerial meeting on money laundering in December 1995 approved a declaration calling for enlargement and improvement of action by governments in the hemisphere to prevent illegal money laundering, and providing for mutual consideration of government activities that once would have been jealously argued to be of no legitimate international concern. Actions in the Summit and other international fora to establish and define international norms relating to governmental corruption represent another aspect of growing governmental recognition of the national security dimensions of transnational crime.

With this INC program, the U.S. has led the world in developing programmatic responses to this global challenge in specific situations. Our experience over two decades of enhancing the institutional capabilities of other governments to define and implement national efforts against illicit drug trafficking is equally pertinent to law enforcement and judicial institutions addressed to other forms of crime. The Support for East European Democracy and Freedom Support Acts provided training, advice and technical assistance, including the establishment of an International Law Enforcement Academy at Budapest, to strengthen institutional capacities of formerly totalitarian governments in Eastern Europe and the former Soviet Union to establish and maintain institutions of domestic law and order appropriate to democratic society. The fiscal year 1998 INC criminal justice appropriation, along with SEED and FSA funding that will be allocated to INL, will help to sustain and support these activities as vital elements of our national foreign policy priorities in these regions. We recently agreed to a wide-ranging program to provide advice and assistance to South Africa to review, revise and improve its domestic criminal laws.

Much has been accomplished already. In fiscal year 1995, over 4,100 law enforcement officers from Central Europe and the former Soviet Union received training, a level that was sustained in fiscal year 1996. In 1996, 250 law enforcement officials from this region participated in an 8-week ILEA program for police managers, with the cooperation and support of instructors from Germany, the UK, Canada, Italy, Russia and the council of Europe.

In our immediate region, INC-funded training in stolen vehicle detection and recovery in Panama, El Salvador, Honduras and Venezuela supported an initiative, developed in cooperation with the National Insurance Crime Bureau and the FBI, to establish treaty arrangements to identify, recover and return stolen vehicles to owners. In 1997, this initiative is being expanded to Central Europe. A Caribbean Crime Initiative against organized criminal activity has been developed, and training such as, for example, a regional witness security program has been provided to improve protection of witnesses prior to and during trial.

New extradition treaties with Bolivia, France, Poland, Cyprus and Spain better respond to the realities of modern transnational crime, and reflect the willingness of governments in a wide variety of nations to cooperate to prevent criminals from evading prosecution by fleeing to other countries.

During fiscal year 1998, the requested INC appropriation will fund law enforcement training programs and technical assistance to the New Independent States, Russia, Central Europe, Latin America, Africa and East Asia, provided by federal, state and local law enforcement agencies, the Department of Justice's International Criminal Investigative Training and Assistance Program (ICITAP), and other organizations. The program will place particular emphasis on money laundering, alien

smuggling, and enhancing the institutional capabilities of other governments to combat organized and financial crime.

In Russia and the New Independent States, and in Central Europe, INL-managed training funded by INC, FSA and SEED funds will be offered to strengthen the capacity of criminal justice institutions to act against organized crime, including financial and white collar crimes, illegal drug traffic, and traffic in nuclear materials. Training is offered in basic law enforcement techniques, and advanced technical assistance programs will be continued in Poland, Czech Republic, Bulgaria, the Baltics, Slovakia and Hungary, and support will be maintained for the ILEA at Budapest. We will provide assistance to the NIS, Russia and Central European countries to combat alien smuggling by enacting anti-smuggling legislation, training and cooperation through existing international groups. A first regional training program on illegal migration was held in 1996 at the ILEA. These activities are carried out in close collaboration and coordination with Federal enforcement agencies, including the FBI—represented today by Director Freeh—and other Justice and Treasury agencies. These agencies participate in an interagency working group which coordinates training programs carried out for students from Central Europe and the NIS.

In Latin America and the Caribbean, the fiscal year 1998 INC appropriation will support civilian law enforcement training, and seek to establish a regional law enforcement academy modeled on the ILEA at Budapest. INC funds will support a third phase of the program to negotiate bilateral agreements on stolen vehicles, to provide standard procedures for recovery and return from Central America, and training for local law enforcement officers, to reduce the annual loss to car theft of several hundred millions of dollars by U.S. citizens. This program will be expanded to South America and other parts of the world where stolen U.S. vehicles are being marketed in large numbers.

In Africa, law enforcement training and technical assistance funded by the fiscal year 1998 INC appropriation will emphasize respect for human rights by demonstrating how U.S. criminal justice agencies function to enhance the rule of law. INC funding will support technical assistance to law enforcement agencies in South Africa responsible for preventing illegal trafficking in nuclear materials and weapons. In East Asia, INC-funded law enforcement training will be provided to institutions responsible for action against organized criminal groups involved in alien smuggling, and to prevent money laundering.

CONCLUSION: MILES TO GO

Our National Drug Control Strategy emphatically states that the metaphor of "war" must be recognized as totally inappropriate to our nation's drug problem. It is equally inappropriate to transnational crime. Wars are expected to end. They involve enemies that are nations, not unnatural transnational enemies whose only motivation is money. A democratic nation must utterly reject the concept of a "war" against its own people. The new transnational challenges of narcotics and crime demand responses different from the traditional international diplomacy of war and peace.

After the Second World War, the United States and Western Europe defined multinational security institutions in NATO, whose integration of national security activities once seen as exclusively sovereign prerogatives was unprecedented. We cannot use capabilities and institutional arrangements we created to confront the danger of war between sovereign nations to deal with the dangers of transnational crime and narcotics. The times and circumstances call upon us, however, to be equally innovative, and not allow precedent or tradition to block effective response.

The international community's response to transnational crime remains less comprehensive and mature than to that of illicit drugs. There is need for continued development of the global policy recognition that the threats of transnational crime and illegal drugs have become as much an element of global foreign policy as war and peace.

One important consequence of this is that governmental activities and agencies once considered purely domestic have developed, and must continue to develop, operational relationships on a permanent basis with comparable institutions of other governments. Sustaining representatives abroad of U.S. domestic law enforcement agencies such as the FBI, DEA, Customs Service, ATF and others must become not an ancillary and peripheral element of our diplomatic missions, but as central as any part of traditional diplomacy. Practitioners of traditional diplomacy, in our Foreign Service and others, must become conversant with the issues and professional expertise of law enforcement agencies. In turn, diplomats can offer to the enforcement agencies the support of a profession whose essence is leading other gov-

ernments to do, or not do, that which is in the national interest of one's own country.

In 1996, the Department of State worked with FBI to develop a five-year strategy for FBI staffing and operations overseas. The study published in June 1996 embodies the view that the traditional foreign affairs community and U.S. law enforcement entities must develop similar world views regarding the roles of U.S. law enforcement agencies in overseas programs. There has been good progress in recent years, but there remains work to do in streamlining mechanisms for overseas law enforcement staffing, law enforcement coordination within country teams abroad, and appropriate reporting from missions abroad to Washington agencies to facilitate coordination. In this context, I stress again that the oversight authority provided by law to the Chief of Mission in any country is central to the ultimate success of all policies and programs in those countries.

Our fiscal year 1998 INC appropriation is the broadest and most effective means by which coordinated assistance by U.S. law enforcement agencies is delivered to strengthen the capabilities of counterpart foreign institutions. The INC program is fundamental to framing and implementing U.S. national foreign policy responses to production and traffic of illicit drugs abroad, and transnational crime. It is a novel, significant employment of known programs and capabilities to respond creatively to foreign policy challenges of the next century, as we and others formerly did for those of war and peace. We must continue to define and implement new and innovative forms of multinational cooperation and collaboration against transnational criminal organizations. If the international community cannot define institutions and arrangements that respond to the imperatives of these challenges, the ultimate result will be as destructive to our nations and our peoples as any lost war in history. People die. People are deprived of their personal liberty by addiction to drugs. People are stripped of their property by criminals and their crimes. As our Founding Fathers so eloquently declared centuries ago, it is precisely for the protection of the citizen from such threats that democratic governments and institutions exist. Without effective institutions for the preservation of law and order, democracy itself cannot long hope to survive.

Mr. Chairman, I welcome your questions and those of your Subcommittee, concerning this request.

REMARKS OF SENATOR PATRICK J. LEAHY

Senator MCCONNELL. Our ranking member, Senator Leahy, would like to make an opening observation, too, and then we will go to questions.

Senator LEAHY. Thank you, Mr. Chairman. We had the Judiciary Committee meeting upstairs.

Senator MCCONNELL. Right, and I mentioned that that is where you were.

Senator LEAHY. Thank you. You deserve a great deal of the credit for giving the problem of international crime so much attention, both as ranking member and chairman of this subcommittee. You have been very, very strong on this and I commend you for it.

Director Freeh, you and I have had many conversations about this and I appreciate the effort you have made personally and the effort that members of your staff have made to keep me apprised, as well as other members, of the problem of international crime.

As Mr. Gelbard, I, and all the rest of us know, as we travel abroad and talk to people in these areas where we are trying to help them build a market economy, to build up a middle class, to support democracy, it all falls apart if crime is so prevalent that it invades everything you do in business, from getting your permits to being able to even open a door of a business.

PREPARED STATEMENT

What we have done in Budapest and elsewhere I think is extremely important and it will continue to have my support. I think

it is a daunting task. I did not even fully expect the enormity of it when I first started looking at it and I appreciate both of you being here and what you are doing.

I will put my full statement in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK LEAHY

Mr. Chairman, you deserve a great deal of credit for giving the problem of international crime the attention it deserves. It would be hard to think of anything in this bill more relevant to the American people. That is not to take away from anything else. It is simply to point out how serious a problem this has become—from Russia to Nigeria to Colombia, the power of organized crime and the drug cartels has grown sharply.

These countries are unable to deal effectively with these problems. Their police officers are under-paid, often poorly trained, and in many cases involved in criminal enterprises themselves.

The effect on foreign investment is devastating. American companies are not going to put up with all the bureaucratic headaches of doing business in Russia and the other NIS countries, if the system is run by organized crime.

Director Freeh, this subcommittee has tried to give you the resources to work with these countries to combat these crimes. I have heard that the International Law Enforcement Academy at Budapest is an excellent facility.

But training police is not enough. We also need to train judges, court personnel, prosecutors and defenders. And we need to help these countries rewrite their criminal codes. The State Department is doing some of this work. Let's not forget that the State Department is first and foremost responsible for foreign policy. You need to work closely together.

I think Mr. Gelbard knows of my skepticism about the international counter-narcotics program. We have spent an awful lot of money to stop the flow of drugs into this country, and it has not slowed one bit.

That is not to say we should not try, because I recognize that the drug cartels threaten democracy itself in the countries where they are strongest. But let's not fool ourselves into thinking that we are going to make a dent in the drug problem as long as the demand is there.

Let's also not repeat our mistakes. How many times have we sent aid to the armed forces in these countries, and closed our eyes to the human rights abuses, because of some misguided idea that the ends justified the means?

Last year I wrote a provision that became law, with the Chairman's support, which aims to keep our aid out of the hands of people who violate human rights. This is very important to me, and I want to be sure we agree on how to implement that law.

Thank you, Mr. Chairman.

INTERNATIONAL CRIME

Senator MCCONNELL. Thank you, Senator Leahy. I appreciate your kind comments.

Director Freeh, we have all, of course, read the recent stories about alleged efforts of foreign governments to influence the American political process. Obviously, this is a complex issue which the Governmental Affairs Committee and, hopefully, an independent counsel will pursue in all appropriate detail.

However, there are a few questions that I hope you can answer as this issue potentially bears on international crime.

Do we have a legal attaché in Beijing?

Mr. FREEH. No, sir; we don't. We have a legal attaché office in Hong Kong. The Congress has approved the opening of the office in Beijing. It has been funded. We have not yet been able to locate the agents who have already been selected to the Beijing office, which we need to do, we think, before July when Hong Kong reverts to the People's Republic of China [PRC] control.

Senator MCCONNELL. How would you characterize the FBI's coverage of Chinese criminal activities? Obviously, I would draw a distinction between individual or organized criminal enterprise versus officially sanctioned activities, such as have been at least alleged in the influence peddling stories.

Mr. FREEH. We have had quite a bit of law enforcement and criminal justice associations with the Ministry of Public Security—that is, the law enforcement agency in the PRC.

We had a recent case, actually, where we were able to return to the PRC an individual who was an employee of the Central Bank of the People's Republic of China, who embezzled and attempted to move several millions of dollars out of that bank in the PRC into North America. Working with the Ministry of Public Security, we were able to locate and return most of that money.

We work with them, as the DEA does and as the State Department does, in drug interdiction matters. We have had a number of the PRC police officers come to Quantico for some training and high level exchanges. We also work with them on a case-by-case basis through our legal attaché, as the DEA does. We have actually had some good successes with respect to those law enforcement matters.

Senator MCCONNELL. Jim Lilley, our former Ambassador to China, has publicly confirmed extensive official Chinese use of funds to attempt to influence the American political system. Would you agree with his assessment that this is a widespread, longstanding, serious law enforcement problem?

Mr. FREEH. One of the subjects that the grand jury and the task force is currently investigating are allegations with respect to not just illegal political activities and contributions, but also to the national security aspect—whether any of the funding, attempted funding, or planning originated not by an individual per se but by a foreign government, a state sponsor or ministry. That is really the heart of part of what our grand jury is currently doing.

I think the most I could probably tell you is that the allegations are in there. They are being treated very seriously. I have assigned 25 agents and an inspector full-time, with many other agents around the country and even in our legal attachés, to follow leads in that investigation. There is not a matter that has my attention to a greater degree right now.

Senator MCCONNELL. Including espionage, are you aware of any other criminal activities sanctioned by the Chinese Government?

Mr. FREEH. I don't know that I could go into this in a nonclassified forum. I would certainly be happy to provide you with some material, mostly of a classified nature, which has indications of perhaps other activities not necessarily relating to the Government, but to individuals perhaps associated with the Government.

Because of the nature of it, I don't think I could do it in open forum.

Senator MCCONNELL. Fair enough.

The White House Press Office has taken the position that an FBI agent and another NSC staffer misunderstood instructions to protect sensitive information regarding illegal Chinese activities.

[CLERK'S NOTE.—The White House claims crucial information on Chinese activities was never provided to senior policymakers or the

President—that all these people were unaware or uniformed about illegal campaign activities.]

Senator MCCONNELL. I think it is very unusual that a senior FBI agent with 25 years experience would not understand basic instructions regarding the dissemination of protected information and issue orders not to advise senior officials of important information.

It is my understanding that the Commander in Chief is both entitled to and should expect to have access to any and all information developed by our intelligence and law enforcement agencies.

Is there information not available to the President?

Mr. FREEH. With respect to national security matters?

Senator MCCONNELL. Yes.

Mr. FREEH. I don't believe so, sir.

I know the Attorney General is looking at all of the matters relating to the current investigations that are being undertaken and will make a decision, as appropriate, as to whether matters which are pursued or discovered in the context of a criminal investigation are appropriately disseminated to national security policymakers, including the President.

I believe that national security information at this point is being appropriately reported.

Senator MCCONNELL. Have you ever instructed an FBI agent not to make information available to the President?

Mr. FREEH. No.

Senator MCCONNELL. Did the FBI agent involved in this case have a record of misunderstanding security guidelines and procedures or a history of denying information to superiors?

Mr. FREEH. Not as far as I know sir.

Senator MCCONNELL. Can you shed any light on how the information was handled?

Mr. FREEH. I really don't know that I could say more than has already been publicly discussed. My understanding was that the national security staffers were going to be briefed on a matter which the Attorney General and I thought was very important and very significant. Neither I nor anybody on my staff placed any restrictions with respect to that information going up the chain of command in the National Security Council. I don't think such a restriction would make much sense.

I also note that the White House counsel on Tuesday, I believe, did issue a written statement which said, in effect, that one of the staffers had a recollection that the information should not be disseminated outside the room. The second staffer had no memory and was relying on the first.

The statement also said that the staffers elected not to brief that information up, even though the regulations they were aware of in the NSC would have permitted that. I think that is the state of the public record right now.

We certainly put no restrictions on that. When we came to brief the committees, we briefed the Intelligence Committees in the House and Senate, mostly senior staff. No restrictions were put on that briefing as to reports to the members. Otherwise the briefing wouldn't make any sense, in my view.

Senator MCCONNELL. What is the basic standard or threshold for advising a government official that he or she may be the target or an unwitting participant in a criminal effort?

Mr. FREEH. It is really a decision which is a case-by-case determination. We look at the information that we have and a determination is made whether there is any basis to believe that a criminal offense is being committed, whether or not the person who may be the recipient of the effort or the attempt is witting or unwitting. We weigh the national security concerns in terms of making sure that an official is aware of an unwitting attempt to influence him or her or some policy. But that is always balanced against a determination, sometimes based on very preliminary facts, that the person may potentially be a subject themselves of a criminal case, in which case we would reserve, perhaps temporarily, the advice and the notification.

It is really done on a case-by-case basis, looking at all the facts and determining and balancing national security interests against the protection of a criminal case.

Senator MCCONNELL. What I am trying to determine is if in briefing White House and other officials, did the FBI provide general warnings that an individual should be aware of possible illegal overtures from or was the FBI more specific in advising a course of action, such as United States officials should take steps to avoid contact with specific Chinese officials or individuals.

Mr. FREEH. Again, I could go into the subject matter of the June briefing with you. I would be happy to do that. But, it is a classified briefing, and I don't think I could do it here.

Senator MCCONNELL. There seems to be some confusion about why some members were advised of Chinese efforts which may have been targeted against them and others were not. The New York Times suggested you drew up a list of 30 individuals who might be the target of Chinese efforts. Yet it is suggested you only briefed a half dozen.

Is that accurate?

Mr. FREEH. That is basically accurate, sir. Six members—actually seven members—who were briefed were briefed on the basis of what we and the Department of Justice determined was very specific information, more than just general interest, and the determination was made on that basis. We also advised the staffs of both intelligence committees before we briefed the members.

Senator MCCONNELL. Was the information treated as a counter intelligence matter or as a criminal investigation? And did that determination affect the manner in which the information was handled or disseminated?

Mr. FREEH. It was treated strictly as counterintelligence, national security information. There was no indication then, and now, and in the period between that, that any of the people to whom we made notification were in any way involved or knowing of any improper or inappropriate activity, which is why we certainly advised them quickly.

Senator MCCONNELL. Do you believe all appropriate and standard procedures were followed in this investigation, and, more specifically, the handling and use of the information?

Mr. FREEH. We are reviewing, as we speak, that whole process. I want to make sure that we did appropriately bring the information as it was developed to the people who needed to have it.

I am not 100 percent sure that that was done, but I will be when I finish the review.

Senator MCCONNELL. Finally on this issue, have all the members with presumed interests in the matter been informed?

Mr. FREEH. They are being informed, sir. Yes.

Senator MCCONNELL. Senator Leahy, have you any questions?

Senator LEAHY. Yes.

Senator SPECTER. Mr. Chairman, might I interrupt for just a moment?

We are in the course of hearings down the hall on Conrail, so I cannot be present. But I wanted to come and say that I consider this a very important hearing. I thank the chairman for scheduling it and I will be following the transcript closely and working with you, Mr. Director.

Thank you for the interruption, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Specter.

Senator Leahy.

Senator LEAHY. It's always good to have you here, Arlen.

Senator SPECTER. And the shorter the better, perhaps. [Laughter.]

Senator LEAHY. Along the lines of the question the chairman was asking, have we found any indication of other countries doing similar things and have Members of Congress been warned about other countries?

Mr. FREEH. Not anywhere close to the degree that was involved in this particular situation, no.

Senator LEAHY. Have members been given warnings about other countries?

Mr. FREEH. Not to my knowledge.

Senator LEAHY. Director Freeh and Secretary Gelbard, you have been both involved in the question of training police officers. But there is also a need for qualified court personnel, judges, court reporters, prosecutors, defenders, and the revision of criminal codes.

When I have talked with some of the people in the Russian court system, there are things that we take for granted—public defenders, independent prosecutors, somebody who actually keeps a transcript—and I wonder if the FBI and State coordinate on this, and whether that further infrastructure training is in there?

Ambassador GELBARD. Yes, Senator, we do.

We have an interagency group that is set up to examine on a country by country and also subregional bases exactly the kinds of programs we provide funding for. What we try to look at is exactly as you say, Senator, the totality of what is required in the justice sector. Whether it is in Russia or, as I was mentioning earlier, South Africa, we are very concerned about training police in the right kinds of techniques, starting with the basic concepts of democratic, community based policing, but also prosecutors, public defenders, judges, and the legal framework that wraps it all up.

In Russia, for example, we have had two assistant U.S. attorneys who have been working out of the Embassy, advising various parts of the Russian Government, including the Duma, on revisions of

the criminal procedures code and the criminal code—the Duma and their executive branch.

We have had programs that fund training of public defenders and prosecutors working through the ABA, through the Justice Department, and so on.

We are trying to work increasingly, too, through State and local governments. Mr. Chairman, I would point out that we have been working in particular with the University of Louisville and the Southern Police Institute in Romania, Hungary, and Ukraine on some of these issues, too.

Senator LEAHY. Do you find that the private sector, the companies that may invest there, do they check with you on this? Do they ask you about this?

Ambassador GELBARD. Through our Embassy in Moscow, for example, there is a liaison relationship to discuss issues.

Senator LEAHY. Is it used?

Ambassador GELBARD. Excuse me?

Senator LEAHY. Is it used? Is it an active one?

Ambassador GELBARD. Yes, sir.

Senator LEAHY. Tell the two U.S. attorneys, the assistant U.S. attorneys who are over there that if they get to stay in townhouse No. 1 to be sure and lock the door. [Laughter.]

Ambassador GELBARD. I will do that, sir.

Senator LEAHY. I'm sorry. That's an inside joke, so to speak. [Laughter.]

Mr. Gelbard, we spent $103 billion between 1986 and 1996 on combatting drugs, $20 billion for international counter narcotics programs. During 1988 to 1995, drug cultivation, drug related activities increased in Latin America, the Caribbean, and Southeast Asia. The amount of cocaine coming into the United States has remained steady since 1988. We spend billions but the street price doesn't change.

We take money out of development assistance and put it into counternarcotics. Another $17 million has been requested for fiscal year 1998 for counternarcotics programs. Is it really making any difference?

Ambassador GELBARD. Yes; it is, Senator.

First, these are problems which took us a long time to get into, and the solutions are going to take a while. These are not issues which can be solved through short term solutions except in the cases of specific discreet arrests of individuals.

What we are fundamentally talking about here is institution building, trying to develop institutions in countries that either are new democracies or are democracies which have serious problems in terms of corruption. Whether those institution building mechanisms relate to something as basic as helicopter units or they involve longer-term problems, such as being able to develop strong judiciaries, these take a while.

We have seen some good, important results. For example, over the course of last year, we saw an 18-percent decrease, net decrease, in coca cultivation in Peru thanks in significant part, in overwhelming part, to efforts by the United States to support alternative development, which have caused farmers to walk away from the coca fields, along with strong interdiction efforts, which meant

support for the Peruvian police and military to stop the transit of coca and coca paste.

Senator LEAHY. But you know, in some ways I feel, with all the good intentions of everybody involved, I feel in some ways that some of these counter narcotics efforts are like King Canute telling the tide not to come in. We have cut down cultivation in Peru but the cultivation goes up somewhere else.

Frankly, I am becoming increasingly worried that we waste a lot of money. We send equipment to other countries—and I have an amendment on that that you are now supposedly following—to stop this. But the problem is here.

If we are going to have a huge demand in the United States for these drugs, with all the money from the United States, you are going to continue to have corruption no matter what you do. If you stop it in one country, it is going to come from somewhere else as long as the demand is here.

I think maybe at some point, as we try to decide how we presssure the Governments of Mexico, Colombia, Peru, and elsewhere, we here in the United States are going to have to ask ourselves are we doing that just to shift the blame to somebody else. If we cannot find some way to stop our adults and our children from using drugs, nothing you, I, the chairman, or anybody else can do is going to stop it.

Ambassador GELBARD. Senator, I agree with you fully. That is why this administration has developed a balanced strategy with more emphasis on demand reduction and more emphasis on supply reduction. But to continue the use of European metaphors with King Canute, we can't have a Maginot type of defense line. We cannot try to build a wall around the United States.

So what we are trying to do is put greater emphasis on both sides of the equation.

Senator LEAHY. I mentioned that I had written to Secretary Albright about my amendment prohibiting the transfer of U.S. equipment to units of security forces if members have been implicated in gross violations of human rights, unless the Government is taking steps to hold them accountable. I am told the administration intends to apply that law to all counternarcotics related assistance, including FMF and drawdown equipment.

Am I correct on the administration's policy?

Ambassador GELBARD. Yes, sir.

We take this issue very seriously. We have put great emphasis on this problem of end-use monitoring as it relates to human rights.

We sent out a telegram to all diplomatic posts on this issue. As I told your staff, I will be happy to supply a copy of that to you.

We have explained the amendment concerning the use of funds from now on. Posts were instructed that if gross human rights violations are reported to have been committed by any recipient units, they must report on steps taken by the host government to bring those responsible to justice.

We are making sure that units that receive any of this equipment, whether it is from our budget or FMF funds, have been examined with the utmost care.

We have started that, particularly with Colombia because of the overwhelming amount of assistance that goes to that country. I have personally discussed this issue with the Colombian Minister of Justice, with the former Colombian Minister of Defense, who is now their Ambassador here. Our Ambassador has worked this issue very carefully with all the appropriate people in the Colombian Government, and we are assuring, to the maximum extent possible, that any of this is avoided.

My bureau and the Bureau of Democracy, Human Rights and Labor also met recently with Amnesty International and reviewed all the steps we were taking. I am told we received a very positive reaction on that.

Senator LEAHY. Thank you.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Leahy.

Senator Campbell.

Senator CAMPBELL. Thank you, Mr. Chairman.

I would like to associate myself with some of the comments of Senator Leahy. To start with, I know that a lot of your mission, that of both of you, has to do with interdiction. But if Prohibition taught us anything some years ago, it was that you almost cannot reduce the supply unless you can reduce the demand, and as long as Americans, too many of them, think they just can't get along without drugs, we are always going to have to fight the war, which you are doing.

I know that both your agencies, as many Federal law enforcement agencies in the last few years in at least some circles in America, have sort of been under assault. I just want to reaffirm, as the chairman has, that you do have friends on this committee. I want you to know that I am certainly one of them.

I want to get back a little bit to terrorism and international crime, if I could, Mr. Chairman, just for a couple of questions.

As you probably know, Director Freeh, we are going to host the G–7 summit in Denver this year, which will bring leaders from the seven major countries, major industrialized countries, all into Denver at the same time.

We are also involved in this very, very difficult and extensive trial of the people who have been accused of bombing the Oklahoma City Federal Center.

I am a little bit concerned about how we are coordinating our efforts from a national and local standpoint. Certainly, Colorado does not have the resources to be able to keep a close eye on things and we know that these big international events, whether it is the Olympic games, the Super Bowl, or whatever, seem to attract nuts now because they know they can get international attention through the media if they do some outlandish thing as they did in Atlanta.

I would like to know a little bit, though I know some of the things you cannot talk about and I would not expect you to. I know that some of this is very carefully guarded information and that's fine. But I would like to know in what role, in general terms, the FBI is providing assistance to the G–7 summit in Denver.

Mr. FREEH. Yes; surely, Senator.

We have a dedicated set of resources, including a command structure back at headquarters. We call it our Special Events Program, which is a freestanding unit. This unit's assignment is to prepare for, assess, and then carry out the coordination as well as the operational deployment of not just FBI resources, but Federal resources integrated with State resources, for certain major events. You mentioned several of them. Certainly, there is the Olympics. In addition, this unit was involved during both Presidential conventions and also during the inauguration. Within 2 weeks last year, we had both the 50th anniversary of the United Nations with 200 world leaders and the Pope visiting. With the New York City Police Department, the Secret Service, the Department of State, and many other agencies, a plan was put together which was very well coordinated and also, thank goodness, very successful.

We are doing the same thing with respect to the Denver G–7 Summit. We have already started the planning. Actually, the planning has been going on for several months, coordinated by the FBI but in close conjunction with the Secret Service, the Department of State, and particularly the Bureau of Diplomatic Security. We also use the intelligence agencies for collecting any information which will be available pertinent to the security of that event. All of the State and local authorities, not just the police authorities but the rescue authorities, the emergency response, and FEMA are part of that integrated planning. It is actually a very complex written plan.

Senator CAMPBELL. Excuse me for interrupting, but is that done through what is commonly called the interagency task force?

Mr. FREEH. Yes; that is one mechanism for doing that. But just to give you an example, with respect to the Olympics planning and some of the more recent events, we even liaison with the military to insure that, if necessary, we have special capabilities available for any extraordinary problems that might arise.

I would be happy to brief you and actually show you the plan that we have. It is being done very closely with the State and local authorities of Colorado.

Senator CAMPBELL. If I could arrange a time, I would like to see that, and I think that Senator Allard, the other Senator from Colorado, would also like to, too.

Ambassador GELBARD. May I add a point to that, please?

Senator CAMPBELL. Yes; please do.

Ambassador GELBARD. An additional thing that I think would be of interest to you is that, starting with the Lyons Summit and now moving toward the Denver Summit, we have made working with our allies in the G–7 and Russia, which is now a part of this process, the issues of international crime, terrorism, and drug trafficking fundamental parts of those summit processes in terms of substance.

We are now chairing a major group comprised of those countries that is working toward implementation and development of some new major initiatives which would be announced at the summit based on the work that was done at Lyons.

Senator CAMPBELL. These will be announced in Denver?

Ambassador GELBARD. Yes, sir.

We had a first meeting under the U.S. leadership in January. A second meeting will be taking place here in Washington next month, and we are continuing to develop some very strong initiatives dealing with transnational crime in working with the G–7 and Russia in the PA context.

Senator CAMPBELL. Maybe I should ask you the important question since you are going into a great deal of detail. Do you have the financial resources to do this?

Mr. FREEH. Yes, sir; we do.

Senator CAMPBELL. Without any additional funds you think you will be able to do this?

Mr. FREEH. Yes; I think so. I mean we don't have, unfortunately, separate line item funding for those matters. Funding is coming out of our general operations budget, just like our investigation in New York in the TWA case. We spent several millions of dollars. We don't have any special funding or special appropriation for that, particularly in this case because it has not yet been ruled a criminal act or an act of terrorism. But, it's the same with the G–7 Denver planning. That is coming out of our general operations funds.

Senator CAMPBELL. There seems to be an escalation of work for you, an unexpected one, such as the bombing or the disaster that that plane went through. I was concerned that you have the resources to be able to keep up with those, that unexpected growth.

Let me just get to one other question, Mr. Chairman. Director Freeh, perhaps both witnesses, mentioned about some of the escalation of crime going on in the new democracies, the countries that are trying the democratic way. There are some increased activities in some very, very sophisticated countries, too.

I have been interested in reading lately about the increase of gangs in the Scandinavian countries. They certainly do not have a new culture, but they have a new situation which they have never dealt with before. I think maybe it is because they don't have the equivalent of RICO or some of the statutes that we have in place to combat this.

They have been using pretty strong firepower against each other in control of the drug trade, including rocket launchers, grenades, automatic weapons, and so on.

They were referred to in the newspapers as "biker gangs." But, as I understand it, most of them do not ride motorcycles, though some of them do and, therefore, they are called biker gangs.

Because the Danish Government has called on the United States for some help, I would like to ask you what is the FBI doing to assistant Denmark in particular? Can you speak to that?

Mr. FREEH. Yes, sir; I can.

We, not only in Denmark, but also in Sweden.

Senator CAMPBELL. Yes; all three of the Scandinavian countries.

Mr. FREEH. Their Minister of Justice and the heads of their police agencies have been here. We have met with them. We have given them briefings on our violent crime techniques and investigative strategies. Since then, we have had an exchange of officers and experts. We have also offered to furnish them additional assistance.

As you point out—I understand that their statutory ability to deal with certain types of enterprise crimes, even on a simple conspiracy level, are not what they are in this country. They don't

have the history of statutory law or case law to criminalize large enterprises. It is more of an individual case-by-case determination.

They have asked us about our investigative techniques. We have given them briefings on our use of informants, undercover techniques, and wiretapping. But, they do not have a lot of those authorities under their current statutes.

HIGH INTENSITY DRUG TRAFFICKING AGENCY [HIDTA]

Senator CAMPBELL. One report, Mr. Chairman, even said that one of these so-called gangs rents a government building to operate out of, which I found interesting. So we are way ahead of them in some of our abilities to deal with these gangs.

Let me ask one other question, if I can, which deals with another group, an agency, called the High Intensity Drug Trafficking Agency [HIDTA]. We have had an increase in drug traffic in Colorado. As you put more pressure on drug traffickers in California, they look for the line of least resistance, and we have found a marked increase in Colorado.

Last year we managed to get a HIDTA office set up in Denver, one in Salt Lake City, and one in Laramie, WY, too, which basically are to coordinate other agencies in the reduction of drug trafficking.

I want to ask, Mr. Gelbard, if you could reflect on how your agency is working with HIDTA.

Ambassador GELBARD. Well, Senator, we actually do not because our programs are all international. But this is something that General McCaffrey and the law enforcement community work on very closely.

Senator CAMPBELL. I assumed that since a lot of this is coming up over the border into Mexico and then through New Mexico into Colorado there might be some involvement with your agency.

Ambassador GELBARD. Our programs are fundamentally directed to working with agencies that work internationally and with foreign governments.

Senator CAMPBELL. I see. Thank you.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Campbell.

This question is addressed primarily to you, Ambassador Gelbard, but I might ask Judge Freeh if he has anything to add.

Focusing on Asia, I understand Singapore is becoming the key money laundering haven of choice for Asian drug traffickers. So it looks like they are busy not only in Scandinavia but in other places.

Is this due to the bank secrecy laws? Either of you may respond.

Ambassador GELBARD. We are very concerned about significant money laundering efforts in a number of countries in Southeast Asia. Singapore is certainly one of them.

We have been pressing the Government of Singapore to undertake some fundamental legislative reforms to try to develop internationally accepted standards and laws as developed through the financial action task force.

This is a high priority for us because we are very concerned about drug funds being laundered through there, particularly funds from Burma. We are also pressing the governments, particularly

the Government of Thailand, which assures us, most recently at a meeting that I had with their Ambassador this week, that they will be presenting a law to their parliament shortly. In fact, this was a subject that President Clinton raised with their prime minister during his visit there in November, and we are pressing other governments in the region to undertake similar measures.

Senator MCCONNELL. Do you have anything to add on that, Judge Freeh?

MONEY LAUNDERING

Mr. FREEH. We are, as part of the 4-year plan approved by the Congress, planning to open up a legal attaché office in Singapore next year. My counterparts in the Singapore law enforcement authorities have expressed an interest in information about our money laundering strategies here in the United States; the statutory authority that we use; and, how we implement that on an enforcement basis.

I think that that presence over there, in addition to many other matters of mutual interest including counterterrorism, will help to begin to address the concerns that Ambassador Gelbard has spoken about.

Ambassador GELBARD. I should add, Mr. Chairman, if I may, that we have been pressing through the financial action task force for the establishment of an Asian Financial Action Task Force. This is now coming to fruition. We see this as a mechanism to try to get regional cooperation to develop the highest level standards that we can on this issue.

Senator MCCONNELL. Ambassador Gelbard, shifting to Burma, as you know I have been a leader of the movement to enforce unilateral sanctions against Burma and I plan to try that again this year. It was watered down on the floor of the Senate last year so that we ended up with something considerably less tough.

Focusing on Burma, I am convinced that only a democratic ally with common principles could be counted on to engage in a serious effort to combat narcotics. I also agree with observations you made in the Far Eastern Economic Review that SLORC officials are exploiting drug trafficking money and the longer the political impasse continues, the more embedded the drug trade is likely to become.

Given your views, can you explain why our Chargé recently hosted a meeting in his home involving U.S. Senators and drug traffickers identified in the International Narcotics Control Strategy Report?

Ambassador GELBARD. The meeting which took place, which was in November of last year, was done on the occasion of a visit by a Senator. This was done when there was a request for a meeting with Aung San Suu Kyi. The SLORC requested that other political parties be included, too, and Aung San Suu Kyi also supported that view, as I understand it from our Embassy, because, according to our Embassy, she felt that this would add to her legitimization and support within the country because of being seen with other political leaders.

Parties were asked to supply individuals to this meeting and two individuals whom we, in my bureau, discovered later to be associated with drug trafficking were present. In particular, it was Matu

Nao of the Kachin Defense Army, and Tin Ying of the New Democratic Army.

We were obviously deeply disturbed and shocked to discover this. We have instructed our Embassy about contacts with any such individuals in the future and particularly organizations which we feel might be associated with drug traffickers or have drug traffickers involved and how they are to deal with them.

I should say that in the past I have noticed that the SLORC has gone out of its way to try to make sure that when Members of the United States Congress are in Burma that there are suspicious individuals who do meet with them in a variety of circumstances. And in the occasions with which I am familiar, Members of Congress unknowingly have met with such individuals, sometimes without having had contact with the U.S. Embassy or the U.S. Government before they did this.

We are obviously very, very concerned about this. That is why we sent out an instruction immediately afterward regarding future conduct for the Embassy in terms of its contacts.

Senator MCCONNELL. Are you saying, then, that it was inadvertent and also unavoidable? Or is it avoidable in the future? What are you saying?

Ambassador GELBARD. In this case it was inadvertent. There are, obviously, as you very well know, sir, many organizations, many ethnic group entities in Burma which have individuals involved who are related to drug trafficking. It is not unavoidable.

We want to have senior officials of our Embassy avoid contact with those individuals and they have been so instructed. And we obviously want to make sure that no Members of Congress have contact with such individuals when we can have any say in that matter.

BURMESE DRUG LORD

Senator MCCONNELL. Khun Sa, the notorious Burmese drug lord, now lives in a Rangoon villa, openly enjoying the fruits of his ill-gotten profits. Has the United States formally requested his extradition?

Ambassador GELBARD. I believe we have, sir. In fact, I am on record as having said over the last several years that we have strongly believed that the SLORC had no intention of really trying to get Khun Sa out of the business. I said so in a press conference in June 1995 in Bangkok and was lambasted for that by the SLORC. I felt good about that.

Senator MCCONNELL. You should.

Ambassador GELBARD. But it is, in fact, our view that Khun Sa is still in the business. We do not feel, I do not feel personally, that he ever left the drug trafficking business and I have reason to believe that he is back associated with heroin trafficking and certainly associated with major amphetamine manufacturing. This major amphetamine effort is not directed at the United States. We have no reason to believe that this is coming here. However, we are well aware that there is a massive amount of amphetamines coming out of the area in which he was located that now are being consumed in Thailand and in other countries in Southeast and in East Asia.

We have every reason to believe, of course, that he is under the protection of the SLORC. As you well know, Mr. Chairman, he has been given the honorific of "Gu," and he has now been elevated to a position of great honor. I think it is yet another demonstration, and I'm sure you would agree, Mr. Chairman, of the criminal activities of the SLORC.

Senator MCCONNELL. Since my proposal for unilateral sanctions was defeated, there was a substitute offered by Senator Cohen and supported by the administration. It did have some criteria in it which I do not have in front of me. But I am curious as to whether you think those criteria have now been met.

Ambassador GELBARD. Sir; I couldn't hear you.

Senator MCCONNELL. Have the criteria of the Cohen amendment targeted at Burma now been met?

Ambassador GELBARD. We are studying that right now. There is a policy review in the administration and I hope we will come forward with a conclusion to that shortly.

Senator MCCONNELL. When?

Ambassador GELBARD. Shortly. I recently discussed this with Secretary Albright and I know she is deeply engaged and concerned about this issue.

CHINESE COOPERATION ON COUNTERNARCOTICS

Senator MCCONNELL. Well, we are looking forward to hearing from you soon. I am looking forward to hearing from you soon because I think the criteria of the Cohen amendment have obviously been met by the recent escalation of arrests and activities which threaten Aung San Suu Kyi and others.

I have one final question before turning to Senator Shelby.

This is still focusing on Burma. Can you describe the extent of Chinese cooperation on counternarcotics in that part of the world? With an increase in local addiction rates, I would think they would be increasingly willing to work with us on a solution to shut down the Burma border. I just wonder what you might be able to add on that subject.

Ambassador GELBARD. We have discussed this issue periodically with the Chinese Government. I led a delegation to China in January 1994, which included two officials from the FBI, incidentally. In the course of that trip, I visited Yunan Province, right across from the border.

It is exceedingly clear, tragically clear, as you state, Mr. Chairman, that China is suffering seriously. Addiction is up, which means HIV and AIDS infections are up. I visited, in fact, a rehabilitation center and it was truly tragic to see this.

The Chinese Government has been attempting, as I understand it, to engage particularly with the northern ethnic groups near their border on alternative development programs and on other kinds of programs to try to wean peasant farmers out of opium poppy cultivation.

They have a direct vested interest, obviously, and they have been engaged also talking to the SLORC, trying to put greater emphasis on greater action from the SLORC on this problem.

One of the fundamental problems, though, that we continue to have not just with China but with all the countries in Southeast

Asia, too, is their strategy of so-called constructive engagement with the SLORC. I simply do not believe that is feasible.

Senator MCCONNELL. But that has been our strategy as well, has it not?

Ambassador GELBARD. I wouldn't call it that, certainly not on drug issues.

Senator MCCONNELL. How would you characterize it?

DRUG ISSUES

Ambassador GELBARD. On drug issues, unfortunately, because we have no confidence at this point that they would be prepared to use funds appropriately, we do not provide funds to the SLORC. The only funds that have been provided have been those to OSS–1, earmarked under last year's budget by the Congress. Now I am interested in providing some funds to the U.N. drug control program for eradication of opium poppy in the Wa area with an alternative development program associated with it if and when—and only if and when—I am satisfied with the criteria that have been built into the program.

Senator MCCONNELL. Thank you.

Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman. Mr. Chairman, I was chairing another committee and that is why I was not here. I'm sorry that I missed the testimony and probably some of the questions. But I hope I am not redundant.

Judge Freeh, it is good to see you today.

Going back into, Judge Freeh, when you briefed the national security staff, or someone under you did. Is the purpose of the briefing generally to impart very important information to the national security staff that you believe they ought to know and ultimately that the President should know?

Mr. FREEH. Yes, sir.

Senator SHELBY. And you do this when there is a need to do it?

Mr. FREEH. Yes; it is actually done on a very regular basis.

Senator SHELBY. A regular basis.

Mr. FREEH. The FBI staff to NSC staff communication, both at a mid- and senior-level, is an ongoing process. It may happen several times a week on whatever matters are of interest.

Senator SHELBY. Judge Freeh, as the director, is there an expectation of some kind at the Bureau, at the FBI, that by briefing the NSC staff, which you do, on very important news, on explosive news, you are effectively notifying the President through the chain? Is that basically right?

Mr. FREEH. It is my understanding and certainly——

Senator SHELBY. That would be your hope, anyway, wouldn't it?

Mr. FREEH. Well, it would be my understanding and my expectation that we brief——

Senator SHELBY. Expectation.

Mr. FREEH [continuing]. Someone on the staff of a matter of interest, that that is a matter that is for the NSC. We don't have any particular interest or any responsibility to brief any single member of the NSC to the exclusion of anyone else.

Senator SHELBY. Absolutely.

Have you been concerned with the breakdown in this case that has been talked about in the press and otherwise in some of the committees, that information, very explosive information, was given to or allegedly given to the National Security Council staffers and it never went anywhere, so they say, from inside the NSC?

Mr. FREEH. Without characterizing the nature of the information——

Senator SHELBY. Well, you wouldn't call it routine information, would you?

Mr. FREEH. Well, we have discussed what the information was in a classified setting.

Senator SHELBY. That's right, we have, and I cannot get into that and you would not, either.

Mr. FREEH. Yes, sir. No. If somebody briefs a member of my staff, even at midlevel, on a matter which——

Senator SHELBY. It's important information.

Mr. FREEH [continuing]. If it's important information and they are briefed on it, I expect them to use their sound judgment to get it to me as appropriately as they can. That is the nature of briefings in Washington. The Director, the Attorney General, the head of the National Security Agency or staffs, counsels, cannot, would not have the time all day to just keep reporting things. That is why we rely on staff-to-staff briefings.

INTELLIGENCE INFORMATION

Senator SHELBY. But as the Director of the Federal Bureau of Investigation, when you impart information, important information to National Security Council staff, you need some kind of understanding or assurance that this critical, relevant, intelligence information—if that's what it was—is able to reach the President of the United States. Isn't that the purpose of why you're doing this?

Mr. FREEH. Depending on the particular information——

Senator SHELBY. Absolutely, sure.

Mr. FREEH [continuing]. Depending upon the context in which it is known and communicated, it is fair to say, and I would agree with the proposition, that it is my understanding and expectation that people at the NSC, just as people at the FBI, would use their judgment and prudence to decide whether an issue should be briefed up the chain.

Senator SHELBY. Would it ever be appropriate, in your judgment, for the FBI to attempt to restrict the dissemination of intelligence information to the NSC or the President?

Mr. FREEH. I cannot think of any instance where that would occur except in a very extraordinary instance, certainly not one that applied here.

Senator SHELBY. Are you aware, Judge Freeh, of any other time that the National Security Council staff was briefed by the FBI and that that information, when it was very important information, was not passed up the chain of command?

Mr. FREEH. Yes, sir; I can recall one. I would be happy to go into it with you at a different session.

Senator SHELBY. Yes; I understand.

Was this the same basic National Security Council under the Clinton administration?

Mr. FREEH. Yes; it was the current National Security Council.

Senator SHELBY. Mr. Secretary, shifting over to you for just 1 minute, what about the hard targets that you are after around the country? How are we going to deal with those? It is difficult to assess them. I understand your report notes the success and progress we have made against the drug trade in 1996. But I am concerned that it is difficult to actually measure what success is. You know, we hear so many horror stories and we hear all the others. And yet, we talk about success. Gosh, I want success. I know that the Director wants success. You want success.

But what kind of benchmarks or goals are in place to measure what success is? Are we playing games with ourselves or the American people? I hope not.

I know you are a serious person, but it seems like we are going backward in a lot of areas. Do you want to comment?

Ambassador GELBARD. I don't think we are going backward, Senator.

As I was saying earlier, before you arrived, this is a process. Trying to solve, trying to have success in counter narcotics is a medium to long-term proposition. This is a problem that took us a long time to get into and it is going to take us a long time to get out.

First, we have been on the domestic side trying to establish some clear benchmarks in terms of reducing demand. That is in the President's national drug control strategy, and there has been over the last several years——

Senator SHELBY. If we could do that, that would be a big step.

U.S. CONSUMPTION OF HEROIN

Ambassador GELBARD. There has, in fact, been some significant progress in terms of dramatic decreases in consumption of heroin and some other drugs—excuse me—of cocaine and some other drugs.

There is alarming news, as you are aware, Senator, in terms of teenage consumption of marijuana, now of heroin to a small extent, and a bit of cocaine.

U.S. consumption of heroin has been rising, but it still is very small compared to worldwide consumption. It only represents about 3 to 4 percent of worldwide heroin consumption.

Senator SHELBY. But aren't you disturbed by the fact that it is rising, the demand?

Ambassador GELBARD. Absolutely. I am disturbed both in my professional capacity and personally. As the father of a 16-year-old girl who does not take drugs—as far as I know—I am deeply disturbed when I see this happening nationwide.

Internationally, we try to set up benchmarks and goals both short-term and long-term. We work with the law enforcement community to establish both in the cocaine area and in the heroin area targeting systems. I don't want to get into how we do all that, but it is something where there is a clearcut process.

We have had real success working with the Colombian police, for example, and General Serrano, the head of the Colombian police, has been very generous in expressing publicly his support as they have been able to capture the leadership of the Cali Cartel.

We have had similar success recently in some other areas, in some other places around the world.

In Thailand, for example, our DEA, working with other agencies of the United States Government and the Thai police, have had enormous success in capturing some of Khun Sa's top lieutenants in an operation with which you are familiar, Mr. Chairman, called tiger trap. The Thai Government has started extraditing its own citizens to the United States—unprecedented.

We have targeted under the leadership of the Attorney General certain ideas in terms of getting countries to accept the extradition of their own nationals. We now have new world-class treaties that facilitate the extradition of nationals. We have just signed one with Argentina and Bolivia. Mexico has started extraditing its own nationals last year for the first time in history.

In eradication, we made dramatic progress last year. I mentioned earlier that Peru is the largest producer of coca in the world. You and I met, Senator, when you visited me in Bolivia.

Senator SHELBY. That's right.

COCA PRODUCTION

Ambassador GELBARD. We have seen dramatic progress, an 18-percent decrease in coca production in Peru. We saw a decrease in Bolivia. Unfortunately, we saw an increase in Colombia, but the Colombian police are working with great dedication spraying these coca plants.

I am optimistic in that sense that we have set out some clear benchmarks. General McCaffrey has shown great leadership in bringing together the interagency community on this. The law enforcement community on this I think is working better than ever before in terms of trying to do this.

As Director Freeh said in his opening statement, with the projection of more FBI personnel overseas, something we have worked on cooperatively, more DEA personnel, and other agency law enforcement personnel, we are now able to work on enforcement and training in much better ways than ever before, too.

Senator SHELBY. How concerned are you with the poppy growth in Colombia? You are dealing with coca and dealing with heroin.

Ambassador GELBARD. We are deeply concerned.

There was about a 7-percent increase in poppy cultivation in Colombia last year to approximately, I think, about—it's only about 15,000 acres. But that is high concentrate, with three crops a year. Almost all of that is directed to the United States market, and Colombians have taken over virtually all of the heroin market in the Northeast. You cannot find Southeast Asian heroin on the streets of New York anymore, I am told.

So we have targeted this as part of our major effort. All of Colombia's eradication efforts are financed through my bureau, and the Colombian police have been doing a superb effort in trying to target these very small patches of opium poppies and trying to eradicate them with great support from us.

We have now included American pilots to help train them on an on-the-job basis. Very sadly, we lost one of our pilots last year when his plane crashed. So we consider this one of our very top priorities.

We are also spraying opium poppies in Venezuela because the Colombian trafficking groups have now franchised into Venezuela. We and the Peruvian Government have heard rumors about moving into Peru.

We are working very closely with the Peruvian Government to seek this out and they are eager to eradicate that, too. So we are deeply focused on this issue.

Senator SHELBY. If 80 percent of the drugs coming into the United States, if this is true—I have heard those numbers used—is coming through Mexico one way or the other—trucks, cars, air, who knows—haven't we got, I would not say insurmountable problems, but a tough road to plough there?

Ambassador GELBARD. I think the figure is a little lower. We believe that probably it is somewhere between 50 and 60 percent of the cocaine, down from probably around 70 percent.

Senator SHELBY. OK, it was higher at one time.

HEROIN AND COCAINE SEIZURES

Ambassador GELBARD. It was higher. But we have embarked, we have been working with the Mexican Government and particularly with President Zedillo on what we consider to be very important efforts.

When you look at the statistics, it is very clear that arrests, eradication efforts, and seizures have all gone up pretty dramatically since he came into office. The amount of marijuana now being grown in Mexico has plummeted by one-half over the last couple of years.

Heroin seizures went up 79 percent in 1996 over 1995 in Mexico. Cocaine seizures went up a much smaller percent, about 7 percent, but the point is they are up.

What President Zedillo was faced with when he came into office was this. He identified this as their No. 1 national security problem, but he presses buttons, he pulls levers, and nothing happens because he recognizes that he has little in the way of institutional capabilities.

We are trying to work to support him, and the FBI, once again, is giving terrific support to trying to help develop institutional capabilities along with DEA, Customs, and other organizations, funded by us.

But this has to be a source, a fundamental focus, the biggest focus of our attentions.

Senator SHELBY. This may have been asked by Senator McConnell or others earlier when I was not in the room. I ask both of you how can we deal with governments whose higher officials that we have to deal with at the country to country level from time to time have been, we find out, corrupted by drugs or trade over the years? I know that some people would say well, gosh, that is the business of these countries, like Mexico or Colombia, whoever we deal with. But it is also our business because the caliber of people we deal with depends to a great extent on what we share with them, how much we trust them. That will go a long way on how well we deal with the drug trade down the road.

Judge Freeh.

Mr. FREEH. I think it is a two-part process. Part of it is the long-range institution building that the Ambassador spoke about. I mean, they need the training, the models, the resources to put together a capable force, and one that is honest and respected.

The other thing you do on an interim basis is you identify, by trial and error sometimes, the people who have the honesty and integrity to protect your investigations. For instance, in the early 1980's, we found a young magistrate in Sicily, Giovanni Falcone, who we found by experience could be trusted with our most sensitive investigations. He was privy to title III's, electronic surveillance informant information, and worked, until he and his wife were murdered by the mafia, with complete trustworthiness and courage.

In Russia, we have identified officers in the MVD with whom we have worked in very sensitive cases. In a case in New York, we arrested a guy named Ivankov, a very powerful member of a Russian organized crime group, who was taking root in New York City and organizing criminal elements there. We worked that case in a clandestine manner for a period of time with Russian officials.

We had Russian police officers with FBI agents in cars doing surveillances in Brighton Beach.

So I think part of it is trial and error, developing people through ILEA, through our training programs, who we can trust and rely upon. It is a very time consuming and very perilous process. We have to be very cautious how we proceed.

Ambassador GELBARD. There is another side to that coin, too. When we identify individuals who are corrupt, one of the new measures we have tried to really undertake with much greater intensity is something as simple as revoking visas.

The U.S. visa is a very prized commodity, and we have used this as a way of stigmatizing individuals. The President of Colombia had his visa revoked, as well as several other members of his cabinet and a significant number of members of their congress. It is known and it is a mark of Cain.

We have done it elsewhere. For example, in Thailand it is well known that two very senior politicians in Thailand had their visas revoked. This has been a source of controversy. But we are very confident about that view.

The good news, for example, is in the Western Hemisphere, increasingly governments are themselves concerned about corruption. For example, there has now been an inter-American Anti-Corruption Convention that has been approved within the hemisphere. Governments are coming to us and asking for assistance in setting up anticorruption measures.

One of the things our law enforcement community is helping with, or our police training people are helping with is setting up internal affairs units. Increasingly, we are working with governments to set up their own capabilities in those areas, too.

Senator SHELBY. Mr. Chairman, thank you for your indulgence.

RUSSIAN CRIME

Senator MCCONNELL. Thank you, Senator Shelby.

Let's wrap it up. You mentioned Russian crime, Director Freeh, so let's wrap this up with a Russian question.

Is the Russian mafia coming into the United States in a particular way? Is it individuals or is it groups, networks, and are they concentrating on sectors? Are they in drugs, are they in counterfeiting, or are they all over the place?

What form is Russian mafia influence in the United States taking?

Mr. FREEH. In respect to the first part of your question, there is a continuing presence in terms of individuals identified, sometimes prior to their arrival here, as members associated with Russian organized crime groups, who then do what other groups have done in the past. That is, organize cells and groups as Ivankov did in Brooklyn. They engage, we find, in a variety of different criminal enterprises across a broad spectrum.

For instance, we have cases in California where Russian organized crime members and fragments of groups here have worked on gasoline excise tax schemes, which require quite a bit of sophistication setting up paper corporations.

We had another group in the West who was investigated and convicted for a multimillion dollar health fraud scam. Ivankov was convicted in New York City for extortion, basic loan-sharking type extortion. The case that I mentioned, indicted recently in Florida, is a drug case in which discussions were had about getting a submarine from Russia and using it to transport drugs.

We find them involved in a wide variety of schemes, including complicated, sophisticated crimes. The sophistication of these groups and individuals is a symbol of their capability.

Many of them have continuing contacts with Russia, both financial and otherwise. They certainly look at the United States as a great place to do criminal business. They are also organizing, as they were in Florida, to bring drugs back into Russia and central Europe. There are also combinations that we and the DEA have seen between some of the Russian groups and South American narcotics groups, which is a very dangerous omen, I think, for everyone.

So there are individuals, they are organizing groups here, and they are involved in a wide variety of sophisticated criminal activity.

ADDITIONAL COMMITTEE QUESTIONS

Senator MCCONNELL. Both of you gentlemen have your work cut out for you and we wish you well.

There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing.]

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY

MEXICO

Question. I do not believe that decertifying Mexico is a wise approach at this point, but I am also very disappointed by how little success we have had in getting the Mexican Government to deal effectively with the corruption and human rights abuses by the Mexican police and armed forces. What specific improvement in these areas are you expecting from the Mexican Government?

Answer. Corruption and other abuses of official authority by law enforcement and military personnel continue to be very serious problems in Mexico. These abuses seriously impair the Government of Mexico's ability to combat drug trafficking effectively or, on a broader scale, to pursue needed reforms in other sectors.

President Zedillo recognizes that narcotics trafficking and related corruption pose the greatest threats to Mexico's national security and has vowed an all-out effort to combat them. The February 18 arrest of the national anti-drug coordinator underscores the problem, but likewise demonstrated the Zedillo Administration's determination to address it forthrightly. Some critics cite such revelations of narcotics-related corruption as evidence that the situation is getting worse. We view it differently. These revelations came as a result of Mexican government investigations, not external initiatives. We are encouraged that such revelations are a sign that things are improving.

The Government of Mexico has launched a major reorganization and reform effort within its criminal justice system, including creation of a new anti-drug law enforcement agency and specialized investigative units. The U.S. has offered to provide a comprehensive training and technical support package, drawing on the talent and expertise of many U.S. agencies. Training is underway, concentrating specifically on skills and procedures relating to implementation of the newly-passed Organized Crime Bill and anti-money laundering legislation.

This is clearly a long-term effort, and there will be failures and further disappointments along the way. However, it is in the long-term interests of both Mexico and the U.S. to keep pressing ahead.

In 1997, based on bilateral discussions, the two governments will seek to achieve:

—Tangible progress in dismantling major narcotics trafficking organizations, including arrest and prosecution of their leadership.

—Strengthened investigative and prosecutorial capabilities, as demonstrated by adequate screening, training and financing of the bilateral task forces and organized crime prosecutors unit.

—Enhanced interdiction effort, encompassing maritime and overland interdiction as well as air interdiction.

—Enhanced eradication campaign and other efforts to reduce the production of illicit drug crops.

—Enforcement of newly-published regulations that require reporting of financial transactions involving large sums of currency and suspicious circumstances, and implementation of the money laundering legislation passed in May 1996.

—Implementation of an effective asset forfeiture program.

—Implementation of an effective control system on diversion of precursor and essential chemicals.

—Enhanced relationship with the U.S. on extradition and return of fugitives.

—Expediting the mutual legal assistance treaty process.

—Investigation and prosecution of corruption at all levels of government, and complementary action to strengthen governmental institutions to prevent corruption and other abuses of official authority from recurring.

COLOMBIA DRAWDOWN

Question. You want to use your 614 waiver authority to make available $30 million in prior year military aid to the Colombian army and police.

I understand why you want to do this. I also understand that the police, who have a fairly good human rights record, cannot do the job alone. But it seems like every week my office receives a report of some atrocity by the Colombian army, or paramilitary groups they are linked to. Is this another example of the ends, no matter how hopeless, justify the means, no matter how contemptible? In other words, even though we know the army is corrupt and violates human rights, we are going to give them aid anyway because no one else can do the job? Isn't that what is really going on?

Answer. We share your concerns about human rights abuses in Colombia. As detailed in our human rights report, the situation is grave and complex, with violations committed by many different groups. The Administration believes that the type of assistance under consideration for Colombia is not only critical to the types of programs we must continue with elements of the Colombian government committed to counternarcotics efforts, but is also vital to the national security interests of the United States.

In this regard, the plan under consideration would provide equipment to the Colombian National Police and those elements of the Colombian Armed forces which support them. As a matter of policy, the Colombian Army provides essential ground

support for eradication (spray) missions and seizes and destroys labs and drug shipments jointly with the police.

In addition, training designed to improve performance on counternarcotics activities, promote professional development, foster respect for human rights, civilian control of the military and improved military justice would be provided using International Military Education and Training funds.

We are currently weighing carefully what types of equipment we might provide to selected military units with a CN support role. Please be assured that, in keeping with the spirit of recent legislation requiring human rights conditions on International Narcotics Control (INC) funds, we will extend the spirit of these human rights conditions to all USG counternarcotics assistance to Colombia's security forces.

Embassy Bogota has been working to improve end use monitoring (EUM), especially vis-a-vis human rights concerns. The finalized procedures for the 506(a)(2) transfer will serve as the basis for monitoring any equipment that might be provided under the 614 waiver. We will review the human rights record of personnel in recipient units prior to providing counternarcotics assistance. Ambassador Frechette is finalizing an EUM agreement with the newly-appointed minister of defense. The proposed agreement will safeguard against use of USG-origin equipment by known human rights violators, and will provide a mechanism for transfer out of the unit of any individual who is alleged to have been involved in serious human rights violations, without prejudice and in accordance with Colombian law, while the allegations are investigated.

NIGERIA

Question. The Nigerian Government is notoriously repressive. I wish they spent half as much effort fighting drug traffickers, as they do repressing legitimate dissent by their own people.

Nigeria has become a major narcotics transit center. I don't know if the Nigerian Government is directly involved in the drug trade, but it clearly tolerates drug activity and the corruption associated with it. The State Department called Nigeria's counter-narcotics efforts in 1996 "inadequate" and "marginal." What hope do you see there for a more cooperative relationship?

Answer. Although we characterized Nigeria's counter-narcotics efforts in 1996 as "inadequate," there were some positive developments. For example, although the majority of drug-related convictions were of minor traffickers, the Nigeria Drug Law Enforcement Agency (NDLEA) reported that the GON did convict 537 narcotics producers/traffickers in 1996. The NDLEA also improved performance and cleaned up corruption within its ranks, firing 600 corrupt NDLEA officers. In addition, in collaboration with the UN Drug Control Program, Nigeria developed a national strategy to reduce demand for drugs.

In December 1996, Jonathan Winer, Deputy Assistant Secretary in the Bureau for International Narcotics and Law Enforcement Affairs, led an eleven-member interagency team to Nigeria. Although the delegation's principal mandate was the discussion of money laundering issues, the Government of Nigeria (GON) was extremely forthcoming in providing access to high-level officials across the board, and wide-ranging discussions took place on a variety of law enforcement issues, including narcotics trafficking, immigration and deportation issues, extradition, "419" (advance-fee) fraud, international criminal activity by Nigerians, and more effective sharing of crime-related information. Team members identified with their Nigerian counterparts a number of areas for future cooperation.

The team made it clear that the GON needed to provide evidence of its good faith in cooperative efforts by resuming extraditions of Nigerian nationals wanted in the United States on narcotics and other criminal charges. Though the GON agreed with this request and promised that extraditions would resume, to date none have taken place. When the GON told us that all extradition packets previously submitted had been lost and requested resubmission of new packets, the Department of Justice quickly resubmitted the most significant cases. Although the US Government continues to work towards a more cooperative relationship with the Nigerian Government on counter-narcotics, we are discouraged by the lack of progress so far on extraditions.

ALTERNATIVE CROP PRODUCTION

Questions. I understand that a small part of funds in this program go to support AID's efforts to teach farmers to cultivate legitimate crops rather than coca. How much are we spending on these programs, and where have they been successful? Should we be spending more resources on these efforts?

Answer. The International Narcotics Control program for fiscal year 1997 includes $66,208,000, 34.3 percent of narcotics programs, for illicit crop reduction by economic incentives, eradication and related programs. $80,800,000, 37.8 percent of narcotics programs, is requested for this purpose in fiscal year 1998. This includes opium poppy substitution in Laos, Pakistan and Thailand, and coca crop destruction by aerial herbicides in Colombia. The largest part, in excess of $43 million in fiscal year 1998, is to reduce coca cultivation in Bolivia and Peru.

In Peru, AID is implementing an alternative development project specifically designed to reduce coca cultivation by economic assistance to communities that undertake to prevent new and reduce existing coca. This began in May 1995, and is directly supported by coca crop verification surveys by another Peruvian agency also supported by the INC program. In 1996, the U.S. Government estimated coca cultivation in Peru at 94,400 hectares, 18 percent less than in 1995, and the lowest figure in Peru since these estimates began in 1986.

In Bolivia, since the 1980's, in conjunction with that government's program for voluntary compensated eradication of coca by growers, AID assistance greatly increased licit crops and economic activities in the main coca region. Verified eradication of coca since 1988 exceeds 40,000 hectares. While planting of new coca has kept this from correspondingly reducing net coca cultivation, we are reviewing this program with a view to attaining net reduction on a national basis.

The 1997 National Drug Control Strategy recognizes that specially designed rural development assistance can reduce coca destined for illicit drug production. Our goal is to greatly reduce and hopefully eliminate large-scale coca cultivation during the ten-year Strategy period. However, it is vital to recognize that economic alternatives cannot do this alone. These projects depend for success also on reducing prices drug traffickers pay farmers for coca products, which depends on effective action to control illicit drug trafficking. These activities similarly depend on this appropriation. It clearly would be advantageous to increase support for alternative development, but if support for activities against illicit drug traffic is not also correspondingly enhanced, alternative development by itself will fail to produce its intended result.

SUBCOMMITTEE RECESS

Senator McCONNELL. Thank you, the subcommitee will stand in recess until 11 a.m., Thursday, April 17 when we will receive testimony from Charles Kartman, Acting Assistant Secretary of State.

[Whereupon, at 12:10 p.m., Thursday, March 20, the subcommittee was recessed, to reconvene at 11 a.m., Thursday, April 17.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

THURSDAY, APRIL 17, 1997

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 11:10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Bennett, and Leahy.

DEPARTMENT OF STATE

STATEMENT OF HON. CHARLES KARTMAN, ACTING ASSISTANT SECRETARY OF STATE

ACCOMPANIED BY:
AURELIA BRAZEAL, DEPUTY ASSISTANT SECRETARY
JEFFREY BADER, DEPUTY ASSISTANT SECRETARY

OPENING REMARKS OF SENATOR PATRICK LEAHY

Senator LEAHY. I am Patrick Leahy and the ranking member on this subcommittee.

Senator McConnell has asked me to start the hearing because he is tied up in the Rules Committee. And to make it more difficult, the Rules Committee changed its schedule at the very last minute. He will be here as soon as he can.

Mr. Secretary, we appreciate you coming down here to testify. I know that discussions are underway in New York with the North Koreans. And I realize that this means that you have to do what, unfortunately, Senator McConnell and I have been trying to do today, which is to be in two places at once.

I have talked with the President on occasion about what we are trying to do in Korea, to feed starving people. But obviously, we have some concerns, about where the food aid goes and where not. We do not want to make it easy for the North Koreans to do whatever they want militarily, while we send them humanitarian aid.

I also want to say that I fully support Senator McConnell's efforts in Burma. The SLORC regime stole the democratic election. Aung San Suu Kyi remains in virtual house arrest. Hundreds of her supporters have been jailed.

We had legislation passed last year. I believe those conditions have been met. I think the President has to impose the sanctions the bill calls for. And I intend to keep pushing for that.

I have very serious concerns about the Chinese Government's assault on civil liberties in Hong Kong. I have visited Hong Kong many times. Anyone who does not see that the Chinese are systematically dismantling the underpinnings of democracy, are fooling themselves.

Perhaps some felt comfortable when former Prime Minister Thatcher announced that this was all worked out. It now seems that, to some extent she, too, was fooled. But we should not allow ourselves to continue to be fooled. I think we need to speak out very forcefully, and to be prepared to use our economic leverage to counter that assault.

In Indonesia, the Suharto government, which is among the world's most corrupt, has sought to intimidate, arrest and brutalize its prodemocracy opponents. And in East Timor the human rights situation remains deplorable.

The Indonesian Government has dismissed the reports of political killings, disappearances, and torture and instead engaged in a public relations campaign to bury the truth.

Cambodia is another example of a corrupt government doing its best to subvert the forces of democracy. With Presidential elections scheduled for next year, Prime Minister Hun Sen's political opponents are being harassed and attacked on every front. And I am afraid that we are not doing enough to stand up for the forces of democracy there.

Having said all of that, I know the Pacific rim countries hold enormous economic and strategic importance for the United States. I saw that when I visited Vietnam, China, Hong Kong, and Taiwan last November. And obviously, we have to be engaged economically.

But we are the world's greatest democracy, the world's most powerful democracy. And we have to stand up, whether it is aggressively trying to prevent an arms race in the Far East or standing up for basic democratic principles.

We have been joined by the chairman. And under his new policy of trying to get look-alike Senators on either side of him when he is here. [Laughter.]

We have Senator Bennett from Utah. And if I might, Mr. Chairman, tell just one very quick story: And this is during the height of President Dole—Senator Dole——

Senator MCCONNELL. Thank you. We were hoping. [Laughter.]

Senator LEAHY. I know you were. [Laughter.]

Senator, so was he.

In Senator Dole's campaign for the Presidency, I had a Vermonter come up to me and say they were very, very pleased to see me giving strong support to Senator Dole.

And I said, "Well, Senator Dole is a very good friend of mine. I think the world of him, but I am a Democrat, and I am supporting President Clinton."

They said, "No, no; we have this photograph of you at a fund raiser introducing Bob Dole."

They brought out the photograph. And it was Senator Bennett and Bob Dole. [Laughter.]

And I guess we just all—if you are tall, bald, and white-haired, you all look alike. [Laughter.]

Over to you, Mr. Chairman.

OPENING REMARKS OF SENATOR MC CONNELL

Senator MCCONNELL [presiding]. I do not know how to top that. [Laughter.]

I am sorry for the delay. It is the case around here, there are a lot of things going on at one time.

Mr. Kartman, I understand you have been in New York participating in the negotiations with South and North Korea. We appreciate your interrupting that schedule to return here to testify today.

The policy and programs developed by your bureau are exceptionally important to U.S. security, economic and political interests. I believe the administration has worked and largely succeeded in assuring both friend and potential foe that we are a Pacific nation determined to sustain our presence and promote stability and mutual prosperity.

However, our strategic commitment is routinely challenged by a host of tough, tactical issues involving trade, human and civil rights, and both conventional and nuclear weapons proliferation.

In spite of our difference, every nation continues to seek active American leadership and engagement to maintain the balance of power which has afforded unprecedented economic growth and to a lesser, but still important extent, democratic rights as well.

Our involvement has eased regional concerns about Japan's and China's expanding strength as well as Japan's and China's concerns about each others emerging roles.

A decade ago, it would have been difficult to imagine the United States would join South Korea in responding to an international appeal to avoid famine in North Korea, a subject which dominates the front page of today's Washington Post.

And in the aftermath of Tiananmen Square, a peaceful transition in Hong Kong was not the currency of conventional wisdom.

But signs of progress are shadowed by some serious problems. And let me just mention a few before we get to your testimony.

With most favored nation [MFN] on the horizon, the debate continues over China's long-term intentions. Are we contributing to building a well-armed economic superpower with expansionist ambitions; or will economic growth yield political liberalization, with China increasingly assuming an important role as a responsible global leader?

Obviously, our decisions and China's choices will have a major impact on Hong Kong's future. In this context, let me both note and welcome President Clinton's decision to see Martin Lee. It sends a strong signal of American support for democracy.

In striking contrast, in Burma, the administration's record of support for democracy and Aung San Suu Kyi, has been extraordinarily disappointing. After 6 years, on July 10, 1995, Suu Kyi was formally released from house arrest.

Sadly as of last October, she seems to once again be under de facto house arrest. In addition, thousands of Burmese have been arrested, tortured, subjected to forced relocations and slave labor.

The United Nations and every human rights organization I am aware of has condemned SLORC's conduct and urged that Suu Kyi's legitimately elected government be restored to office. Since

July 10, 1995, the administration has told me our policy has been under review. Even on the slowest learning curve, 655 days is a long, long review.

Finally, turning to North Korea: Last week, the administration announced an additional contribution of emergency food aid for North Korea, bringing this year's total to $25 million.

I understand the World Food Program intends to target the most vulnerable sector by providing food primarily for children under 6. I think this is a position most of us will be able to support.

But this appeal only responds to 4 million of more than 18 million estimated to be on the brink of starvation. I understand from reliable sources that North Korea's public distribution system will run out of food for the general population, at the latest, by mid-July, obviously a worrisome prospect.

I also have been told that soldiers are not starving because the military runs its own farms to supply food. General Shalikashvili's recent comments that there has been no reduction in the level of military threat or exercises underscores that point.

PREPARED STATEMENT

Adding to the volatile mix is the North's nuclear capabilities. We are obviously engaged in a very delicate balancing act with North Korea, hoping to secure a permanent peace while trying to prevent a domestic crisis from erupting which could unleash a still very strong military threat.

Those are some of the items I assume you will touch on today and that we will be anxious to ask you about when we get to questions.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MITCH MCCONNELL

Mr. Kartman, I understand you have been in New York participating in the negotiations with South and North Korea. I appreciate your interrupting that important schedule to return here to testify.

The policy and programs developed by your bureau are exceptionally important to U.S. security, economic and political interests. I believe the Administration has worked, and largely succeeded, in assuring both friend and potential foe that we are a Pacific nation determined to sustain our presence and promote stability and mutual prosperity. However, our strategic commitment is routinely challenged by a host of tough, tactical issues involving trade, human and civil rights and both conventional and nuclear weapons proliferation.

In spite of our differences, every nation continues to seek active American leadership and engagement to maintain the balance of power which has afforded unprecedented economic growth and to a lesser, but still important extent, democratic rights. Our involvement has eased regional concerns about Japan and China's expanding strength, as well as Japan and China's concerns about each other's emerging roles.

A decade ago, it would have been difficult to imagine the United States would join South Korea in responding to an international appeal to avoid famine in North Korea—and, in the aftermath of Tiananmen Square, a peaceful transition in Hong Kong was not the currency of conventional wisdom.

But, signs of progress are shadowed by some serious problems. Let me tick off just a few of the issues I hope we can discuss today:

With MFN on the horizon, the debate continues over China's long term intentions. Are we contributing to building a well-armed economic super-power with expansionist ambitions? Or, will economic growth yield political liberalization with China increasingly assuming an important role as a responsible global leader? Obviously, our decisions and China's choices will have a major impact on Hong Kong's future. In

this context, let me both note and welcome the recent Presidential decision to see Martin Lee; it sends a strong signal of American support for democrats everywhere.

In striking contrast, in Burma, the Administration's record of support for democracy and its most vocal champion, Aung San Suu Kyi, has been disappointing. After six years, on July 10, 1995 Aung San Suu Kyi was formally released from house arrest. Sadly, as of last October she seems once again to be under de facto house arrest. In addition, thousands of Burmese have been arrested, tortured, subjected to forced relocations and slave labor. The U.N. and every human rights organization I am aware of has condemned SLORC's conduct and urged that Suu Kyi's legitimately elected government be restored to office. Since July 10, 1995 the Administration has told me our policy has been under review. Even on the slowest learning curve, 654 days is a long, long review period.

Finally, turning to North Korea. Last week the Administration announced an additional contribution of emergency food aid for North Korea bringing this year's total to $25 million. I understand the World Food Program (WFP) intends to target the most vulnerable sector by providing food primarily for children under six—I think this is a position most of my colleagues can support. But, this appeal only responds to 4 million of more than 18 million estimated to be on the brink of starvation. I understand from reliable sources that North Korea's Public Distribution System will run out of food for the general population, at the latest, by mid-July, obviously a worrisome prospect. I also have been told that soldiers are not starving because the military runs its own farms to supply food. General Shalikashvili's recent comments that there has been no reduction in the level of military threat or exercises underscore this point. Adding to this volatile mix, is the North's nuclear capabilities. We are obviously engaged in a very delicate balancing act with the North Koreans, hoping to secure a permanent peace while trying to prevent a domestic crisis from erupting which could unleash a still very strong military threat.

SUMMARY STATEMENT OF HON. CHARLES KARTMAN

Senator MCCONNELL. So why do you not proceed?

Mr. KARTMAN. Thank you very much, Mr. Chairman and members of the committee.

Together with my colleagues, Aurelia Brazeal and Jeffrey Bader, I thank you for this opportunity to present an overview of the administration's policy in East Asia and the Pacific.

We have submitted a detailed statement for you.

United States interests in the Asia-Pacific region are abiding and underpin our global foreign policy. Secretary Albright has said our commitment to the region is solid because it is solidly based on American interests.

We have strengthened our core alliances and reconfirmed our intention to maintain a forward troop presence in the region. We have also buttressed our other cooperative bilateral security arrangements and actively supported multilateral security dialogs such as the ASEAN regional forum.

We have aggressively promoted American economic interests and elevated the diplomatic profile of our efforts to address transnational problems in the region.

Secretary Albright has stressed that America has a vital interest in remaining a Pacific power. She gave testimony to that commitment in her meetings with leaders in Tokyo, Seoul, and Beijing as part of her first overseas trip as Secretary of State in February.

And last November, President Clinton underlined the United States intention to remain deeply engaged in Asia and the Pacific when he visited three important partners for regional cooperation, Australia, the Philippines, and Thailand.

I would now like to mention briefly some, but by no means all, of our key interests in relations in the region.

Any discussion of overall Asia policy should begin with the cornerstone of United States engagement in the region, our global partnership with Japan.

Most governments in East Asia see the United States-Japan partnership as key to political and military stability and to economic prosperity in the region. At the April 1996 summit in Tokyo, President Clinton and Prime Minister Hashimoto signed a joint security declaration reaffirming the importance of the United States-Japan alliance.

We have an ambitious program on global issues known as the common agenda. And we are encouraging Japan to promote strong domestic demand for its products, open its markets further to imports and to regulate its economy.

Although we have had some successes under the framework agreement, we need better implementation of existing agreements and outstanding issues such as civil aviation.

Let me now turn to Korea. Our goal in the Korean Peninsula is to build a durable peace on the Peninsula and to facilitate progress by the Korean people themselves toward national reunification.

As you mentioned, I have excused myself from the discussions that are going on in New York where, together with our South Korean allies, we spent several hours in intense negotiations with the North Korean delegation led by a Vice Foreign Minister. I will return there tomorrow.

These discussions are an effort to persuade North Korea to accept President Clinton and President Kim's proposal for four-party peace talks involving the North and the South, as well as the United States and China, concerning a reduction of tensions in the peninsula and the establishment of a permanent peace to replace the 1953 Armistice Agreement.

We are also discussing bilaterally with the North Koreans other important issues, including efforts to recover the remains of Korean war-era MIA's, proposals to end North Korean development and export of missiles and missile technology, and implementation of our commitment to exchange liaison offices in Washington and Pyongyang.

On a strictly humanitarian level, we have provided approximately $33 million in cash and in-kind support for emergency relief assistance, basically medical supplies and food for targeted sectors of the North Koreans.

It is difficult to predict the pace of progress in our dealings with North Korea, however. North Korea's economic difficulties have created opportunities for diplomacy, but they also pose dangers.

Our approach, which is in full coordination with the ROK, offers the DPRK a way to deal with its current crisis; that is, through responsible engagement with the United States, the ROK, and the international community.

Let me now turn to China. In recent months, few if any foreign policy issues have been the subject of more intense debate than China.

China is a major power whose influence will continue to expand in the 21st century. We seek a productive relationship with the secure, open, and successful China that is increasingly integrated

into the international system and a responsible member of the international community.

The administration is convinced that we can best advance our long-term interests by expanding and intensifying dialog with China's leaders at the highest levels. In line with this, we expect an exchange of state visits in 1997–98.

Secretary Albright's decision to visit Beijing as part of her overseas—her first overseas trip reflected the importance we attach to laying a firm foundation for bilateral relations.

Engagement with China should not be seen as implying approval of Chinese Government practices or policies. It is a vehicle by which we can expand areas of cooperation to advance our strategic interests, such as the search for stability on the Korean Peninsula.

It also enables us to deal forthrightly with China on issues where we have differences, including human rights, market access, and some of China's weapons and dual-use item sales.

Our bilateral trade deficit with China is a source of growing concern. Although the rate of growth of the deficit with China is slowing, its size, $39.5 billion, is politically unsustainable.

We strongly support China's entry into the WTO on commercially acceptable terms.

We have had serious difficulty with China on nonproliferation, largely over Chinese exports of arms as well as sensitive goods and technologies, primarily to Iran and Pakistan.

In the missile and chemical areas, we continue to have concerns about the nature of China's commitment to abide by the MTCR guidelines, and about China's willingness to strengthen its chemical export control system and curb its dual-use chemical-related transfers to Iran.

Human rights is an important issue in our relations with China. And we raise it at every high level meeting. We urge China to take steps to improve the human rights situation by releasing political prisoners and allowing prison visits by international human rights organizations.

In just over 2 months time, the world's attention will be focused on the reversion of Hong Kong. We expect China to honor its commitments to preserve Hong Kong's high degree of autonomy and its unique way of life.

Vice President Gore and Secretary Albright expressed our views regarding Hong Kong in meetings with Chinese leaders during their visits in February and March. And Secretary Albright will raise Hong Kong again when Vice Premier Qian Qichen visits Washington later this month.

Secretary Albright will represent the United States at the Hong Kong reversion ceremony, a measure of the importance we place on this event, our support for the terms agreed to by the British and the Chinese, and our interest in the future of Hong Kong.

Let me briefly highlight other important interests we have in the region.

One of the President's most significant, if sometimes overlooked, foreign policy accomplishments has been the elevation of the Asia-Pacific region in general on the foreign policy agenda.

Through his vision of a genuine Pacific community of interests, the President has elevated APEC to the leaders level.

The administration has also played a prominent role in shaping a new regional security architecture through the creation of the ASEAN regional forum and other subregional dialogs.

Regional dialog and architecture such as the ARF are designed to complement our existing core alliances, as well as cooperative security arrangements with other friendly nations.

However, as you noted in your statement, Mr. Chairman, in sad contrast to the largely positive trends elsewhere in the region, the people of Burma continue to live under a highly authoritarian military regime.

The SLORC refuses to engage the democratic opposition in dialog, and continues to engage in widespread human rights violations.

The activities of Aung San Suu Kyi and her party, the National League for Democracy, are monitored and circumscribed by the regime.

The Cohen-Feinstein Burma sanctions provisions, which were signed into law by the President on September 30, 1996, require the President to impose a ban on new United States investment in Burma under now well-known conditions.

We continue to watch the situation in Burma closely and will impose such a ban if the President makes that determination.

With the recent Senate confirmation of Pete Peterson as the first American Ambassador to Hanoi, I am confident we will be able to encourage more effective cooperation from the SRV on issues of national interest, especially on obtaining the fullest possible accounting for Americans missing from the conflict, which remains our top bilateral priority.

We will also be in a position to urge greater political and religious freedom in Vietnam.

Sometime this year, we hope to open a Consulate General in Ho Chi Minh City, which will enable us to better process former boat people for possible resettlement in the United States, as well as provide consular and commercial services to American citizens.

Mr. Chairman, in conclusion, I would like to note two countries in East Asia which deserve the full support of the United States as they continue their difficult transition to democracy, Cambodia and Mongolia.

In Cambodia, the traditional threat posed by the Khmer Rouge, while not eliminated, has receded considerably following a series of large scale defections to the government side.

However, other internal threats, political violence most notable among them, now pose a grave challenge to Cambodia's transition to a democratic future.

The United States is equally committed to assisting the Mongolian people with their remarkable transition to democratic government through programs made possible by ESF and by encouraging active involvement by NGO's.

Mongolia's 7-year democracy building experience and experiment with a free-market economy is truly an Asian success story.

So, Mr. Chairman, the breadth of our interests in the Asia-Pacific region, our partnerships and alliances, and the challenges we face there will increase in importance as we enter the next century.

PREPARED STATEMENT

The successes I have reviewed with you today vastly outnumber the problems, some admittedly serious, which remain. With the cooperation of Congress, we plan to continue the active pursuit of peace and stability, prosperity and individual rights and liberties throughout Asia and the Pacific.

Thank you very much. We will be glad to answer questions.

Senator MCCONNELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF ASSISTANT SECRETARY CHARLES KARTMAN

INTRODUCTION AND OVERVIEW

Mr. Chairman, Members of the Committee: Together with my colleagues, Aurelia Brazeal and Jeffrey Bader, I thank you for this opportunity to present an overview of the Administration's policy in East Asia and the Pacific.

U.S. interests in the Asia-Pacific region—security, political, economic, socio-cultural—are abiding and underpin our global foreign policy. As Secretary Albright said on April 15, our commitment to the region is solid because it is solidly based on American interests. Together with our partners in the region, the Administration is committed to building a community across the Pacific based on shared interests, economic interdependence, respect for democratic principles, and a common commitment to peace.

The United States has employed a multi-pronged, reinforcing approach in providing leadership to seize the opportunity for mutually beneficial cooperation in the region. On the security front, we have strengthened our core alliances and buttressed other cooperative bilateral security relationships. We have reconfirmed our intention to maintain a forward troop presence in the region, as Vice President Gore underscored in Japan last month. At the same time, we have actively supported multilateral security dialogues, such as the ASEAN Regional Forum, which now includes both Russia and India as members.

We have aggressively promoted American economic interests in this dynamic part of the globe, regionally through our participation in APEC and bilaterally through negotiations with Japan, the PRC and other prominent economies. The growth of the ASEAN economies and their general commitment to market-oriented free trade principles figures prominently in how the United States pursues trade and other economic interests. The East Asia and Pacific region has surpassed Western Europe to become the largest regional trading partner of the United States. Close to 40 percent of our global trade is with the countries of the Pacific Rim.

In recent years, we have also elevated the diplomatic profile of our efforts to address trans-national problems in the Asia-Pacific region which by definition have no respect for boundaries: weapons proliferation, terrorism, narcotics trafficking, and environmental degradation. For example, sustainable development and the environment figured prominently on Vice President Gore's agenda during his visit to Japan, China and Korea in late March.

In her confirmation hearings in January and in subsequent Congressional testimony, Secretary Albright stressed that America has a vital interest in remaining a Pacific power. She gave testimony to that commitment in her first overseas trip as Secretary of State in February. In Tokyo and Seoul, she reaffirmed America's intention to do its part to help build a secure and peaceful future for Asia and the Pacific and the vitality of our strong security relationships with key allies. In Beijing, the Secretary encouraged China's active and responsible participation in the international community.

Last November, within days of being reelected to a second term, President Clinton underlined his conviction that the United States intends to remain deeply engaged in Asia and the Pacific when he visited three important partners for regional cooperation—Australia, the Philippines and Thailand. Secretary Cohen has just returned from consultations in Northeast Asia. General Shalikashvili is there now. And less than two weeks ago, Treasury Secretary Rubin travelled to Vietnam where he advanced the process of economic normalization between our two countries.

Having briefly outlined the main elements of our Asia policy, I would now like to lay out in more detail some of our key interests and relations in the region.

JAPAN

Any discussion of overall Asia policy should begin with the cornerstone of U.S. engagement in the region: our global partnership with Japan. The United States is committed to working closely with Japan to meet the many international security, political and global challenges of the 21st century.

Most governments in East Asia generally see the U.S.-Japan partnership as key to political and military stability and to economic prosperity in the region. The United States and Japan, in close consultation with the Republic of Korea, seek continued stability on the Korean Peninsula and the faithful execution of the October 1994 U.S.-DPRK Agreed Framework which froze North Korea's nuclear program. Japan joined the United States and the ROK as founding members of the Korean Energy Development Organization (KEDO). Japan has committed to fund a significant portion of the multi-billion dollar light-water reactor project for North Korea. Japan has likewise given strong support for the proposed Four Party proposal involving the United States, the ROK, the DPRK, and China.

Both we and Japan encourage and support China's active, constructive role in the international community. Our governments continue to engage China on a broad range of issues, including nonproliferation, trade, human rights, and Hong Kong. We both share an interest in seeing that China is successfully integrated into the core institutions of the international community and, in so doing, meets its responsibilities and obligations.

In the United Nations, where Japan has the second largest individual country assessment, we have worked together to promote reform of the organization. We strongly support Japan's bid for permanent membership on the Security Council. In recent years, Japan has displayed greater willingness to participate in UN peacekeeping operations, as it continues to be an active leader in financing a range of international humanitarian relief efforts such as Bosnia reconstruction, the Middle East Peace Process and programs to cope with refugee crises in Africa.

Under the U.S.-Japan Common Agenda, launched in July 1993, Japan and the United States are cooperating on more than two dozen initiatives covering a broad range of the world's most pressing global problems such as health, rapid population growth and the environment.

At the April 1996 Summit in Tokyo, President Clinton and Prime Minister Hashimoto signed a Joint Security Declaration which reaffirmed the importance of the U.S.-Japan alliance. At present, there are about 43,000 U.S. military personnel in Japan. Japan provides about $5 billion a year in Host Nation Support (HNS), or about 70 percent of the non-salary costs of maintaining U.S. forces in Japan. We will continue to maintain our forces in Japan, as part of our 100,000 forward-deployed troops in the region, for the foreseeable future.

The Joint Security Declaration also endorsed the then-ongoing work of the U.S.-Japan Special Action Committee on Okinawa (SACO), which completed its work in December 1996 by announcing substantial consolidations of U.S. bases in Okinawa. SACO reflected the recognition by both the United States and Japan that the sensibilities of Okinawan communities regarding the U.S. military presence needed to addressed in order to sustain, for the long term, our forward deployments in Okinawa.

Japan is our largest trading partner after Canada. It is also the world's second largest economy. However, except for 1996 when real GDP growth was 3.6 percent due to a large fiscal stimulus and low interest rates, economic growth has been flat since the real estate and stock bubble burst in 1990. The government's plan to reduce spending and raise the consumption tax is expected to constrain economic growth in 1997. Japan remains a massive net exporter of goods to the rest of the world. Although Japan's merchandise trade surplus with the United States fell to $48 billion in 1996 from $59 billion in 1995, the surplus is expected to rise in 1997 as the weaker yen increases Japan's exports and reduces its imports.

We are encouraging Japan to promote strong domestic demand for its products, open its markets further to imports and deregulate its economy. Excessive regulation and non-transparent procedures, however, continue to be a drag on Japanese growth and to impede the access of American firms and products to Japanese markets. Prime Minister Hashimoto said that deregulation is one of his administration's top priorities. His strong leadership will be important in overcoming bureaucratic and economic interests who favor the status quo.

Our trade policy aims at opening Japan's markets, so that foreign firms can compete on an equal footing. The Framework Agreement, signed by President Clinton and then-Prime Minister Miyazawa in 1993, governs our bilateral trade relationship. Since then, we have negotiated 23 trade agreements. Under the Framework, we have had successes not only in autos and auto parts, but in insurance, semi-

conductors and intellectual property rights protection. We have enjoyed similar success in our WTO case involving distilled spirits. Nevertheless, Japan remains a difficult market especially for new entrants owing to government regulation, exclusionary private business practices, and inadequate anti-trust enforcement. We are pressing Japan to implement existing agreements, including on autos and auto parts and government procurement, and to deregulate its economy. We are also working hard to address outstanding issues such as civil aviation and telecommunications.

KOREA

Mr. Chairman, I have just returned from New York, where together with our South Korean allies we have spent several hours in intense discussions with a North Korean delegation led by Vice Foreign Minister Kim Gye Gwan. I will return to New York tomorrow to continue those talks.

I would like to discuss briefly the Administration's basic policy approach toward the Democratic People's Republic of Korea (DPRK). Our overall goals in this policy are to build a durable peace on the Korean Peninsula as a key contribution to regional stability, and to facilitate progress by the Korean people themselves toward national reunification.

Central to our strategy for managing North Korea is our commitment to consult regularly and closely with our South Korean allies, to ensure that our North Korea policy remains tightly coordinated. Recent visits to Seoul by the Vice President, Secretary Albright, Secretary Cohen and General Shalikashvili have all contributed to that objective. The U.S.-ROK security alliance, which has withstood nearly five decades of challenges and changes, remains at the heart of our policy on the Peninsula. Our joint ability to deter North Korean aggression is stronger than ever. The Republic of Korea, which emerged from the Korean War in ruins, has built itself into a vibrant democracy with a robust economy. The United States is rightly proud of the role we have played in this process, in the first instance, by ensuring the security of our ally.

Negotiated in close consultation with our South Korean and Japanese allies, the October 1994 Agreed Framework not only provided a means to address our concerns about the North Korean nuclear program, but also laid out a structure to pursue our other diplomatic objectives with the DPRK. Since November 1994, a freeze on key existing facilities in North Korea's nuclear program has been in place and is being continuously monitored by the International Atomic Energy Agency (IAEA) as well as by our own national technical means. Under the Agreed Framework, the North will forego the right to reprocess spent fuel and will, instead, safely store and eventually transfer the existing fuel out of the country.

I would note that the existing spent fuel contains material which could be used to build nuclear weapons. Thanks to the hard work of a team of experts led by the Department of Energy, which is in North Korea working 12 hours a day, six days a week, the task of putting this material into storage under IAEA safeguards is more than half completed. Actual canning of the spent fuel began in April 1996 and is planned for completion later this year. Upon the completion of canning activities, the spent fuel will remain at the spent fuel storage basin at Nyongbyon where it will continue to be subject to monitoring by the IAEA until it is transferred out of the DPRK.

The Agreed Framework also provides that, in return for the freeze and dismantlement of the DPRK's present nuclear program, the United States will organize under its leadership an international consortium to finance and supply two light-water reactors (LWR), as well as heavy fuel oil shipments, to the DPRK. Under American, South Korean and Japanese leadership, the Korean Peninsula Energy Development Organization (KEDO) has grown into an important arm of our three countries' coordinated diplomacy. KEDO currently has ten members, spread over five continents, and has received financial contributions from over twenty-one countries. The European Union (EU) recently announced that it would join KEDO as the fourth member of its Executive Board. The EU's commitment to contribute $20 million annually to KEDO over five years will help put KEDO finances on a more solid footing. Nonetheless, KEDO is running a serious deficit in its oil funding account; the deficit was $2.7 million in 1995, and about $33.5 million in 1996.

The combination of new EU funding, the U.S. contribution to KEDO, and the contributions of other countries is critically important to ensure that KEDO's commitment to deliver heavy fuel oil to the DPRK is met. These deliveries are essential to the integrity of the nuclear freeze, since they help compensate the DPRK for the loss of energy production from nuclear reactors which were under construction before the Agreed Framework. KEDO is also taking steps to ensure the proper use of this fuel by the North. We are following this situation very closely.

KEDO has negotiated five protocols to the LWR Supply Agreement which define the terms and conditions for reactor construction. It has sent seven teams of technical experts—American, South Korean and Japanese—to the DPRK to gather necessary geological, environmental, and structural information about the proposed LWR site in the DPRK. We anticipate groundbreaking on the project to begin in late spring. As the LWR project progresses, North Korea's contact with the world and with the ROK will rapidly increase. Most specialists working on the project will be ROK citizens, and South Korea's national power company—KEPCO—is the prime contractor. Already, the LWR project has facilitated North-South contact through almost constant KEDO-DPRK negotiations at KEDO headquarters in New York City and through the regular visits of South Koreans, under KEDO sponsorship, to the North to prepare for the reactor project.

The Agreed Framework also called on the United States and the DPRK to improve bilateral relations through resolution of issues of importance to the U.S. The pace of change will depend, of course, on the degree to which the DPRK is prepared to move further along the positive path on which it embarked with the signing of the Agreed Framework. Another key element, which was written into the Agreed Framework at our insistence, is the expectation of progress in North-South relations. In our subsequent diplomatic contacts with the DPRK, we have stressed consistently and frequently the necessity of such contact.

North Korea's agreement to sit down with the United States and ROK on March 5 to hear our joint briefing on President Clinton and President Kim's proposal for Four Party peace talks was tangible evidence of the recent success of our policies in engaging the DPRK and encouraging inter-Korean dialogue. This joint briefing will, we hope, lead to discussions involving the North and South, as well as the United States and China, concerning a reduction of tensions on the Peninsula and the establishment of permanent peace to replace the 1953 Armistice.

Two days after the joint briefing on the Four Party talks, accompanied by officials from the Department of Defense and the National Security Council, I met with the same DPRK delegation to discuss the range of bilateral issues between our two countries. Among the issues I raised in that meeting were efforts to recover the remains of Korean War-era MIAs, proposals to end North Korean development and export of missiles and missile technology, and implementation of our commitment to exchange liaison offices in Washington and Pyongyang.

U.S. negotiators first met with DPRK officials in April 1996 to discuss our concerns about North Korea's development, deployment, and proliferation of missiles and missile technology. The DPRK has agreed to a second round of these talks to be held May 12–13 in New York. Putting an end to these threats is a top U.S. priority.

Under terms of the Agreed Framework, the United States and North Korea agreed to exchange liaison offices—the lowest level of diplomatic representation between countries—as soon as technical issues could be resolved. Although we are still discussing some of these matters, including arrangements for supplying and supporting our office in Pyongyang and the North's ability to find suitable offices in Washington, conditions appear to be improving for the realization of this commitment. The establishment of these small-scale offices would be of practical benefit to both sides. We are very grateful to Sweden for its willingness to act as our protecting power in the DPRK. However, as American citizens increasingly visit the DPRK—as journalists, academics, humanitarian relief workers or specialists in the canning, remains, or fuel monitoring projects—we feel the need to be able to provide them directly with consular protection and support. A full-time diplomatic presence in Pyongyang will also give us a first-hand perspective on the situation and provide us with improved access to North Korean officials.

In recognition of the progress made on issues of concern to us, we have taken a number of modest steps since January 1995 to ease economic sanctions against the DPRK. In December 1996, for example, we approved the license of a U.S. firm to pursue a commercial deal to sell North Korea up to 500,000 tons of grain, consistent with our policy of sympathetic consideration of all applications for provision of foodstuffs on commercial terms. We understand that negotiations to conclude this deal for a limited shipment on a commercial basis were recently successful. We will consider further sanctions-easing measures as North Korea makes progress on issues of concern to us.

On a strictly humanitarian level, the United States has participated in international efforts to alleviate the suffering of North Korean civilians affected by recent flooding and food shortages there. Over the past two years, we have provided approximately $33 million in cash and in-kind support for emergency relief assistance—basically, medical supplies and food—for the North. These contributions have

been made in the spirit of the American tradition of providing assistance to people in need, without regard to politics.

Our most recent donation, announced April 15 after close consultation with the ROK and Japan, is a donation of 50,000 metric tons of corn valued at approximately $15 million for use in feeding 2.6 million children under the age of 6 in North Korea. This assistance, which will be in the form of PL 480 Title II Emergency Food Aid, is in response to the UN World Food Program's (WFP) April 3 announcement that it was expanding its outstanding appeal by an additional 100,000 metric tons, bringing its total appeal to 200,000 metric tons, valued at $95 million. UN agencies with staff in North Korea will arrange the delivery of our contribution. The WFP, which will monitor the distribution, has demonstrated its ability to ensure that assistance reaches the intended civilian beneficiaries.

The latest WFP appeal, even if fully subscribed, will only meet 5 percent of the North's estimated 2 million ton shortfall of grain this year. However, the appeal is designed to get food in the pipeline now for delivery to those most vulnerable to the threat of famine.

The United States has not acted alone in providing humanitarian assistance to the DPRK. In February, the ROK announced a $6 million contribution to the WFP appeal, and we expect South Korea to respond to the WFP's expanded appeal. Japan donated $6 million in response to the 1995 UN appeal and is considering its response to the expanded WFP appeal. Canada has contributed $4 million and Australia $2.2 million; Denmark, Norway, and New Zealand have also announced contributions.

Experience has taught us that it is difficult to predict the pace of progress in our dealings with North Korea, and events can move quickly on the Korean Peninsula. Persistent diplomacy by the United States, in close coordination with the ROK, has laid the groundwork for a possible improvement of the situation on the Peninsula. North Korea's economic difficulties have created opportunities for diplomacy, but they also pose dangers.

In summary, although there is clearly a long way to go, I am cautiously optimistic about our effort to promote lasting peace on the Korean Peninsula. It has at its foundation the U.S.-ROK security alliance and our commitment to deter North Korean aggression. It seeks to reduce tensions, but insists on the principle of reciprocity enshrined in the Agreed Framework. It recognizes the long-standing American tradition of offering assistance to needy people regardless of the political views of their leaders. And, it offers the DPRK a way to deal with its current crisis—through responsible engagement with the United States, the ROK, and the international community.

CHINA

Mr. Chairman, in recent months few if any foreign policy issues have been the subject of more intense debate than China. Constructive relations with the PRC are of fundamental importance to the preservation of world peace and regional stability. As Secretary Albright noted in her address at the Naval Academy two days ago, no nation is destined to play a larger role in shaping the future of Asia than China. Already, China is a major power whose influence will continue to expand in the 21st century.

We seek a productive relationship with a secure, open and successful China that is increasingly integrated into the international system and a responsible member of the international community. American interests are served best by a China that does not threaten others. China, in turn, is less likely to be hostile if it does not feel threatened. American interests are not served by a policy that seeks to contain or isolate China. We would not only eventually fail, but an effort to do so would undercut the stability that all countries in the Asia-Pacific region need for the future to be secure and prosperous.

A China that evolves as a power that is stable, politically and economically more open and non-threatening militarily—in short, a China that is moving toward, not away, from a secure international order—is profoundly in our national interest. Ultimately, of course, China will determine its own course, and there is no assurance that our policy of engagement will succeed in moving China in the direction of the international community, away from more nationalistic, self-absorbed policies. But we can and should help shape its choices. This can be accomplished most effectively by continuing our present policy of deepening our strategic dialogue with China.

The Administration is convinced that we can best advance our long-term interests by expanding and intensifying dialogue with China's leaders at the highest levels. In line with this, we expect an exchange of state visits in 1997 and 1998.

Secretary Albright's decision to visit Beijing as part of her first overseas trip reflected the importance we attach to laying a firm foundation for bilateral relations. Meetings such as those during the Vice President's visit to China in March are conducive to a productive dialogue in which differences can be aired.

Engagement with China should not be seen as implying approval of Chinese government practices or policies. It is a vehicle by which we can expand areas of cooperation to advance our strategic interests—such as the CTBT and stability on the Korean Peninsula. It also enables us to deal forthrightly with China on issues where we have differences—including human rights, market access and some of China's weapons and dual-use items sales.

Our relationship with China has many dimensions. We have a positive agenda, where we seek productive dialogue on issues of mutual interest: global and regional security cooperation—including at the UN—on matters such as the situation on the Korean peninsula; arms control and nonproliferation; trade and investment; sustainable development and protection of the environment; and the ongoing fight against drug trafficking, alien smuggling, international crime and terrorism. On the other hand, just as we try to expand areas of cooperation wherever possible, so do we work assiduously on those areas marked by differences. I would like to mention briefly some of the key issues in the relationship.

Taiwan is a longstanding issue between us. As provided in three joint communiques with the PRC, the United States recognizes the Government of the PRC as the sole legal government of China and acknowledges the Chinese position that there is just one China, and that Taiwan is a part of China. However, we maintain strong unofficial ties with the people of Taiwan, in cultural, commercial and other areas. We welcome the democratic transformation of Taiwan.

While the Taiwan issue is a matter for the parties involved to resolve, we have a strong and continuing interest that any resolution be peaceful. The United States has an abiding interest in the region's continued peace and stability, and under the Taiwan Relations Act (TRA), any effort to determine the future of Taiwan by other than peaceful means would be of grave concern to the United States. The TRA requires the United States to make available to Taiwan defense equipment to maintain a sufficient self-defense capability. The PRC has always opposed arms sales to Taiwan, which it regards as interference in its internal affairs, and they continue to be a source of friction. Since differences between Beijing and Taipei remain a potential source of instability, we have stressed to both sides the importance of avoiding provocation and of resuming cross-Strait dialogue as a possible route toward eventual resolution of this problem.

A growing source of concern is our bilateral trade deficit with China. Although the rate of growth of the deficit with China is slowing, its size—$39.5 billion—is politically unsustainable. We continue to press for implementation of our bilateral market access and intellectual property rights agreements, and we are seeking increased access for our goods and services in the negotiations on China's accession to the World Trade Organization. We strongly support China's entry into the WTO on commercially acceptable terms. Both sides are working to intensify negotiations.

Chinese cooperation is essential to achieve our regional and global nonproliferation objectives, and we have made progress. We engage the Chinese on nonproliferation frequently and at various levels. We urge that China accept and abide by international nonproliferation agreements and norms.

China's evolving attitude toward nonproliferation norms can be seen in Chinese actions in the 1990s. In 1992, it acceded to the Nonproliferation Treaty (NPT), in 1993, it signed the Chemical Weapons Convention (CWC), which its National People's Congress approved last December; in 1994, China stated it would abide by the guidelines and parameters of the Missile Technology Control Regime (MTCR), joined the United States in calling for the negotiation of a multilateral agreement banning the production of fissile material for nuclear weapons, and played a constructive role with North Korea in obtaining its agreement to eliminate its nuclear weapons program; in 1995, China supported the successful effort to make the NPT permanent; in 1996, China stopped testing nuclear weapons and signed the Comprehensive Test Ban Treaty (CTBT); and this year, China joined with other members of the IAEA in negotiating and recommending that the IAEA Board of Governors adopt new safeguards to strengthen the IAEA's ability to detect undeclared nuclear activities in states with comprehensive safeguards agreements.

We and China need to build on these steps. We will need Beijing's active cooperation to help bring North Korea into full compliance with its NPT and IAEA safeguards obligations, to help avert a destabilizing nuclear and missile competition in South Asia, and to help stabilize the Persian Gulf region by curbing exports to Iran and supporting fully Security Council resolutions on Iraq. We have urged China to

join the new Wassenaar Arrangement of 33 major arms suppliers that have agreed not to sell arms and sensitive technologies to Iran.

At the same time, we have had serious difficulties with China on nonproliferation, largely over Chinese exports of arms as well as sensitive goods and technologies, primarily to Iran and Pakistan. Our intensive engagement with the Chinese over the last few years on nuclear export issues has begun to yield some concrete results. China has shown a greater willingness to scrutinize and restrain its nuclear exports and cooperative activities, to strengthen their national export controls, and to address more promptly and seriously our concerns. If we continue to make progress, we would hope to be in a position to implement the long-dormant 1985 U.S.-China Agreement for Nuclear Cooperation, which would bring major benefits to both countries. In the missile and chemical areas, however, we continue to have concerns about the nature of China's commitment to abide by the MTCR guidelines and about China's willingness to strengthen its chemical export control system and curb its dual-use chemical-related transfers to Iran.

Human rights is an important issue in our relations with China, and we raise it at every high-level meeting. Our concerns are well documented in the State Department's annual country reports of human rights practices. We urge China to take steps to improve the human rights situation by releasing political prisoners and allowing prison visits by international human rights organizations.

Some argue that the United States should restrict access for Chinese goods to the domestic American market until China improves its record on human rights. However, this Administration believes that revoking or conditioning Most Favored Nation (MFN) tariff treatment for China would not advance human rights there. On the contrary, denial of MFN would remove a beneficial influence for creating a more open China; undermine American leadership in the region and the confidence of our Asian allies; damage our economy, harm Taiwan and especially Hong Kong, whose economies are intertwined closely with that of the PRC; and would damage our ability to work constructively with China. In the Administration's view, renewing MFN unconditionally for China is the best way to advance American interests, a conclusion reached by every American president since 1979.

Although longstanding U.S. policy recognizes Tibet as part of China, we strongly support the resumption by Beijing, without preconditions, of negotiations with the Dalai Lama to protect Tibet's distinctive heritage and culture. We would welcome any formula for discussions agreed upon by representatives of the Dalai Lama and of the PRC. The Dalai Lama will visit Washington next week.

In just over two months' time, the world's attention will be focused on the reversion of Hong Kong. Under the 1984 Sino-British Joint Declaration, Hong Kong will become a Special Administrative Region (SAR) of the PRC at midnight on July 1, 1997, after which it will continue to enjoy a high degree of autonomy in all areas but foreign affairs and defense. We are expressing at the highest levels our interest in a smooth and successful transition, and in the future of Hong Kong. We expect China to honor its commitments to preserve Hong Kong's high degree of autonomy and its unique way of life. We believe that the protection of civil liberties and individual freedoms, including freedom of expression, is important to Hong Kong's way of life and vital to continuing confidence there.

China has a strong self-interest in Hong Kong's continued prosperity, and it understands Hong Kong's critical role in providing and funneling the capital, technology, and entrepreneurial skills that fuel China's economic growth.

Vice President Gore and Secretary Albright expressed our views regarding Hong Kong in meetings with Chinese leaders during their visits in February and March, and Secretary Albright will raise Hong Kong again when Vice Premier Qian Qichen visits Washington later this month. We believe the Chinese leaders understand our interest, and they express their intention to preserve Hong Kong's autonomy and way of life. Secretary Albright will represent the United States at the Hong Kong reversion ceremony, a measure of the importance we place on this event, our support for the terms agreed to by the British and the Chinese, and our interest in the future of Hong Kong. As mentioned by the Hong Kong Policy Act of 1992, the Administration will monitor the situation after reversion and report on any erosion in Hong Kong's autonomy.

PACIFIC COMMUNITY AND REGIONAL ARCHITECTURE

Mr. Chairman, in any broad discussion of U.S. policy in Asia, Northeast Asia tends to dominate. Today, I want to briefly highlight other important interests we have in this dynamic region.

One of the most significant if sometimes overlooked foreign policy accomplishments of the First Clinton Administration was the elevation of the Asia-Pacific re-

gion in general on the foreign policy agenda. This elevation continues in the Second Administration. Through his vision of a genuine Pacific community of interests, the President has nurtured the APEC process, founded in 1989, to the Leaders level. In November of this year, APEC leaders will come to the North American continent, where the city of Vancouver will play proud host.

This Administration has also played a prominent role in shaping a new regional security architecture through the creation of the ASEAN Regional Forum (ARF) and other sub-regional dialogues. Since its inception in 1994, the accomplishments of the ASEAN Regional Forum—whose membership now numbers 21—have been significant. Regional dialogue and architecture such as the ARF are designed to complement existing core alliances—with Japan, the ROK, Australia, Thailand and the Philippines—as well as cooperative security arrangements with other friendly nations.

AUSTRALIA

Australia is the southern anchor of the U.S. presence in the Asia-Pacific region. A stalwart and dependable ally, Australians have fought by our side in every major conflict in the 20th century. In addition to our military alliance, we and Australia have a long and profound history of cooperation on multilateral issues. Australia has provided timely and important financial support to KEDO, and was instrumental in helping bring about a positive outcome on the CTBT.

ASEAN

With over 330 million people, the seven ASEAN nations—Indonesia, Malaysia, Singapore, Thailand, the Philippines, Brunei, and Vietnam—have become collectively our fourth largest overseas market. U.S. companies have invested over $30 billion in the ASEAN countries, an investment which helped produce two-way trade valued at more than $100 billion. ASEAN boasts some of the world's fastest growing economies, and is likely to remain a vibrant market for U.S. goods and services for the foreseeable future.

ASEAN, together with the ASEAN Regional Forum, has become a force for regional stability and a vehicle for increased involvement in both regional and global affairs. The seven ASEAN nations border the South China Sea in a region fraught with historical tensions and overlapping territorial claims. However, the economic and cultural ties which bind the ASEAN nations have served to reduce volatility in this strategic area. Thailand and the Philippines are treaty allies of the United States, and we have a cooperative security arrangement with Singapore. Both Malaysia and the Sultanate of Brunei have contributed significant financial support for various multilateral assistance efforts underway in Bosnia.

INDONESIA

In many respects, no country better symbolizes the dynamic reality of ASEAN than Indonesia. By far the largest of the ASEAN nations with its 200 million population, Indonesia has chosen over the last 30 years to work closely with its neighbors through that organization to encourage consensual, constructive approaches to regional challenges. No other factor is of greater importance to the region's long-term stability and unparalleled economic growth. In the process, Indonesia has played key roles in bringing democratic elections to Cambodia and in using its chairmanship of the Organization of the Islamic Conference to broker a peace agreement to end a decades-long conflict in the southern Philippines. Indonesia also hosted the 1994 APEC Leaders Meeting, where leaders agreed to free up regional trade and investment by the years 2010 and 2020 for developed and developing countries.

Stability in the region and in Indonesia has provided the necessary preconditions for one of the most remarkable economic success stories of any developing nation. GDP growth has averaged in the neighborhood of 7 percent over several decades. This growth has been balanced by developing country standards; World Bank studies show income gaps between the richest and poorest ranks of society to be among the smallest of virtually any developing country. This economic growth has benefited U.S. interests as well. Our own bilateral trade has grown by nearly 60 percent over the last five years, to almost $12.3 billion. U.S. investment, including outlays in the oil and gas sector, totals in the vicinity of $20 billion.

We have important differences over human rights issues with Indonesia. Administration officials, including President Clinton, repeatedly have made clear that our relationship, as strong as it is, cannot reach its full potential until Indonesia improves its human rights performance. And we intend to continue raising these is-

sues and to ensure that our views are known to the government and to the Indonesian people. The United States looks forward to a more democratic Indonesia. We believe the best way for that to happen would be through a process of evolutionary change that does not threaten the kind of stability that has brought so much to Indonesia and to the wider region. To encourage these trends—and many trends in Indonesia are positive—the United States needs a relationship that will serve our broad interests in fostering regional stability, prosperity, and representative government.

We also are concerned about the human rights conditions in East Timor. We are encouraged by U.N. Secretary General Anan's decision to appoint a special representative to focus on the East Timor issue and the resumption of Indonesian-Portuguese discussions. We view favorably proposals to give the Timorese greater control of their political and economic life and to accord recognition to East Timor's unique history and culture.

BURMA

In marked contrast to the largely positive trends in Southeast Asia, the people of Burma continue to live under a highly authoritarian military regime, the State Law and Order Restoration Council (SLORC), which has made no progress in recent months in moving toward greater democratization and respect for human rights. The SLORC continues to dominate the political, economic and social life of the country, refuses to engage the democratic opposition in dialogue, and continues to engage in widespread human rights violations.

Political party activity remains severely restricted. The activities of Aung San Suu Kyi and her party, the National League for Democracy (NLD), are monitored and circumscribed by the regime. Several hundred political prisoners are in detention, including 29 Members of Parliament elected in 1990. Since late September 1996, Aung San Suu Kyi has been prevented from addressing party supporters in front of her house, as the SLORC puts up blockades to prevent gatherings there. Since late December, the SLORC has generally allowed her to meet with visitors at her compound if the authorities are notified in advance. She meets relatively often with diplomats and her supporters. Since the beginning of the year, she has had three large gatherings of more than 1,500 supporters on her compound.

The Cohen-Feinstein Burma sanctions provisions, which were signed into law by the President on September 30, 1996, as part of the Fiscal Year 1997 Omnibus Appropriations Act, require the President to impose a ban on new U.S. investment in Burma if he determines and certifies to Congress that, after September 30, 1996, the Government of Burma has "physically harmed, rearrested for political acts, or exiled Daw Aung San Suu Kyi or has committed large-scale repression of or violence against the democratic opposition." We continue to watch the situation in Burma closely and will impose such a ban if the President makes that determination.

In an effort to promote democratic change in Burma, we have engaged in a vigorous multilateral strategy to encourage the EU, ASEAN, Japan and other nations to urge progress by the SLORC in the key areas of our concern—democracy, human rights and counternarcotics. The Administration has imposed visa restrictions on senior leaders of the regime and their families. We maintain other forms of pressure against the SLORC: we have cut off economic aid and GSP benefits; prohibited Eximbank financing and OPIC insurance; maintained an arms embargo; blocked assistance from international financial institutions; and downgraded the level of our official representation to Charge d'Affaires. Further, in light of Burma's abysmal performance in the area of counternarcotics, for eight years we have decertified Burma as not cooperating with the United States against narcotics production and trafficking.

We also have strong concerns about the Burma Army's attacks on the Karen near the Thai-Burma border. We have pressed the SLORC to halt these attacks and to ensure safe passage for returning refugees. Up to 12,000 Karen were forced to flee into Thailand, the vast majority of them civilians, including women, children and the elderly. Thousands of civilians were forcibly conscripted to serve as porters for the Burma Army in its offensive. We also expressed our deep concern to the Thai Government regarding the incidents in which Karen civilians who were fleeing the fighting in Burma were sent back across the border. Thailand has stopped these incidents and has assured us that it intends to return to its former policy of providing refuge for such persons until conditions inside Burma permit their safe and voluntary return.

VIETNAM

Mr. Chairman, we welcome the recent Senate confirmation of Pete Peterson as the first American Ambassador to Hanoi. With Ambassador Peterson's presence there, I am confident that we will be able to encourage more effective cooperation from the SRV on issues of national interest, especially in obtaining the fullest possible accounting for Americans missing from the conflict, which remains our top bilateral priority. It will also bolster our ongoing efforts to urge greater political and religious freedom in Vietnam. Another priority is to work with the SRV to streamline the process known as ROVR (Resettlement Opportunity for Vietnamese Returnees), whereby certain Vietnamese returnees can be interviewed in Vietnam for possible resettlement in the United States. Sometime this year, we hope to open a Consulate General in Ho Chi Minh City, which will enable us to implement the ROVR program more effectively as well as provide consular and commercial services to American citizens.

Vietnamese leaders have made emphatically clear that integration of the economy into the region is a top national priority. We support this process, as it would also serve the interests of regional stability. We look forward to further progress in normalizing economic relations between the United States and Vietnam. During his recent visit, Secretary Rubin signed a debt agreement between our two countries. We have also launched a series of negotiations which we hope will lead to a bilateral trade agreement. Other talks have begun on intellectual property rights and civil aviation.

TRANSITION TO DEMOCRACY: CAMBODIA AND MONGOLIA

Finally, Mr. Chairman, I would like discuss two countries in East Asia which deserve the full support of the United States as they continue the difficult transition to democracy: Cambodia and Mongolia.

In Cambodia, the traditional threat posed by the Khmer Rouge, while not eliminated, has receded considerably following a series of large scale defections to the government side. However, other internal threats—political violence most notable among them—now pose a grave challenge to Cambodia's transition to a democratic future. The March 30 assassination attempt against opposition leader Sam Rainsy, which we strongly condemned, is one example of the type of political violence that must be eradicated. We call on all factions to commit themselves to the development of the Cambodian nation and the peaceful settlement of their differences.

We are committed to assisting the Mongolian people with their remarkable transition to democratic government, through programs made possible by Economic Support Funds (ESF) and by encouraging active involvement by NGOs. Mongolia was the first formerly communist country in Asia to embrace democracy, holding elections in 1990. Senator Robb and former Secretary of State James Baker joined American election monitors sponsored by the Asia Foundation to witness the 1996 parliamentary elections. No other monitors or officials came from any other country, thus making our presence all the more important as a concrete symbol of international support for Mongolia's bold but arduous continuing democratic experiment. Like Cambodia's return from Khmer Rouge terror, Mongolia's seven year democracy building experience and experiment with a free market economy is truly an Asian success story.

CONCLUSION

The breadth of our interests in the Asia-Pacific region, our partnerships and alliances, and the challenges we face there will increase in importance as we enter the next century. Through careful diplomacy, the nurturing of relationships with other Pacific countries and the dynamism of our private sector throughout the region, the United States remains a principal actor and force for stability. Our future lies, in great part, in the Pacific. The Administration, in consultation with Congress, has been rigorous in promoting U.S. interests throughout the region. The successes I have reviewed with you today vastly outnumber the problems—some admittedly serious—which remain. We will only surmount those challenges, however, through the kind of proactive diplomacy which has characterized this Administration. With the cooperation of Congress, we plan to continue the active pursuit of peace and stability, prosperity, and individual rights and liberties throughout Asia and the Pacific.

Thank you.

BURMA

Senator MCCONNELL. Let me start out with Burma, and then I will turn to Senator Bennett.

On several occasions over the past few years, the U.N. Special Rapporteur on Burma has reported on SLORC's widespread abuses, including the use of slave labor and carrying out forced relocations of ethnic groups, particularly in areas ripe for economic development.

I would like for you to comment on SLORC's record in these two areas, forced labor and forced relocation.

Mr. KARTMAN. Mr. Chairman, may I ask my colleague, Jeffrey Bader, to reply?

Senator MCCONNELL. OK.

Mr. BADER. Mr. Chairman, we have seen the reports on use of forced labor, particularly in minority areas. We have condemned them. International organizations including the ILO have been looking into them.

We regard these as unacceptable practices. We have highlighted them in our public commentary and on human rights reports.

Senator MCCONNELL. Am I to assume that you are going to be answering all of the Burma questions?

Mr. BADER. Yes.

Senator MCCONNELL. All right. The State Department Human Rights Report indicates several hundred members of Aung San Suu Kyi's National League for Democracy have been arrested for political reasons. Amnesty International reported over 2,000 citizens were arrested last year for political reasons.

Do you see this as an improving or deteriorating political situation?

Mr. BADER. The numbers you cited are the same numbers that we have seen. We would certainly not characterize this as an improving situation. The term we have used is that there seems to be a pattern of rolling repression on the part of the SLORC.

We do not see any signs of imminent improvement or liberalization. These steps, I think, continue a pattern on the part of the SLORC that is very disturbing.

Senator MCCONNELL. You would agree, though, that many observers feel that things have actually deteriorated.

Mr. BADER. Yes; I would agree with that.

Senator MCCONNELL. That may not be your view, but many, many feel that.

Mr. BADER. Yes.

Senator MCCONNELL. Has Aung San Suu Kyi been able to travel freely beyond her compound since last October?

Mr. BADER. She has been able to travel beyond her compound, but not consistently freely. For awhile after October, she was restricted to her compound. Then toward the end of the year, the beginning of this year, she was allowed out of her compound for some meetings if she gave notification to the SLORC's security. She has had a number of meetings outside of the compound.

She still is under considerable restraint in her movements.

Senator MCCONNELL. On how many occasions has she left the compound for political meetings?

Mr. BADER. I will have to get back to you with an exact answer. I am aware of three meetings. There may be more, but I am aware of three.

[The information follows:]

POLITICAL MEETINGS OUTSIDE THE COMPOUND

Since the beginning of the year, Aung San Suu Kyi has met both inside and outside her compound with a large but uncountable number of Burmese and foreign visitors. Most if not all of these activities could be characterized as "political." Many of these meetings are held at U Kyi Maung's house, a few blocks from her own. She has attended luncheons and teas at various ambassadors' residences in Rangoon on an average of two or three times a week until recently, when she decided as a general rule to have diplomats call on her at her compound.

The U.S. Chargé meets her on average once every 2 weeks or so, sometimes more often, both at her compound and at his residence. She has also held four large public political rallies or other events at her compound since the beginning of the year: Independence Day, Unity Day, Resistance Day, and Burmese New Year. She reports to our Embassy that she is in the midst of intensive daily political activities inside the compound focused on training NLD members and strengthening her party organization.

SLORC

Senator MCCONNELL. She recently said that SLORC was escalating attacks against her supporters and noted the kidnaping of 12 NLD members, 1 of whom was left dead beside a road.

Do you agree with her characterization that pressure is escalating?

Mr. BADER. I would agree with that characterization.

Senator MCCONNELL. Secretary Gelbard recently told this subcommittee that SLORC refused to extradite Khun Sa with whom we are all familiar, a notorious narcowarlord. In fact, he lives a protected, lavish life in Rangoon.

Gelbard testified that there had been no improvement in counternarcotics efforts by SLORC.

I am wondering if you can point to any initiative or effort they have made to address this, the growing opium production problem.

Mr. BADER. Burma remains the source of approximately 60 percent of the heroin that flows into the United States. We have decertified them as a cooperating country in narcotics cooperation with the United States.

So, obviously, we do not consider their cooperation close to adequate. The only item I could cite of recent interest is that we did recently conduct an opium crop survey in opium-growing areas in Burma. The SLORC did cooperate in allowing us to perform that survey.

Senator MCCONNELL. Given the fact that the one thing they are pretty good at is maintaining an army, have they not been using their army against narcotics traffickers?

Mr. BADER. The assessment of most observers, including our own, is what they have been doing with the army is dealing with insurgencies or former insurgencies among minority peoples along the border.

Those areas are traditionally the opium-growing areas of Burma. And the highest priority of the army has been to achieve cease-fires in order to improve stability in Burma.

They have not taken on, in anything like the way we would like to see, counternarcotics activities.

Senator MCCONNELL. Well, in fact, you use the word "stability." That is really a euphemism for "suppression," is it not, or "repression"?

Mr. BADER. Well, they have achieved cease-fires with some of these groups.

Senator MCCONNELL. The Karen part of the National Coalition of Burma, the Coalition of Ethnic Groups, which has called for the restoration of Suu Kyi and the NLD to office, do you consider this group part of the democratic opposition?

Mr. BADER. The Karen National Union has not reached agreement with the SLORC, it has not reached a cease-fire. They are the one ethnic group that has not.

There are certainly elements of the Karen Group that we would consider to be elements of the democratic opposition allied with Suu Kyi. On the other hand, the KNU is also armed.

It is a difficult question in looking at the KNU as a whole, as to whether the KNU, since they are armed, constitutes a democratic group or not.

But we certainly would say that there are democratic elements among the Karen and that they have every right to be considered as such when we are looking at the SLORC's treatment of democratic opposition in Burma.

Senator MCCONNELL. According to reliable refugee groups, SLORC's recent attack on Karen camps is one of the most brutal to date. Are these military attacks, in your view, an effort to eliminate any opposition to SLORC?

Mr. BADER. They are an effort to eliminate Karen opposition to the SLORC. The figures we have seen indicate that about 18,000 Karen were forced over the border into Thailand.

We were disturbed some weeks ago when some of these Karen were forced back into Burma by elements of the Thai Army. In the last 5 or 6 weeks, behavior in that regard seems to have altered, and they have been receiving protection in Thailand.

Senator MCCONNELL. Is it still the U.S. position that the 1990 elections were free and fair and that the NLD and Aung San Suu Kyi were legitimately elected to office?

Mr. BADER. That is our position.

Senator MCCONNELL. As a result of the Foreign Operations appropriations bill last year, current law states:

> Sanctions must be imposed if any action is taken to harm, rearrest for political reasons, or exile Suu Kyi or if SLORC engages in a wide-scale repression against the democratic opposition.

You have just testified on the restrictions on her movements, the escalation in attacks on the NLD and other members of the democratic opposition.

If these actions do not meet the threshold, I would like for you to tell me exactly what you are looking for in terms of outrageous conduct by SLORC to meet the test under current law.

Is it the administration's view that anything short of the assassination of Suu Kyi is not enough to meet the criteria of the existing law?

Mr. BADER. No; that would not be our view, Mr. Chairman.

Mr. Chairman, I heard your opening statement, and you referred to 655 days of review. All I can say is that this matter remains under review, and it is getting high level, intensive attention in the U.S. Government at this time.

A determination has not yet been made. We take the Cohen-Feinstein law very seriously. There are a number of elements in it that we have acted upon already, for example, the visa ban on high level SLORC officials and their families traveling to the United States, as well as organizing an international campaign to try to apply multilateral pressure against the SLORC.

With our European Union and ASEAN colleagues, we have taken a number of steps in that regard and have achieved some results.

The thrust of your question, I am sure, is directed at the new investment ban. Secretary Albright, in a speech at the United States Naval Academy on Tuesday, made it clear that the SLORC is on notice that unless the clouds of repression over Burma are lifted, then it could look forward to an investment ban being imposed.

Senator MCCONNELL. Well, that would be certainly a step in the right direction. It seems to me that it is perfectly clear that the administration has been—either because it was a low priority or because of fear of offending our Asian trading partners—has had little or no interest in this issue to this point, and even gone to great lengths to avoid complying, in my view, with even existing law.

It makes me wonder whether anything short of a congressional mandate—congressionally mandated implementation of sanctions is going to get your attention. I certainly hope that this extended review may come to an end sometime soon.

Mr. BADER. I certainly note what you said, Mr. Chairman. I will convey that to the appropriate executive offices when I go back from this hearing. I understand the passion and the intensity of your view.

If I could just make one other point on this: Our policy with Burma has not been one of tolerance. Aside from this one question of the investment ban, we have taken, as you know, a large number of measures designed to show our abhorrence for the behavior of the SLORC.

As you know, we have no Ambassador there or chargé d'affaires. We have withdrawn GSP benefits from Burma. We have blocked international financial institution support to Burma. We have decertified it as a narcotics cooperating country.

It receives no assistance. We have imposed an arms embargo. And as I say, we have worked closely with our allies to achieve some degree of coordination on this. But I certainly understand the point you are making, and I will carry that back with me today.

Senator MCCONNELL. It seems to me nothing short of sanctions plus U.S. leadership to try to encourage others to do the same thing—and I think unilateral sanctions, candidly, probably are not going to have a huge impact.

But if America coupled that with the kind of leadership that it showed in the South African situation, I think there is every reason to believe that if we were willing to use up some chits on this issue, that we could get some results.

I would like now to turn to Senator Bennett.

REMARKS OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Chairman.

I will just comment: The reference to this being in the focus of very high officials should be underscored. It is very much in the focus of very high officials here, starting with the chairman, but not stopping with the chairman.

There are a number of us who share his view on this, and this is not something that the committee as a whole is going to let go by.

That being said, Mr. Kartman, I would like to turn to you for a moment. We have before us, first, a picture of a Navy escort vessel, U.S.S. *Stark,* after it was hit by an Exocet missile in 1987, 10 years ago.

Next to that is the Chinese version of the Exocet 10 years later, the C–802, which the Chinese claim to be new and improved; indeed much improved.

In this brochure seeking to sell that missile, the Chinese describe the C–802 as a missile with mighty attack capability and great firepower.

Would you agree with that characterization of the missile?

Mr. KARTMAN. Senator Bennett and Mr. Chairman, when I introduced Jeffrey Bader, Deputy Assistant Secretary, to have him answer questions on Burma, it appeared that he was our resident Burma expert.

But in fact, he is probably the premier China expert in the United States Government. So I am going to ask him to answer this question also.

Senator BENNETT. Mr. Bader, would you agree with the characterization in the brochure about the missile being one of mighty attack capability and great firepower?

Mr. BADER. I would agree that we are disturbed by the reports of intentions to provide this missile to Iran, and that it does constitute a threat to the United States Navy in the region. I would certainly agree with that.

It is, as you have said, an Exocet-like missile with capabilities that are very disturbing to us.

Senator BENNETT. You have run ahead of me, and that is fine. [Laughter.]

It is being marketed to Iran, and it is being marketed again, in the words of the brochure, the sales brochure, for attacking escort vessels. And the *Stark,* of course, is a U.S. Navy escort vessel of exactly the kind that this is being marketed as a target to.

Now, on the right, there is a picture of five Chinese missile boats on their way to Iran with C–802's aboard. You see the C–802 missiles on the back deck of those five Chinese missile boats.

Recently, Deputy Assistant Secretary of State Einhorn stated, "These cruise missiles pose new and direct threats to deployed U.S. forces."

Do I assume from your comment that you agree with that?

Mr. BADER. Yes; I do.

Senator BENNETT. Now, the other picture is of a land-based version of this C–802. And Mr. Einhorn recently suggested that the land-based version is on its way to Iran.

Do you agree that that is the case?

Mr. BADER. If Mr. Einhorn said it, I have no reason to doubt it.

Senator BENNETT. Well, the problem with all of this was a statement, in response to a question that I raised, by Secretary Albright that these missiles are not destabilizing under the definitions in the Gore-McCain Act.

Now, has the State Department asked the U.S. Navy for its evaluation of this threat?

If we could put up the map, that helps us understand why the Navy might be a little bit—of a little bit different attitude as to what is not destabilizing in the area.

This is the Persian Gulf. You see it comes down. Iran is the country to the north of the gulf. The entire coastline of the gulf is Iranian. There are 500 miles of coastline. And in that 500-mile area, the land-based missile could be hidden in caves or deployed from the back of trucks.

And when you come around the Gulf of Hormuz, it is impossible for an escort vessel not to be within range of one of these missiles.

So my question is: Has the State Department asked the U.S. Navy for its evaluation of the threat these missiles might pose to U.S. forces in the gulf?

Mr. BADER. There is, as you know, legislation on the books the Iran-Iraq Nonproliferation Act, which does set up the criteria of whether or not something constitutes a threat to the stability of the region as a basis for determination for whether sanctions will be imposed.

We do have an interagency process for evaluating questions like this. The Defense Department, the Navy and JCS would be active players in that process.

The determination of whether or not a particular system reaches the threshold of satisfying the requirements of that act or is in itself destabilizing is a complex process.

I do not sit on that committee. I would not want to prejudge the factors that they weigh in determining what is destabilizing.

There are all manner of weapons that are being provided to the region by all manner of players.

My understanding is that the administration has not yet made a decision that what we have seen to date is destabilizing. It is disturbing, absolutely. And I share the points that you have made.

And the Navy has been a player in this process.

Senator BENNETT. Well——

Mr. BADER. If I could just add one more point——

Senator BENNETT. Yes.

Mr. BADER. Senator, we have made it very clear to the Chinese how we feel about this, during the visits of Vice President Gore and Secretary Albright to Beijing.

We have also highlighted our concerns over these weapon systems to the Chinese in nonproliferation talks, so they can have no illusions about the strength of our feeling on this subject.

Senator BENNETT. I listened carefully, but I did not quite hear an answer to my question, which is: Has the State Department asked the Navy for its evaluation of the threat?

I heard that there are consultations going on, and that there is a group that is worrying about this, and that it is highly complex.

But I did not hear, "Yes, we have asked the Navy," because my next question is: If we asked the Navy, what did the Navy tell you?

Is there any way you can provide that for the record?

Mr. BADER. Can I get back to you for the record on that? I was trying to give you a sense of the interagency process, but I do not know the specific answer——

Senator BENNETT. OK.

Mr. BADER [continuing]. As to whether there has been a formal request and a formal answer.

Senator BENNETT. I have a sense that the Navy may be a little more worried than the State Department.

Mr. BADER. We are very worried about it, as well, I assure you.

Senator BENNETT. Well, I am glad to know that you are worried about it.

I have a letter to Secretary Albright which I would ask you, Secretary Kartman, to deliver to the Secretary, asking that the administration either enforce the Gore-McCain Act in this circumstance or come up with some kind of alternative plan of equal strength.

We have in excess of 15,000 United States service personnel in this area, who are in direct harm's way as a result of these missiles going to Iran. And I think for those 15,000 people and their families—let alone, of course, American interests in the area with respect to the free-flow of oil through the Strait of Hormuz—that this one ought to move up the scale pretty quickly.

And that is why I have engaged in these questions to Secretary Albright and have this letter for the Secretary, which I would ask you to deliver to her.

And I would ask, Mr. Chairman, that the letter be included now at the conclusion of my questions.

Senator MCCONNELL. It will be made a part of the record.

Senator BENNETT. Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Bennett. That was very interesting.

[The letter follows:]

LETTER FROM SENATOR ROBERT F. BENNETT

U.S. SENATE,
Washington, DC, April 17, 1997.

Hon. MADELEINE K. ALBRIGHT,
Secretary of State,
Washington, DC.

DEAR SECRETARY ALBRIGHT: During 1996 Chinese defense companies delivered a number of missile boats to the Iranian Revolutionary Guard Navy. Each missile boat was armed with four C–802 cruise missiles. Recently, Deputy Assistant Secretary of State Robert Einhorn told the Senate, "These cruise missiles pose new, direct threats to deployed U.S. forces."

It is now my understanding that China is about to deliver the land variant of the C–802 to Iran. When the Iranian Revolutionary Guard acquires C–802's in quantity, it will have a weapon with greater range, reliability, accuracy, and mobility than anything currently in its inventory.

The delivery of advanced cruise missiles to Iran is a violation of the Gore-McCain Act. However, in answer to my query on this issue in January, you answered, "The Administration has concluded at present that the known transfers (of C–802's) are not of a destabilizing number and type."

However, I believe that the arrival of additional C–802's in Iran is a matter of grave concern to the United States, and the Administration has an obligation either

to sanction the perpetrators or put in motion an alternative policy of equivalent strength.

Sincerely,

ROBERT F. BENNETT,
U.S. Senator.

FUEL OIL FOR NORTH KOREA

Senator MCCONNELL. Mr. Kartman, over the past year, the United States has led a very aggressive effort to raise funds, as you discussed in your testimony, to support fuel oil for North Korea.

It was especially significant that the European Union looked beyond its immediate regional requirements in the Balkans and pledged $20 million annually for the next several years.

What I thought was rather shocking was the anemic and declining contribution offered by Singapore. They dropped from a $300,000 pledge to $200,000.

Adding to this problem are recent reports that Singapore, a government with severe penalties for drug use and trafficking, has actually become the banking facility of choice for Burma's drug thugs.

Singapore considers itself a major player in Asia politics, and certainly has economic interests, as we all know, in securing regional stability.

Could you give me some explanation?

Mr. KARTMAN. May I first address KEDO fund raising?

Senator MCCONNELL. Yes.

Mr. KARTMAN. And then I would like to turn to Ambassador Brazeal with your permission to respond on your other questions regarding Singapore.

I was recently in Singapore, and went over our KEDO efforts with senior officials of the Foreign Ministry there. I found that they are in broad and fundamental agreement with what we are trying to achieve.

I underscored for them that it seemed that European efforts were more substantial than those closer to home within the region. And they took that aboard. They expressed some understanding of the view I was expressing.

But they demurred that they were not a very wealthy country, and they noted that at least they had made a commitment for a multiyear contribution which is, after all, of some significance to us. We would like to see more of that from others.

This is one that we are going to come back to. So I think, basically, I agree with your characterization. Maybe I would not use the word "anemic," but something less than they are capable of doing or than what I think they ought to be doing.

With respect to the other issue you raised, banking, may I turn to Aurelia Brazeal, please?

Ms. BRAZEAL. Thank you.

I would just add regarding KEDO that we hope Singapore, also being a leader, will consider the levels because that encourages other countries also to consider higher levels. We have raised that point with them, and we will continue to do so, as well as joining KEDO.

On money laundering, we have worked with the law enforcement authorities in Singapore on that question. And in 1996, they seized

$20 million of laundered drug money in a DEA-assisted investigation.

So we are engaged in the issue of money laundering and drug trafficking.

I note that Singapore is also a member of the financial action task force that looks into these questions, narcotics-associated money.

Money laundering is a criminal offense in Singapore. Bankers can be held personally liable in such cases.

But the most recent efforts we have underway are to work with the Government of Singapore to begin negotiations for a designation agreement that would permit our two countries to better pool our resources to combat more effectively drug trafficking and money laundering.

We had our last meeting the end of March. We would hope to begin negotiations fairly soon on that.

Senator MCCONNELL. Mr. Kartman, is there anything you can add beyond your testimony about your discussions in New York?

Mr. KARTMAN. Mr. Chairman, I would like to be able to give you a very complete description of where things are in a more private setting, if that would be convenient for you.

But for the record, these talks are underway. The North Koreans have raised over and over again their highest priority, which is food. And we have raised over and over again our desire to see them enter these peace talks.

Both sides have agreed that the two things are not linked. But there we are.

Senator MCCONNELL. Do you agree with General Shalikashvili's statements that the North continues to pose a significant military threat to the South?

Mr. KARTMAN. Absolutely, I do agree. One of the principal problems for South Korea and American forces for many years has been a heavy emphasis on North Korean artillery that is forward deployed.

And we suspect there is a possible plan to use weapons of mass destruction, perhaps chemical, biological weapons. We also have watched with some concern the growth of their special operations forces, which are designed to be inserted behind the lines to disrupt communications and the forward flow of forces to the front lines.

Senator MCCONNELL. And all of these people are pretty well fed and ready to go, right?

Mr. KARTMAN. Actually, we do not know that, Mr. Chairman.

Senator MCCONNELL. Is there any division in North Korea to speak of between the military and the civilian leadership?

Mr. KARTMAN. We are hearing that more and more. Sometimes we hear that from North Koreans themselves. For instance, the recent high-level defector, Hwang Jang Yop who is still in the Philippines, has noted that he has some concern about the growing influence of the military in North Korea.

It is not clear to us what precisely that means in terms of their future policies or intentions. But we have always felt that one of the fundamental structural flaws of the North Korean regime is the over-reliance on the military as an instrument for all things and

the fact that it is getting about 25 percent of their gross domestic product.

If they would change that, we think that would solve a lot of their internal problems.

Senator MCCONNELL. They could not change that overnight, though. I gather from reading the paper that we are looking—and you may have alluded to this in your statement; I cannot remember—that we are looking at a huge crisis by midsummer.

And I assume the Chinese, the Japanese, and the South Koreans are not at all interested in having a massive wave of starving refugees.

Is there a plan being developed to provide food aid on a much more massive scale than is currently being conducted should that come to pass this summer?

Mr. KARTMAN. Well, Mr. Chairman, there are two things I would like to mention in that regard.

First, we feel that North Korea must make some important changes in their system. You have noted that there may not be much time before the present situation reaches crisis proportions. The delay in North Korea making those changes is hard to explain, and it seems to be completely internal to their own system, the death of Kim Il Sung and the 3-year period of mourning, among other factors.

There is an international——

Senator MCCONNELL. But my question is——

Mr. KARTMAN. Yes.

Senator MCCONNELL. They are not going to become a thriving capitalist country by July or able to feed themselves. My question is this: Are there plans underway should this food crisis hit the level it could in July to feed these people, to avoid the kind of outmigration that would probably follow that?

Mr. KARTMAN. Well, if I may, we are in a very intense round of discussions with all of the countries in the region who are the principal food providers for North Korea. And those would be China, South Korea, and Japan.

The Chinese recently announced a 70,000-ton food aid donation to go along with the donations that had been previously announced by the United States and the ROK. We are still in discussion with the Japanese.

Those amounts, as you noted, may not be sufficient to feed the North Koreans through what may become a crisis. However, we do to some extent rely on the judgments of those countries that are closest to North Korea.

If there is a serious problem, I imagine that the world community is going to have to step in and help the North Korean people be fed.

Is there a plan for it? No; there is not a plan. The present state of affairs is that we are responding to international appeals as they are issued by the relevant international organizations.

Senator MCCONNELL. Finally, let me shift to Hong Kong. Like the Secretary of State, I am planning on being there on July 1.

I have taken an interest in Hong Kong for some time—I do not know whether you are familiar with the United States-Hong Kong Policy Act which President Bush signed in 1992. The act basically

wrote into United States law, language consistent with the joint declaration so that United States and Hong Kong's bilateral relationship would be sustained intact after July 1, 1997. We are all watching with great interest, as I am sure you are, the various steps that are being taken leading up to July 1.

You probably noticed in today's Washington Post the George Will column referring to a new book by Bernstein and Monroe called "The Coming Conflict With China."

They argue that China's political evolution may not be toward pluralism at all, but down toward something like early 20th century fascism.

Will adds to the argument that attributes of concern also include a cult of the party state, a state dominated by the army and allied with financial interests, coupled with a powerful sense of nationalism.

I am wondering if you could comment on that thesis that our engagement policy is, as George Will put it, "a pedestal without a statue."

Mr. KARTMAN. May I——

Senator MCCONNELL. It is a good thing you were here, Mr. Bader.

Mr. BADER. Mr. Chairman, I did see the George Will piece. First of all, I would not agree with the general direction that he foresees as most likely. That does not mean that I discount it.

We are talking about unknowns here. Predictions here are extremely dangerous. I think what we can predict with some certainty is that we are looking at a country that has been growing about 10 percent a year for the last 20 years. That is, you know, among the most explosive economic growth in human history.

This is a country that sees itself as a major regional power, certainly. Its top priority is economic modernization. It has been undertaking a more modest program of military modernization.

What will China look like 20 years from now? Well, if you look at what China looked like 20 years ago, despite the considerable human rights abuses, and the failure of the system to evolve politically, I think we have to say that the China we are looking at now is a more open and liberal China than what we saw 20 years ago.

The trend since Deng Xiaoping opened up China to the West and toward greater options for the Chinese people has been for greater integration of China in the world community.

China has joined the major international organizations and has become accepting of the disciplines of those organizations.

There is a long way to go. Their behavior is not satisfactory in the area of weapons of mass destruction. They have not come close to meeting WTO standards yet. There is still considerable concern in the region about China's behavior.

And the program of political reform which was in its rudimentary stages before 1989 has essentially been halted since 1989 except for some changes in statutes in the last couple of years which provide the beginning, rudimentary steps toward the rule of law.

The jury is out. I would not discount the Will thesis as a possible outcome. I think that by a policy of engagement with China—and that does not simply mean engagement with China's leadership—

but engagement at all levels of Chinese society, we maximize the chances for having a liberalizing and a softening effect upon the direction that China will be going in the next 20 years. That, I think, is the impact that we have had in the last 20 years.

But one cannot say with confidence, since our ability to affect the situation is only marginal, what the outcome will be.

Senator MCCONNELL. Almost as interesting as watching the evolution in China is watching the evolution of policy in the administration. The President in 1992 campaigned for the termination of MFN has done a 180-degree turn and supports extension of MFN. The Vice President, a couple of weeks ago went to China but did not go to Hong Kong, yet we know the President is going to meet with Martin Lee tomorrow.

Do we—are we witnessing here an evolution of policy in the administration with regard to how to handle China?

Mr. BADER. The administration has set clear lines for its China policy for the next several years. I mean, I——

Senator MCCONNELL. Clear?

Mr. BADER. Certainly, a policy was pursued in 1993 with regard to MFN that is no longer the policy of the administration. But the basic outlines of the policy of where we are going for the next few years have been laid down.

We are planning state visits by President Jiang Zemin and President Clinton over the next 2 years. In the lead-up to those visits, and during those visits, we hope to build a stronger basis for the relationship and to make progress on the outstanding bilateral issues which are numerous, where we have problems.

We do not believe that an approach of making China a pariah or——

Senator MCCONNELL. Well, why did Gore not go to Hong Kong?

Mr. BADER. I would have to leave that to Vice President Gore to explain which stops he chose. I know he did raise Hong Kong in virtually all of his meetings in Beijing.

He raised our concerns in three or four of the meetings I saw in considerable detail, but cannot go to every place on every trip. He went to China, Japan, and Korea. I cannot give you more of an answer than that.

But Secretary Albright did announce that she would be going for the reversion.

Vice President Gore's not going to Hong Kong was not meant in any way to suggest indifference to Hong Kong. As I said, he raised it forcefully with the Chinese leaders.

Senator MCCONNELL. The Hong Kong and Shanghai Banking Corporation said back in 1990 that it had detected a significant increase in capital flight, about $2.8 billion in private, nontrade capital in 1989.

Do you have any current figures to reflect the capital flight situation in Hong Kong.

Mr. BADER. We can give you figures on that, Mr. Chairman. I know we do have figures.

My impression is that was a temporary phenomenon in the wake of a severe loss of confidence in 1989. My understanding is that the Hong Kong dollar is trading at the upper end of the peg to the United States dollar at the moment, and that United States dollar

reserves in Hong Kong are upward of $60 billion. Hong Kong has, I think, about the third largest reserve funds in the world, of any currency.

There are no controls on capital in and out of Hong Kong. There are flows all of the time outward and inward, depending upon levels of confidence.

I think the economic indicators over the past year in Hong Kong have been, for the most part, positive. I do not think we have seen any indication of capital flight.

Senator MCCONNELL. My recollection was—and I could not—this may no longer be accurate. My recollection from a couple of years ago is that there were 22,000 Americans living in Hong Kong, many of them working for American businesses.

Are you pretty comfortable that these American businesses are going to still be able to operate and thrive?

Mr. BADER. The American businesses are pretty comfortable. I mean, if you looked at the surveys of the American Chamber of Commerce, which was done confidentially, they generally show that about 95 percent of the companies have confidence in the future of Hong Kong.

They have a number of concerns which mostly involve issues of danger of corruption coming from the North and the future of the rule of law in Hong Kong. They are not without worries.

And a number of companies have set up corporate headquarters outside of Hong Kong in order to assure protection of their assets. But——

Senator MCCONNELL. Would you describe the mood in Hong Kong these days as less apprehensive than it was in 1989 after Tiananmen, or more?

Mr. BADER. I would describe it as less apprehensive than in 1989. But of course, that was a low point. You had a million people in the streets demonstrating in sympathy for the students up in Beijing.

There was an outflow of people from Hong Kong in 1989–91, in the wake of that. But since then, the immigration flows have decreased, and population has stabilized.

There is no question that there are concerns though, Mr. Chairman. And I think that your statements, as I recall, alluded——

Senator MCCONNELL. Do you think the abolishing of LEGCO is consistent with the joint declaration?

Mr. BADER. Mr. Chairman, we have strongly criticized the abolition of LEGCO. We have strongly criticized the creation of the provisional LEGCO. We have not taken a position——

Senator MCCONNELL. In fact, the joint declaration, did it not, described the makeup of LEGCO post July 1, 1997? Did it not?

Mr. BADER. The joint declaration said that there shall be an elected LEGCO——

Senator MCCONNELL. Yes.

Mr. BADER [continuing]. I believe was the language. So what we have said is it should not have been abolished; the provisional LEGCO should not have been created; and we expect to see an elected LEGCO created as soon as possible in order to assure that there is conformity with the requirements of the joint declaration. But we have not taken an——

Senator MCCONNELL. Do you think the Chinese basically just do not view the joint declaration as binding on them in any way?

Mr. BADER. No; I think that the Chinese do see the joint declaration as binding. They have a different view of the joint declaration, of course, that we do not share in many respects.

But, you know, the way they approach the joint declaration—I do not like to come up here speaking for China. But since you asked the question about the Chinese perception, let me try it for a minute.

The Chinese view the joint declaration as essentially freezing the situation in 1984. They felt that whatever system was in place in 1984, that that was what was being bequeathed to them in 1997.

So they have seen changes since then as contrary to the joint declaration. That is not a view we share. But that is why they have attacked certain changes in statutes since 1984.

Senator MCCONNELL. Well, thank you very much. We appreciate all three of you being here today.

Good luck in New York, Mr. Kartman.

Mr. KARTMAN. Thank you, Mr. Chairman.

ADDITIONAL COMMITTEE QUESTIONS

Senator MCCONNELL. There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing.]

ADDITIONAL COMMITTEE QUESTIONS

Question. Which Asian countries have ratified the CWC so far?

Answer. The following countries have ratified the Chemical Weapons Convention as of September 15:

COUNTRIES THAT RATIFIED THE CHEMICAL WEAPONS CONVENTION

Australia	May 6, 1994	Maldives	May 31, 1994.
Bangladesh	Apr 25, 1997	Mongolia	Jan. 17, 1995.
Brunei Darussalam	July 28, 1997	Papua New Guinea	Apr. 17, 1996.
China	Apr. 25, 1997	Philippines	Dec. 11, 1996.
Cook Islands	July 15, 1994	Singapore	May 21, 1997.
Fiji	Jan. 20, 1993	Sri Lanka	Aug. 19, 1994.
India	Sept. 3, 1996	Tajikistan	Jan. 11, 1995.
Japan	Sept. 15, 1995	Turkmenistan	Sept. 29, 1994.
Korea (Republic of)	Apr. 28, 1997	Uzbekistan	July 23, 1996.
Laos (P.D.R.)	Feb. 25, 1997		

Question. Of those who haven't, what is your assessment of their reluctance?

Answer. There are several factors contributing to the reluctance of some states to ratify the Convention, including:

—difficulties in the legislative process;

—concerns regarding the costs and complexities associated with implementation;

—reluctance to submit facilities to intrusive inspections; and

—in the case of North Korea, aversion to destroying CW stockpiles.

Question. What about biological weapons? Is there the same reluctance to sign off on eliminating these weapons as well?

Answer. No, we do not see a similar reluctance to ratify the BWC, which has 140 States Parties (including North Korea) compared to the CWC's 99.

Question. Can you offer some impressions on Asian perspectives on regional security pressure points?

For instance, how do the Southeast Asian nations, such as Indonesia or Singapore, perceive the nuclear and conventional capabilities of India?

What would factor into a Japanese decision to expand their capabilities to project conventional force or acquire a nuclear capability?

INDIA

Answer. The Southeast Asian nations do not perceive India as a threat. They do however, encourage India to take a responsible position on nuclear and security issues. For example, on the Comprehensive Test Ban Treaty which is supported by all ASEAN nations, India has been urged by ASEAN to change its stance and sign the ban. India was made a member of the ASEAN Regional Forum in 1996 in order to encourage constructive Indian participation in regional security efforts.

JAPAN

We do not expect that Japan will either expand its capabilities to project conventional force or acquire an indigenous nuclear capability.

Under Article 9 of the Japanese Constitution, the Japanese people "forever renounce" the "threat or use of force as a means of settling international disputes." Under its interpretation of the constitution, the Government of Japan limits the use of military force to the defense of national territory in the event of an attack.

Barring dramatic changes in the regional strategic landscape, we think that these issues are strictly hypothetical and are extremely unlikely developments in the foreseeable future.

QUESTIONS SUBMITTED BY SENATOR MCCONNELL AND SENATOR LEAHY

CAMBODIA

Question. Last Easter Sunday, a grenade attack on an opposition rally outside the National Assembly in Cambodia killed 16 people and wounded more than a 100, including an American citizen. The demonstration's leader, Sam Rainsy, who himself barely avoided the deadly blast, was in Washington last week appealing to the United States to take concrete steps to support the democratic process in Cambodia. There is a growing fear among international observers in the country that this attack will not only subdue political expression in the future, but may delay indefinitely national elections in Cambodia, scheduled for late 1998.

It seems clear that unless steps are taken immediately, the democratic progress Cambodia has made thus far will be supplanted by more intimidation, terror and political killings.

What specifically is the United States Government doing to bolster the democratic movement in Cambodia?

There have been accusations made that Prime Minister Hun Sen, and his Cambodian People's Party were responsible for the terrorist attack.

Do we have any concrete evidence to back the assertions that Hun Sen, or any other political group, was directly responsible for this attack?

Have the Cambodian authorities committed to a thorough and comprehensive investigation into this attack?

Mr. Secretary, do you believe the United States should condition any future economic assistance to Cambodia on the progress in this investigation?

Answer. We share your concern that acts of political violence such as this could put at risk the significant progress toward democracy Cambodia has made since the U.N.-sponsored elections in 1993, and possibly disrupt the elections scheduled for 1998.

We issued a press statement on March 30 condemning the grenade attack and calling upon the Cambodian government to take all possible steps to identify and punish the perpetrators.

The State Department called in the Cambodian ambassador on March 31. We condemned the attack and urged the Cambodian government to take steps now to prevent further political violence and bring to justice those responsible. Similar demarches were delivered in Phnom Penh to Foreign Minister Ung Huot and to the Co-ministers of the Interior. Deputy Secretary of State Strobe Talbott met with Mr. Sam Rainsy and his wife on April 9. Mr. Talbott expressed relief that Sam Rainsy had escaped without serious injury and outrage that others had not. We have called on Cambodia to conduct a speedy credible investigation of the incident and to identify and punish the perpetrators.

We do not have concrete evidence indicating who was responsible for the attack.

The United States does not provide direct assistance to the Government of Cambodia. Because of the government's weak accountability and implementation capac-

ity, USAID's program is being implemented through direct USAID contracts, grants and cooperative agreements to NGOs. We do not believe that conditions linked to the investigation of the grenade attack should be placed on our humanitarian assistance.

QUESTIONS SUBMITTED BY SENATOR LEAHY

NGAWANG CHOEPHEL

Question. Ngawang Choephel, a former Fulbright Scholar at Middlebury College who returned to Tibet to make a documentary film, was sentenced to 18 years in a Chinese prison for espionage. The Chinese have never produced a shred of evidence to support the charge. I raised this case with President Jiang Zemin in Beijing, and have written numerous times to top officials in China. I appreciated that this case was included in the State Department's Annual Human Rights report.

What, besides saying you are upset, can we expect the administration to do on behalf of Ngawang Choephel and other political prisoners in China? Do you have any reason to believe that the Chinese will pay attention?

Answer. I, and other senior levels of this Administration, have raised—and will continue to raise—our concerns with Chinese leaders at the highest level about human rights in China, including Tibet. The case of Ngawang Choephel is of serious concern to the U.S. Government. Our Embassy has sought more information from the Chinese government about the evidence involved, but has gotten no substantive reply beyond what you have received. In testimony on May 13 before the Senate Foreign Relations Committee, we said, "We cannot understand why such a sentence should have been imposed when there has been no public explanation of why his activities were unlawful."

We will continue to raise our concerns over China's treatment of those who peacefully express their political and religious views, and urge China to release those incarcerated for exercising their basic rights. Raising China's violations of basic freedoms in such multilateral fora as the U.N. Human Rights Commission also serves to focus world attention on China. The Chinese Government is concerned about its international image. It is noteworthy, for example, that in response to international pressure, China announced that it would sign the International Covenant on Economic, Social and Cultural Rights by the end of this year, and is actively considering signing the International Covenant on Civil and Political Rights.

INDONESIA

Question. The Suharto Government has shown no tolerance for political opposition candidates, even declaring the main opposition leader ineligible for the coming election. The administration states that democratization is a priority for our policy toward Indonesia. What is the administration doing to promote a democratic transition and political freedom in Indonesia?

Answer. Over the last 30 years, Indonesia has made remarkable progress, becoming one of the major engines of economic growth in Southeast Asia and increasing per capita income from $100 to about $1000. Political progress has not kept pace with economic growth, however. As former Secretary Christopher stated in testimony before the Senate Foreign Relations Committee last year:

At the present time, I think that there's a strong interest in seeing an orderly transition of power there that will recognize the pluralism that should exist in a country of that magnitude and importance. So we will be encouraging a transition there that expresses the popular will.

The United States has long encouraged greater respect for human rights, democracy, and worker rights in Indonesia. For example, the U.S. is the leading international supporter of non-governmental organizations in Indonesia that are working for good governance, greater democracy, and sound environmental policies. U.S. AID programs also contribute to Indonesian efforts to develop greater transparency in government decision making to reduce corruption.

In addition, we make it a practice to raise human rights in all of our senior-level meetings with Indonesian officials and to speak out publicly about human rights problems when this is warranted. With regard to worker rights, we have negotiated benchmarks with the Indonesian Government that have helped improve the labor situation in certain areas. We intend to continue this process, and to urge the Government to adhere to internationally accepted labor standards.

The Indonesian military is the key to improving human rights in Indonesia. International Military Education and Training (IMET) provides the opportunity for Indonesian military personnel to be educated in the United States, to observe our com-

mitment to international law and American values, and to acquire additional skills. Our experience is that IMET graduates are more professional, more committed to improving their own armed forces, and more likely to be at the forefront in reforming their own services. IMET is particularly important to educate senior officials of Indonesia's armed forces in greater respect for civilian control of the military, improvements in military justice, and responsible defense resource management in accordance with internationally recognized human rights.

If we are to speak frankly about Indonesia's human rights problems, it is also important in our view to acknowledge Indonesia's accomplishments in other areas. Indonesia is a key contributor, for example, to regional stability that has helped produce the remarkable economic growth in Southeast Asia. Indonesia's own economic policies have ensured widespread benefits for its own population as well. U.S. trade with Indonesia is growing rapidly, and contributes to prosperity in both countries, while helping open the Indonesian economy to positive outside influences.

Congressional funding for the programs mentioned above has been extremely important, and we hope that it will continue. We want to encourage the positive trends and policies we see in Indonesia particularly regarding more respect for human rights. Ultimately, however, it is up to the Indonesian Government and people to shape a democratic society at a time and in a manner they think best.

Question. After the crack down against political opposition groups last September, I and several other Members of Congress spoke out against the sale of F–16s to Indonesia. Yet just days after the administration put the sale on hold because of these human rights concerns, Secretary Lord announced in Jakarta that the sale would proceed in 1997. Does the administration intend to complete the sale. If so, on what conditions?

Answer. As we said last fall, the U.S. remains committed to the sale. However, the Administration has decided not to notify the Congress of the transfer at this time.

Our arms sales decisions are based on a number of considerations including regional, bilateral, and domestic political factors.

When we decide to move forward, we will do so in a context that offers the greatest assurance of success.

We will continue to consult closely with the Congress as the process moves forward.

Question. I know the State Department has tried to inject a degree of restraint into the Administration's policy on arms sales. Unfortunately, the Commerce and Defense Departments seem to consistently win out. If there is money to be made, they support it, regardless of the potential consequences down the road. I thought that might change with a Democratic administration, but if anything, you have outdone your predecessors.

Too many times, we have seen our weapons come back to haunt us, whether landmines or tanks. We saw that in Somalia, the Persian Gulf, and Bosnia.

What is the administration's policy on arms sales to the Asian countries, especially those where the armed forces are involved in suppressing democracy?

Answer. The U.S. policy on arms sales to Asia follows the President's Conventional Arms Transfer (CAT) Policy of February 1995 which declares we will transfer arms to support the legitimate security needs of friends and allies, and that we will refrain from transfers that may adversely affect regional security or contribute to violation of human rights and democracy. The policy contains an extensive list of generic decision-making criteria to be used in evaluating all proposed U.S. arms transfers.

The CAT policy requires that we seek to enhance multilateral restraint, but recognizes that only rarely will our interests be served by unilateral restraint. Although decisions on U.S. arms transfers are to be made primarily on foreign policy and national security grounds, the policy takes into account the implication of transfers for preservation of the defense industrial base.

We are seeking to strike a proper balance between the imperatives to transfer arms and the need for restraint to avoid destabilizing arms races and diversion of resources from economic and social needs. We make full use of the Intelligence Community to ensure we have the best information available for arms transfer decision, are improving our oversight of weapons technology-sharing negotiations between DOD and foreign militaries and are applying the evaluative criteria in the CAT policy in the interagency arms transfer process.

In the case of countries in the region where human rights problems exist, the CAT policy requires us to take into consideration the effect of weapons transfers on the specific situation. For example, in Burma we are not willing to make any arms transfers given the human rights situation there. In Indonesia, we have a formal policy that prohibits the transfer of small arms, crowd control, and other related

equipment. In other countries, we have imposed temporary bans of specific weapons transfers when the situation warranted.

Question. It is obvious that the Chinese Government is losing no time to whittle away at democracy and political freedom in Hong Kong. If this assault continues, what are the Administration's options for responding to it?

Answer. The United States has long supported development of open, accountable, and democratic government in Hong Kong. Such a government has become essential part of Hong Kong's successful business and political environment. We have told Chinese leaders at the highest level that we expect China to honor its commitments in the 1984 UK-PRC joint declaration and the 1990 Chinese Basic Law to preserve Hong Kong's way of life, basic freedoms, civil liberties and rule of law.

The key question is whether China will live up to its commitments to preserve Hong Kong's high degree of autonomy. In some areas, such as economic and immigration matters, China's statements and actions have been reassuring. In other areas, such as respect for political institutions and the freedom of expression, Beijing has done things that represent a step backward. In the event Hong Kong's autonomy is damaged, the U.S. will act consistent with the U.S.-Hong Kong Policy Act of 1992, which calls on the President to report to the Congress if Hong Kong is unable to carry out its bilateral obligations to us. A roll-back in freedoms and democratic development would also negatively affect U.S.-China relations. We have made that clear to the PRC in our diplomatic dialogue and our public statements. We will continue to convey to both the Chinese and to the new Hong Kong Special Administrative Region Government our expectation that Hong Kong's autonomy, stability and prosperity be preserved consistent with the principles of the joint declaration.

We are encouraged that the new Chief Executive, C.H. Tung, has stated his commitment to maintaining Hong Kong's high degree of autonomy, its economic system, and its way of life, and has announced plans to hold elections for a new legislature in less than a year. As the Secretary said in Hong Kong, we will be watching closely and discussing developments with both Chinese and Hong Kong authorities.

KOREA

Question. I understand the North Koreans have finally agreed to attend Four Party Talks with officials from the U.S., China, and South Korea. I want to stress how important I believe it is that the aim of these discussions be to promote dialogue between North and South Korea. There is only so much we can do, and we cannot substitute ourselves for the South Koreans. What do you expect these talks to accomplish?

The freeze on North Korea's nuclear program has been in place since November 1994. How do you explain that a government as paranoid as North Korea would give up its ambition to be a nuclear power? How certain are you that there is no cheating going on?

What portion of KEDO's budget are we paying? Who pays the rest?

Answer. The goal of the Four Party talks is to reduce tension and increase peaceful cooperation between the two Koreas, and ultimately to replace the 1953 Armistice Agreement with a permanent peace treaty. Another important area for discussion will be economic cooperation, both to address North Korea's immediate needs and its long-term problems. Institutionalizing North-South dialogue will be central to this process.

For this reason, the U.S. expects South and North Korea to be the leading negotiators within the Four Party talks. This reflects our longstanding policy that the future of the Korean Peninsula is for the Korean people to determine. However, the U.S. will be a full and active participant in the talks.

North Korea has not yet fully agreed to attend Four Party Talks, but has indicated that it will continue to discuss its participation with U.S. and South Korean officials.

Regarding North Korea's decision to enter into the Agreed Framework, although we cannot know for certain the DPRK's motives, we assume that North Korea agreed to freeze and eventually dismantle it nuclear program in exchange for perceived benefits, including increased dialogue and potential political and economic relations with the United States.

We are confident that we can monitor North Korea's compliance in fulfilling the provisions of the Agreed Framework. Inspectors of the international Atomic Energy Agency (IAEA) have maintained a continuous presence at the DPRK's Nyongbyon nuclear facility since 1994 and visit the nearby nuclear support facilities on a weekly basis. Moreover, a U.S. team also resides at Nyongbyon and works inside the nuclear facility in a joint project with North Koreans to place the spent nuclear fuel

from the DPRK's reactor into safe, long-term storage, under IAEA monitoring. In addition, our National Technical Means can detect any significant activities at the construction sites where work on two nuclear power plants has been suspended in accordance with the Agreed Framework.

Through these various means of monitoring and verifying North Korean compliance with the Agreed Framework, we have ascertained that the DPRK is complying with the freeze provisions of the Agreed Framework. The DPRK's 5-megawatt nuclear reactor is not operating, and its reprocessing facility and fuel fabrication facility have also been shut down. North Korea has also ceased construction at both the 50-megawatt reactor at Yongbyon and the 200-megawatt reactor at Taechon.

Regarding KEDO's budget, the three founding members of the organization—the U.S., Japan, and South Korea—share KEDO's administrative and operating costs. In the past, the U.S. has paid roughly a third of those expenses. Funding for KEDO's projects, including the provision of proliferation-resistant LWRs to North Korea (costing several billion dollars), will be provided primarily by South Korea and Japan. In addition to supporting a portion of KEDO's administrative costs, the U.S. contribution to KEDO will also help fund heavy fuel oil (HFO) deliveries to the DPRK, which are required until the first LWR is completed. Additional funding for HFO will come from members of the international community. To date, over 22 countries other than the U.S., as well as the European Union, have contributed or pledged over $100 million to KEDO for this purpose.

CHINA-TIBET

Question. You reiterate in your statement that "longstanding U.S. policy recognizes Tibet as part of China."

Hasn't this policy, unintentionally but effectively, given China a green light to destroy Tibet's cultural autonomy? By the time China is willing to enter into negotiations with the Dalai Lama, as you have urged, what will be left to negotiate about? The way things are going, Tibet as a unique entity will exist in name only. Does your policy mean anything?

Answer. We share your concerns, but should point out that no country recognizes Tibet as a sovereign state. The United States, however, along with many other countries seeks improved human rights in China, including in Tibet. In particular, we support the preservation of Tibet's unique cultural and religious heritage and raise our concerns about Chinese policies with Chinese leaders at the highest levels.

The United States has urged China to respect Tibet's unique religious, linguistic and cultural traditions, and the human rights of Tibetans as it formulates its policies for Tibet. The United States encourages China and the Dalai Lama to hold serious discussions aimed at resolution of the differences at an early date, without preconditions. We have consistently asserted that any questions surrounding Tibet and its relationship to Chinese authorities in Beijing should be resolved by direct dialogue between the Tibetans, in particular the Dalai Lama, and the Chinese.

The Dalai Lama would obviously be a key player if discussions develop between the PRC and Tibetans living outside China. As a sign of the great respect the President and Vice President have for the Dalai Lama as a religious leader, they have met with him on a number of occasions, most recently on April 23. The Dalai Lama has the respect and affection of the Tibetan people, and the PRC should take advantage of this and talk with him. We urge a resumption of the dialogue between the Chinese government and the Dalai Lama and his representatives as the best way to defuse tensions—and potential violence—in Tibet and believe the Chinese Government recognizes that it is in its own self-interests to resolve the issue peacefully.

China has said it will not resume the dialogue until the Dalai Lama publicly acknowledges that Tibet is part of China and that he does not seek an independent Tibet. The Dalai Lama has told us that he seeks autonomy for Tibet, not independence, and that he is prepared to resume the dialogue any place, any time. We have urged him to use every channel available to communicate that position directly and clearly to the Chinese. We have made clear to the Chinese the importance we attach to resuming the dialogue. We see a basis for a dialogue here and encourage both parties to pursue its restoration.

KOREA

Question. I am told that North Korea recently agreed to accept Taiwan's nuclear waste, in return for $200 million. Is this true? How has South Korea reacted to this?

Answer. Taipower announced in January that it had concluded a commercial contract with North Korea to ship low-level nuclear waste to the DPRK. The contract is worth approximately $200 million. We understand that the waste material contains no uranium or plutonium, but consists of contaminated clothing, filters,

sludge, tubing, etc. Concern is therefore environmental rather than a matter of proliferation.

South Korea announced almost immediately its total opposition to this transaction, and has lobbied in international fora and bilaterally to have this transshipment deal terminated.

QUESTIONS SUBMITTED BY SENATOR BENNETT

Question. What is the Administration's position regarding the Taiwan-North-Korea Nuclear Waste-Agreement?

Answer. We are mindful of Taiwan's need for viable storage options for its low-level nuclear waste. We also understand the ROK's concerns and have encouraged Taiwan to take into account South Korean and regional views. To verify to the international community the exact nature of the materials and that shipment and storage will conform to internationally accepted guidelines, we have urged Taiwan to request the assistance of the International Atomic Energy Agency (IAEA). The IAEA is the principal international body with the technical ability to independently address the issues involved. Ultimately, Taiwan must demonstrate that all steps in this transaction are in accordance with international guidelines.

Question. If the Administration has concerns over this agreement, what are they and how does the Administration intend to address them?

Answer. Our concerns are noted above. We continue to raise them with the Taiwan authorities and other interested parties.

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

EAST TIMOR

Many Members of Congress and the Portuguese-American community are concerned about human rights in East Timor, Indonesia. The East Timorese have suffered a campaign of repression since Portugal withdrew from the colony in 1974 and Indonesia annexed East Timor. The country was closed to the outside world until 1989, and even now access is still restricted. Journalists and international human rights monitors are rarely granted permission to visit.

Question. (A) What is your agency doing to help protect the rights and civil liberties of the East Timorese left in Indonesia?

Answer. (A) We share Congressional concern for the people of East Timor, and we are actively seeking to improve human rights in the province.

The United States strongly supports resumption of the direct discussions, facilitated by the UN Secretary General, between Indonesia and Portugal to resolve their differences on East Timor. We are encouraged that Secretary General Kofi Annan's recent decision to appoint Ambassador Jamsheed Marker to be his Special Representative for East Timor will give new impetus to these key discussions. On May 7, John Shattuck, Assistant Secretary for East Asian and Pacific Affairs and Aurelia E. Brazeal, Deputy Assistant Secretary for East Asian and Pacific Affairs met with Ambassador Marker.

The situation in East Timor has long been an important part of our dialogue with the Government of Indonesia. President Clinton, for example, has raised our concerns directly with President Soeharto. Secretaries of State Christopher and Albright have discussed them extensively with Foreign Minister Alatas, as have Ambassador Roy and his embassy colleagues with their counterparts in Jakarta. President Clinton has also discussed the East Timor situation with Portuguese Prime Minister Guterres.

While many of our efforts involve quiet diplomacy, we also have not been reluctant to support public expressions of concern where appropriate. For example, we have supported action on East Timor at the United Nations Human Rights Commission. Only last month, the Commission passed a resolution, with U.S. cosponsorship, that expresses deep concerns over Indonesian policies there.

It will be important for an overall solution in East Timor to incorporate proposals that give East Timorese themselves greater control over their economic and political life, in keeping with their unique history and culture. In the meantime, we have urged the government to reduce troop levels, to allow increased access to the province, and to release prisoners of conscience. We have also called on the East Timor resistance to forswear violence and join efforts to achieve a peaceful resolution of the dispute. Two U.S. Congressmen, Ambassador Roy, and Assistant Secretary of State for Democracy, Human Rights, and Labor, John Shattuck, recently visited the area, and other embassy officers have visited six times in the past ten months. As-

sistant Secretary Shattuck also visited the imprisoned East Timorese activist Fernando de Araujo last March.

Over the years, we have been the largest international aid donor to East Timor, with eight projects now currently under way with a total budget of $15.8 million. Our aid programs are designed to improve the lives of average Timorese, while helping them achieve more control over their own economic future.

Question. (B) What type of foreign assistance is most beneficial in a difficult situation such as this?

Answer. (B) USAID has the largest donor assistance programs in East Timor. Between 1991 and 1995 USAID directed approximately $11 million to Indonesian and U.S. non-governmental organizations for rural and community development activities such as teaching skills to develop local NGOs, drilling wells, draining land, monitoring human rights, improving farming technology, educating orphans, increasing practical business skills, training community self-help groups, establishing micro-enterprises, strengthening the institutional capacity of the University of East Timor, assisting rural cooperative improve product development and marketing, training journalists, expanding coffee cooperatives, and providing investment in urban environmental infrastructure such as shelter, water supply, and sanitation. USAID has also supported the work of the International Committee of the Red Cross to reunite families and to monitor the human rights situation in East Timor.

Given East Timor's rural economy and political situation, the most beneficial use of funding would be on programs to increase rural incomes, to provide vocational training for Timorese youth, to manage its water supply, to assist East Timorese protect their human rights and to advance the peace process would be most beneficial. One of the largest constraints on our aid program has been the ability of East Timor NGOs to absorb our assistance.

CRIME IN ASIA

Question. As we are aware, China, North Korea, Vietnam and other East Asian countries are often in the news for committing abuses against human rights. But what many of us are less familiar with is the other types of crime in East Asia. These include visa fraud, drug smuggling, murder, bribery and corruption. Some of this rampant crime can be attributed to frustration at the pace of reform and backlash against a repressive government.

The Chinese authorities have launched a highly publicized campaign of prosecution and punishment, called the "Strike Hard" attack on crime, which goes along with a harsh anti-corruption campaign. In 1996, news sources reported that the Chinese had publicly executed over 1000 citizens in this crackdown.

Lacking training in criminal justice, many countries resort to a system of complete intolerance, resulting in large-scale punishment and public executions.

In the past, Congress has funded programs that aid in law enforcement and corrections training abroad. What type of aid programs can the U.S. fund to aid in crime prevention measures in East Asia, without seeming to support such arbitrary and extreme punishments?

What recommendations would you like Congress to consider in fiscal year 1998 to help adequately fund crime prevention and law enforcement measures abroad?

Answer. USG funds appropriated to the Bureau of International Narcotics and Law Enforcement Matters are used for the following kinds of programs in East Asia: demand reduction training, alternative development (in opium producing countries such as Laos), and law enforcement support and training. Law enforcement training includes specific training programs offered by DEA, Customs, the Coast Guard, the U.S. Secret Service, etc., which are directed at drug interdiction, smuggling, counterfeiting and other forms of financial fraud. Some funds go to equipment purchases to help modernize counternarcotics police units, with purchases ranging from motorcycles and radios to a drug testing laboratory. USG funds also support advisors who may be made available to specific host government institutions for consultations on a range of law enforcement-related activities, such as writing laws affecting money laundering, advising banks on methodology for detecting and protecting against various financial fraud schemes, running a court system, etc.

INL has presented a budget proposal for counternarcotics and law enforcement programs in Asia for fiscal year 1988. Our recommendations are contained in this package.

ASIAN ORGANIZED CRIME

Question. What is your bureau doing to help fight this type of non-territorial organized gang violence?

To what extent does your agency coordinate with the FBI and with federal agencies to reduce the amount of criminal activity perpetuated by Asian gangs?

Answer. While the State Department and its bureaus do not focus on domestic organized crime gangs, the Department does coordinate closely with those USG law enforcement agencies which have overseas as well as domestic missions. Members of the FBI, INS, Customs, DEA and DOD serve on detail to the Department of State in the Bureau of International Narcotics and Law Enforcement. While most of their work, once again, is not focused on Asian gangs in the United States, they do work with personnel of the Department of State to coordinate such issues as repatriation of smuggled (largely Chinese) aliens and the extradition for prosecution in the United States of drug traffickers whose activities in the United States doubtless contributes to some of the crime in American Asian communities.

The Department of State also has an active policy with regard to denying visas to identified criminals. As the parent agency for our Embassies and Consulates abroad, the Department is also fully engaged in helping USG law enforcement agencies to further investigations abroad, to negotiate mutual legal assistance treaties which facilitate information exchanges with other governments on law enforcement matters and plays a key role in seeking the cooperation of host governments on issues such as drug trafficking, credit card fraud, alien and other smuggling and other financial crimes which impact on Asian and other communities in the United States.

SUBCOMMITTEE RECESS

Senator MCCONNELL. We appreciate all three of you being here today, the subcommittee will stand in recess until 2 p.m., Tuesday, May 6 when we will receive testimony from Ambassador Morningstar of the Department of State and Thomas Dine from the Agency for International Development.

[Whereupon, at 12:15 p.m., Thursday, April 17, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, May 6.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

TUESDAY, MAY 6, 1997

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:40 p.m., in room S–128, the Capitol, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Campbell, Leahy, and Murray.

DEPARTMENT OF STATE

STATEMENT OF HON. RICHARD L. MORNINGSTAR, AMBASSADOR, SPECIAL ADVISOR TO THE PRESIDENT AND SECRETARY OF STATE ON ASSISTANCE TO THE NEW INDEPENDENT STATES

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF HON. THOMAS A DINE, ASSISTANT ADMINISTRATOR, BUREAU OF EUROPE AND THE NEW INDEPENDENT STATES

OPENING REMARKS OF SENATOR MC CONNELL

Senator MCCONNELL. The hearing will come to order.

I am sure Senator Leahy will be here momentarily. We have been upstairs voting. And I am sure he will be down shortly.

I welcome, Mr. Dine and Mr. Morningstar, here today. And I would like to make essentially three points this afternoon, before going to your statements.

First, I believe the administration's request for Russia, once again, is disproportionately large relative to the overall request and our broader regional interests. Second, I am concerned that in order to sell an overall increase, the packaging seems more important to the administration than developing a sound product. Third, the legal and law enforcement issues, which Senator Leahy and I have been talking about for 4 years, still do not receive the emphasis that I think they should. So let me elaborate just a bit on that.

In a recent letter to congressional leaders, the President urged us to fully fund his request for foreign aid. For the record, his general position is one that I, as you all know, strongly support. He pointed out one of the reasons why full funding is so important is the sharp decline in our assistance to the NIS since fiscal year 1994. And he pointed out that that means we are investing very little in many parts of the former Soviet Union.

For example, we have only $44 million for Kazakstan, Turkmenistan, and Azerbaijan, countries whose huge energy resources make them major economic interests. That is a quote from the President. The congressional funding levels have little to do with the fact that the administration has only provided $44 million for these three countries.

The squeeze is in fact the result of a significant drop in the administration's NIS request last year, combined with chronic overspending on Russia. To put the problem in context, we should compare $44 million for these three countries with the request for Russia of $241 million, which is only a small share of the total of more than $4 billion provided for Moscow since 1993. Having drawn attention to the pressures which tend to compromise our interests in the non-Russian states, the administration still provides Russia both the largest share and the largest increase, this year, from $95 million to $241 million.

Now, Russia certainly deserves some support. But I continue to believe the private sector is far more important to Moscow's future than any assistance we may provide. In contrast, our aid is vital to the survival of the smaller states. I intend to provide the highest level of NIS aid possible within budget constraints. But, I do not share the administration's priorities. Just as one example, given the remarkable reforms engineered by President Shevardnadze, it is my hope to substantially increase United States support for Georgia.

While the administration seems sure of its commitment to Russia, its commitment to develop a sound, substantive basis for these programs, it seems to me, comes up short. I appreciate the shift in the marketing strategy and the new emphasis that the Partnership for Freedom places on trade, investment and business priorities—activities which, in principle, I think we all support. However, the request included $160 million for a new business development program, to be administered by the Eximbank. I think we have learned through discussions with the Bank this initiative is simply not supportable. Traditionally, Exim uses local banks to support its transactions.

Given how weak the banking institutions are in virtually every country, Exim staff has told us they would have to use nearly one-half of the $160 million to field staff to assure the appropriate lending and financial analyses could be prepared to prevent major losses. Even then there would be serious reservations about how soon and effectively the program could be implemented.

While I wonder why the commitment was made in the first place, I understand you have dropped that idea. I do hope you will be able to answer how you plan to spend the $160 million now available.

Finally, let me turn to crime and corruption. Senator Leahy and I have been calling attention to this problem since 1993. The first year I chaired the subcommittee, the Senate report stated:

> The incidence of crime and corruption have markedly increased since last year's recommendation. The committee is deeply concerned about reports that more than 5,000 organized criminal enterprises have developed throughout the NIS.

Our primary concern was and is simple: The private sector is the key to jobs and economic stability. If businesses refuse to invest be-

cause of corruption and crime, obviously there will be no growth. I only wish the administration spent as much time developing solutions to this problem as it does fighting Senate earmarks. Unfortunately, another year has passed without significant action. There continues to be fresh compelling evidence of how widespread and acute this crisis is.

Whether it is the murder of an American in Moscow over a sour business deal or routine allegations that contracts are moving legal targets and very difficult to enforce, it seems to me we are now bearing the bitter fruit of neglecting this critical area. The problems which have surfaced in Ukraine in the last several months are the most recent examples of the spread of crime and corruption.

Obviously, recalcitrant parliaments, unwilling to pass or enforce reforms, must assume a share of the responsibility. But, what we see unravelling is a dangerous cycle, where crime and corruption, reaching the most senior levels of government, are sapping investor confidence, which in turns stalls economic growth. And stagnant growth means stagnant wages for the average citizen, including members of the police force. And if their wages drag, so do their enforcement efforts. Which means the cycle of crime and corruption spirals ever downward.

To arrest this cycle we need to target and increase our commitment to meaningful legal and law enforcement training. After spending over $500 million on privatizing companies, it seems worthwhile that we be able to protect them. One example of what we can do is evident in Ukraine. For 3 years, the Government has asked for and not received support to establish an FBI-like training academy to teach its law enforcement community how to combat crime, especially the white-collar variety.

I intend to make this kind of project and combating crime and corruption a high funding priority, particularly since I believe it serves our interests as well as the interests of the region.

So let me at this point turn to you, Mr. Dine, and you, Mr. Morningstar, for your opening statements. And then we will go to questions.

SUMMARY STATEMENT OF AMBASSADOR MORNINGSTAR

Mr. MORNINGSTAR. Thank you, Mr. Chairman and members of the subcommittee.

The issues that you have raised in your opening statement are all very important issues, and I hope during the course of the hearing today to answer most of those. And if the opportunity does not arise to deal with every issue, I look forward to the opportunity of meeting with you later to go over each and every one of the issues that you raised.

I appreciate the opportunity to appear before you today to discuss one of the President's top priorities in the foreign affairs budget, the Partnership for Freedom. The fiscal year 1998 request for NIS assistance is $900 million. And this request is based on a strategic refocus of our assistance efforts as we move into the 21st century.

The Partnership for Freedom rests on a very simple principle. And I do not think we can say it enough. And that is that we, the

United States, have no greater national security interest than the stability of Russia, Ukraine, and the other New Independent States, and the consolidation of their transition to market democracies.

Our most dangerous adversary of all time, the former Soviet Union, is no more. We have an enhanced opportunity today to influence and shape the future of the New Independent States that were the Soviet Union. Stability in this region over the next 5 to 10 years is dependent on the achievement of economic growth.

With respect to Russia specifically, a recent article in the Financial Times, I think, framed the issue quite well. Will Russia choose open and fair capitalism or the corrupt monopolistic capitalism and all that could entail? The article pointed out that it might take more than a generation to answer this question, but that recent changes in the government could present some opportunities.

This is why the Partnership for Freedom is important. How can we help all of the countries of the New Independent States give their citizens a more tangible stake in the reform? The first way to do this, I would submit, is by mobilizing capital and increasing investment, to create jobs and ultimately utilizing the private sector as we suggested. This will require NIS leaders to take on more aggressive legal and policy reforms to improve the environment for business. This will require more capital, particularly in the region and to smaller businesses. And this will require, as you pointed out, increased efforts in the NIS to fight crime and corruption.

Second, we need to stay engaged to strengthen the democratic organizations that will allow citizens to influence government and to advocate change. We must continue to persuade and cajole. The real change will come from the bottom up, as well as from strong leadership. And I know this is something you have pointed out many times in the past.

Why did we ask for a larger budget this year? And why is our opportunity to have an impact greater than it ever was?

First, the Partnership for Freedom responds to the need for a second phase of engagement in the NIS, which builds on the foundation of basic structural reform, such as privatization, such as macroeconomic stabilization that is taking place in most of these countries. Our active engagement, which will focus on the push for real growth in these economies, is crucial.

Second, we look hard at what we can do with our assistance resources to make the biggest impact. On the subject of investment, for example, we have identified that a major gap exists in financing small business, particularly in the regions. This finding is based on over 50 interviews that I and my staff have done with professionals and experts both here and in the NIS, as well as at least eight business roundtables, getting the views of American and NIS business people.

In fact, since I originally wrote this, there have been a couple more. It is quite interesting that just a year ago, I do not think we could have made the same findings that we make now. A year ago we were hearing about the lack of a qualified demand for financing, emphasizing the word "qualified." Now that has changed. And we have learned from the EBRD's small-loan program, from NGO's, like the Eurasian Foundation, CCI, the Consumer Citizens' Initia-

tive, and FINCA, which does a lot of microcredit work, that the demand far outstrips the supply of capital.

In fact, we have also found, from the EBRD program as well as some of our enterprise fund programs, that with respect to small business lending, there are banks within the regions—many banks in the regions—that can be worked with and can be used to help distribute money, to help lend money to small businesses. And we can talk more about that later.

Another crucial opportunity in our proposal is that we do propose to more than double the amount of resources we direct to anticrime and law enforcement. And these last few years have built the foundations that allow us to do more to fight crime and corruption.

Third, now is the time that we really need to emphasize also the cooperative mutually beneficial activities. U.S. business, universities, scientific organizations, hospitals, towns and cities all over the United States see the benefits in developing close linkages with the NIS. These ties do more than our governments could ever do to achieve constructive relationships and have an impact on a community level every week.

I see new evidence of the value of these partnerships. Yesterday, for example, I spoke to 43 Ukraine bankers and faculty members from the International Management Institute in Kiev. The have a partnership with Carnegie-Mellon in Pittsburgh. IMI sponsored a study tool for this group that is getting a master's degree in Kiev to promote banking in the United States and show how they can improve their banking systems. These, I think, can be extremely valuable and have a long-term effect.

Fourth, we continue to hear from our Ambassadors in the NIS and from notable leaders of reform, such as Andrei Kozyrev, for example, and Grigori Yavlinsky, that one of our largest returns on investment and assistance dollars are some exchanges and support for the hundreds of nascent democracy NGO's, human rights groups and political parties that are springing up in that region. I would submit that these programs cannot be done by anyone but the United States. We represent the clearest vision of the future.

The Partnership for Freedom proposes specifically to double the number of exchanges. We have proposed to do more democracy work in countries in Central Asia and the Caucasus that are lagging in some ways.

Another recent illustration on exchange is Ambassador Courtney of Georgia—and by the way, we would be increasing Georgia by something like 60 percent in the Partnership for Freedom—sent in a cable. We have a graph with respect to the country dollars that are back there.

In any event, Ambassador Courtney sent in a cable, outlining the profound impact that the alumni of United States exchange programs are having in Georgia. He mentioned that the chairs of two key parliamentary committees, a leader of the independent media, and several others doing high-profile community work have been graduates of those programs. Particularly in his case, he is referring to the Muskie fellows.

Fifth, the regions have emerged as the most promising bases for reform and growth. When we talk about doing small business in the regions, we are talking about doing it in regions where there

has already been indications of success and where we think we can build on that. One illustration, for example, is the Novgorod region in northwest Russia. That is really a model where we need to be working. The regional government there is taking aggressive steps to improve the investment climate and encourage growth. Tax incentives for foreign investors and strong early results in getting investment targets actually done have occurred. And it is action, not just words.

This region and others like it—the Russian Far East is another area where we clearly intend to develop our regional initiative—are where we can and must do more and where we will see the kind of results that push and pull the country along. We are developing a Partnership for Freedom pilot program with existing funds, using Novgorod as the pilot, utilizing more investment and more partnerships.

I must add here, as I am sure you know, that the new Russian Cabinet includes two notable leaders of Russia's most progressive regions, Nizhny Novgorod and Samara. And hopefully this will bode well for increasing our efforts in the regions and how success there now will affect the center. We need to encourage pressure from the bottom up to make the changes that need to be made.

Let me just say a few words about Ukraine. I did return from Kiev late the week before last, where I met with Ukrainian leaders to discuss our concerns about the downturn in the investment climate and the treatment of various United States companies. And there are very serious issues with this country. Mr. Lemire from Gala Radio is sitting here in the audience today.

But let me say in the strongest possible terms that the development of Ukraine as a stable market democracy is in our national interest and certainly in Ukraine's national interest. If they show the political will to deal with these issues, we have to be prepared to work with them, particularly relating to transparency in business/government interactions.

On the other hand, if these concerns are not addressed completely, we should consider scaling back assistance in certain sectors where backtracking of reform has been a problem. The ultimate issue, the real ultimate issue when all is said and done, is that Ukraine's future and all that they have achieved in the last 5 years is at stake, and we need to do everything we can, through whatever methods we can, to help ensure that future.

And as you know, President Kuchma is scheduled to come here the week after next.

Senator LEAHY. Is that still on?

Mr. MORNINGSTAR. That is still on.

I think it is critical that trip take place. This is an opportunity for the President and the Vice President and Members of Congress such as yourselves to discuss with him the magnitude of these issues and the large stakes that are involved. President Kuchma announced on April 10 an anticorruption decree, which, if implemented, could solve a lot of these problems. And you have to establish that that political will does exist and, if it does, we need to help as much as we can.

But, in the meantime, the kinds of investment disputes, such as Mr. Lemire has, really do have to be solved. They are symptoms

of underlying problems. But until they are solved, there is going to be constant pressure that we are all up against.

Senator MCCONNELL. Can I just interrupt you on that point.

Given the current state of affairs, how much would that decree be worth in terms of the likelihood of it having an impact?

Mr. MORNINGSTAR. We will have to see. The decree itself, when you read it, if it were all implemented, deals with all of the issues that need to take place.

Senator MCCONNELL. That is really my question.

Mr. MORNINGSTAR. What I kept trying to impress upon the Ukrainian officials when I was there was that the real issue is not the American assistance program. The real issue is not President Kuchma's visit. The real issue is that Ukraine will develop and thrive as a market democracy. As long as you have the kinds of problems we are talking about, which discourage investment—not just United States investment, but also Ukrainian domestic investment, European investment, investment wherever it is—unless you solve all of these problems, whatever problems you come up with, it is not going to do any good, because you cannot grow. And you just have to face up to these issues.

I think that President Kuchma understands that. I think many of the senior officials do understand it. And all we can do is to keep impressing upon them the importance that this needs to be done. And there are some very—at the risk of elaborating—I am basically done with my opening statement anyway—but there is tremendous short-term risk. It is not just our assistance program. It is the World Bank Program for leveraging, in which there are really millions and millions—probably over $1 billion at risk at this point by Ukraine if Ukraine does not heed the conditionality with respect to those.

So there are leverage points. But, at the same time, we have to keep our eye on the ball and recognize that what we need to accomplish, the ultimate goal, is a strong Ukraine. And that is very important to all of us. I think we all agree on that goal.

And it is an example, I think, that, with respect to our programs in general, that we have to respond appropriately to both the setbacks and breakthroughs that are inevitably going to be part of this transformation, whatever the country will be. In Ukraine, hopefully what we are talking about is a short-term setback.

PREPARED STATEMENT

In Russia, at least on the economic front, there appear to be some breakthroughs. We have to recognize that this is an up-and-down process. And for this reason, frankly, I am more certain than I ever was that our request for fiscal year 1998 is in the right direction and is the way that U.S. assistance should be refocused in the future. We need to be able to stay engaged and we need to retain the flexibility to respond to both the setbacks and the breakthroughs with appropriate support.

[The statement follows:]

PREPARED STATEMENT OF AMBASSADOR RICHARD L. MORNINGSTAR

Mr. Chairman and members of the Subcommittee, I am very pleased to have the opportunity to testify here today about the Administration's plans for assistance to

the New Independent States of the former Soviet Union, and most importantly about one of the President's top priorities in the foreign affairs budget, the Partnership for Freedom. The fiscal year 1998 budget request for NIS assistance is $900 million, up from $625 million in fiscal year 1997. The Partnership for Freedom supplies the vision and the framework for sustainable, mutually-beneficial cooperation between the people of the United States and the people of the New Independent States, and thus for a more secure and prosperous future.

Partnership for Freedom rests on a simple principle: the security of the United States and the rest of the world is immeasurably enhanced if Russia, Ukraine and the rest of the NIS are stable market democracies. We must take specific actions to help these countries attain economic growth. Lack of growth will ultimately lead to destabilization which could raise new threats to our national security.

We must also accept the fact that reform in the NIS is a complex generational process, the outcome of which is, today, not yet secured. For example, although last summer's presidential election in Russia was remarkably free and fair, a monumental signal in its own right of reform's progress, 40 percent of Russian voters opted for the past. Many people in the NIS are still significantly worse off economically than they were in the Soviet Union.

We must stay visibly and materially engaged to help ensure that lasting democratic and market institutions take root and prosper in the region. Over the next few years, we must help give people throughout the NIS region a more tangible stake in reform. The cost of this investment is small relative to the far-reaching benefits that stable, democratic New Independent States hold for the American people.

Presidents Clinton and Yeltsin issued a joint statement in Helsinki outlining their commitment to stimulating investment and growth in Russia, and to advancing Russia's membership in international organizations. Included in this statement was President Yeltsin's agenda to launch Russia on to its next phase of reform, including comprehensive tax reform, laws to strengthen the Production Sharing Agreements needed for energy sector investment, tough anti-crime laws, and ratification of the U.S.-Russia Bilateral Investment Treaty. Presidents Clinton and Yeltsin also applauded plans announced by Vice President Gore and Prime Minister Chernomyrdin to launch a regional investment initiative, that will attract resources to key regions, including the Russian Far East. This initiative will demonstrate the impact of joint efforts on policy reform, investment finance, and the creation of new channels of commercial cooperation between regions in both countries. Although the primary responsibilities, and capabilities, for advancing the economic growth and reform agenda lie within Russia, this recognition that joint efforts between the United States and Russia play a significant, mutually beneficial role in the process is an underlying assumption of the Partnership for Freedom.

With Congress' support, the Partnership for Freedom will respond to this imperative. The United States represents the potential of democracy like no other nation in the world, and thus our visible engagement in the reform process provides a crucial boost to the hundreds of thousands of people with a new voice, and new economic opportunities, in the future of their nations.

The Partnership for Freedom will deliver a strategic refocus of our approach to assistance, focused on fostering economic growth and investment, and no less important, on strengthening the myriad of new democratic institutions, most of them nongovernmental, that have emerged over the past five years. These dual tracks for a reinvigorated program will give us the greatest chance of success in sustaining the political impetus for reform and democracy.

It is particularly important that Partnership for Freedom will be even more significant at the times that tensions between our nations are high. Business, people-to-people, and community ties are mechanisms which increase the survivability of stable market democracies over the long term, whatever the political situation is at a given point in time.

PHASE I—U.S. ASSISTANCE FROM 1992 TO THE PRESENT

We can consider the first phase of our engagement in the NIS to be complete when basic structural and institutional changes to a market democracy have taken place, such as:

—Private ownership—the private sector's share of GDP is now over 60 percent in Russia, 50–60 percent in Moldova, 50 percent in Ukraine, 40 percent in Kyrgyzstan, and 35 percent in Kazakhstan. Privatization to this degree is a key building block for future economic reform and growth.

—Elections—reasonably fair and open elections have had a significant impact the political process in Russia, Ukraine, and Moldova-Russia now has held par-

liamentary, presidential, and regional elections since December, 1995. In those countries whose commitment to elections and independent political parties appears more tenuous, and where elections have been tainted, political leadership has had to accept the consequences of international scrutiny and condemnation.

—Civil society—non-governmental organizations (NGOs) did not exist in the NIS in 1992. Since that time, there has been explosive growth in this sector, particularly in civic associations, policy think tanks, private universities, business and industry associations, citizen action groups, environmental groups, and many more varieties of public interest and advocacy organizations.

In addition to what is outlined above, other key building blocks are the rule of law, independent media, and functioning capital markets and financial institutions. Russia is closest to meeting these criteria, and Moldova, Kyrgyzstan, Ukraine, and Georgia are next in line. The other NIS countries are reforming at a slower pace.

The Administration's current proposal for introducing the Partnership for Freedom creates a staggered transition for the NIS countries from broad-based technical assistance programs to the concentration of resources on fewer actitivities. For example, over 91 percent of the fiscal year 1998 program in Russia will be under PFF, in Ukraine, 51 percent under PFF and in Kazakhstan, 53 percent. Over the next four to five years, technical assistance will phase out in each country, and the longer term framework for remaining Freedom Support Act activities in the New Independent States will be the Partnership for Freedom package.

PHASE II: PARTNERSHIP FOR FREEDOM

The United States and the New Independent States ultimately want constructive bilateral relationships based on mutual respect and mutual geopolitical, economic and trade interests, not relationships based on assistance as such.

The Partnership for Freedom will include the following activities:

I. Investment and capital mobilization

1. Increase investment support in the regions, emphasizing small business and microcredit.—Implemented through Eurasia Foundation, selected USAID grantees, EBRD Small Loan Program, USAID Loan Guarantees for Micro & Small Enterprises, Eximbank, OPIC, Trade and Development Agency, science & technology foundation up to $163 million.

2. Continue support for NIS enterprise funds.—Up to $64 million.

3. Remove impediments to trade and investment.—Targeted technical assistance for tax reform, WTO accession, legal reform accounting standards reform $20 million.

4. Facilitate and accelerate World Bank and other IFI loans to NIS governments.—Help NIS governments meet the structural reform conditions required by the World Bank and IMF for the release of major loans $12 million.

5. Link business training to specific investment projects involving U.S. companies and capital.—Improve capabilities of enterprise managers, particularly in the regions, in those enterprises engaged in trade and investment with U.S. companies, small loan programs, and enterprise funds, $17 million.

II. Consolidation of democracy and civil society gains

1. Significantly expand law enforcement and criminal justice reform activities to address problems of crime and corruption.—Increase training in financial fraud, money laundering, organized crime, anti-narcotics, bank inspection; increase support to the International Law Enforcement Academy (ILEA) in Budapest for training NIS law enforcement professionals; provide non-lethal material support, such as forensics, computer and communications equipment; increase training for judges and prosecutors, $29 million.

2. Endow foundations to create sustainable support for new democratic institutions.—Create long-term vehicles for U.S. support for democratic institutions such as NGOs, independent media, citizens' advocacy groups that will carry on beyond the end of U.S. bilateral assistance activities; select foundations to be endowed partially on the basis of private matching funds, $41 million.

3. Expand institutional partnerships to support cooperative activities at community levels, and expand cooperative activities in such areas of mutual interest as health, environment, energy, and technology commercialization.—Support partnerships between business associations, hospitals, universities, cities, bar associations, charities, and other non-governmental organizations to foster and deepen commitments to participatory civil society and productive, mutually beneficial relationships between the NIS and the United States; work through binational commissions with Russia and Ukraine, $59 million.

4. Increase professional and academic exchanges with emphasis on young leaders.—Seek to more than double the number of NIS citizens coming to stay in the U.S. for month, semester, and academic year programs; recruiting business interns, young professionals, and students; emphasizing community-based, home stay programs, $58 million.

5. Strengthen democratic political organizations as they become part of the greater network of citizens organizations.—Continue political party development through IRI and NDI, and support for election reform, and related NGOs and human rights organizations, $28 million.

The fiscal year 1998 request for $900 million is a 44-percent increase above the current fiscal year's budget for the NIS. This level of funding, combined with the strategic refocus of the program, will be able to support at least double the number of exchanges and partnerships. These funds will direct more than five times the amount of resources into investment programs, and more than double the level of effort on law enforcement and anticrime activities compared to fiscal year 1997.

Another major effect of these additional funds will be more resources for democracy and economic restructuring work in Central Asia (+60 percent), Georgia (+60 percent) and Azerbaijan (+90 percent)—countries of key geopolitical and economic interest to the United States, that have not been adequately supported due to overall budget constraints combined with congressional earmarks. Russia's budget will be up significantly from this year's $95 million to $241 million. Over 91 percent of the Russia budget will be directed to PFF activities. The amount allocated to Russia is still only 15 percent of that allocated in fiscal year 1994.

The Partnership for Freedom is structured to operate in parallel with U.S. government security-related programs to promote arms control, nonproliferation, and regional stability. These include Department of Defense programs for Cooperative Threat Reduction, Counterproliferation, and Warsaw Initiative/Partnership for Peace efforts, as well as Department of Energy programs such as the Materials Protection, Control & Accounting activities. The PFF helps to strengthen our efforts in these security areas, and vice versa. All of these programs should be reviewed as a cohesive package, which together fulfill U.S. national security objectives.

LESSONS LEARNED

I have been in this position now for over two years. The approach that I have taken in this time period, and presented to this committee on numerous occasions, has been aggressively focused on the notion of continuous improvement to maximize our effectiveness in meeting U.S. national interests, and to maximize our return on the investment of U.S. taxpayer dollars in the reform process. The implementing agencies and organizations have accomplished a tremendous amount in this regard, and Mr. Dine will get into more of that detail for USAID later in this presentation.

We have learned how far small amounts of funding can go to support reformers in real and lasting ways. Smaller, regionally based programs, that are encouraged to be flexible and adapt to local needs, work best. We have never, and will never, invest as much as it would take to do it all, to make "the" critical difference. I actually do not believe that is even possible. But, we have made, and must continue to make, many small differences. Today, regions in Russia such as Novgorod, Samara, Nizhny Novgorod have become models of accomplishment for the rest of the country on what is achievable by taking advantage of targeted assistance programs. We must and will do more in regions to create visible community-based impact. The heros of the new market democracies in the NIS are not USAID, not the World Bank, not the EBRD; they are the people that we have supported, educated and made small loans to over the past five years—reformers, entrepreneurs, and advocates for change from all levels of society, who deserve the credit for all the real and lasting accomplishments. They are winning a courageous battle.

We have learned that cost sharing works. Programs such as USAID's small business service centers and the Morozov small business training project in Russia have achieved 40 percent to 50 percent cost recovery from fee-for-service. The programs that recruit volunteer experts to assist and train private entrepreneurs and farmers all rely on major cost sharing with their NIS clients, in addition to the valuable, donated time of the skilled Americans who volunteer. One of our most important exchange programs, Community Connections, (also known as PEP in some regions), is achieving great success in a pilot effort to have the professional exchange participants pay all of their travel costs to the United States, and some of their per diem expenses while they are here. All of these community-based exchanges receive a tremendous amount of in-kind contributions of organizing time, accommodations, local transportation and training from American communities all over the country that

host these NIS groups. We have found that people who have a financial stake in the program will make the best use of it.

We have learned that the time lag between capital availability in our investment programs, such as TUSRIF, OPIC, EXIM and our various funds, and the disbursement of that capital has been partially unavoidable, as the NIS entrepreneurs come up the learning curve, and the impediments to investment in these countries remain numerous. Nonetheless, we have also observed that with skilled shepherding, and high quality training of local financial institutions, more can be achieved—particularly with smaller projects and companies, and that we can now direct more resources where there are gaps, and make the necessary adjustments to the programs.

We have learned that it doesn't make sense to spend assistance dollars on restructuring large, formerly state-owned companies. Companies with a chance of pulling through this transition will be able to find the resources to pay for the consulting or training that it needs. Many business services providers exist now, both indigenous and foreign. We have ended programs that were funded back in 1994 and 1995 to do this kind of work, and retargeted private enterprise training resources to small and medium enterprises. NIS governments must play a critical role, as reform legislation is required to allow enterprises to sell land and other assets, shed some of the burdens of social services, and make a fair return on investment in a rational tax environment.

We have learned that we can accomplish tremendous leverage by focusing our technical assistance in some instances on helping the NIS meet structural reform conditions for major loans from international financial institutions. We, and most importantly the NIS side, achieve a tremendous return on our assistance investment through this kind of coordination.

We have also re-learned some old lessons about U.S. assistance—that well managed, internationally coordinated humanitarian assistance efforts can save lives and help to maintain the stability of a region or country. In Armenia, Georgia and Azerbaijan, a region that faces numerous ethnic and cross-border conflicts since the break-up of the former Soviet Union, U.S. resources and leadership to bring in food, fuel and medical commodities and to fund the Caucasus Logistics Advisory Unit, have made a difference in helping these nations get through their most challenging early years. President Shevardnadze has stated on several occasions that it was U.S. humanitarian assistance that made the critical difference in helping Georgia maintain its stability and independence. The leverage that we have been able to achieve in our humanitarian program since inception in the NIS is huge and has often gone unnoticed—$1.6 billion worth of 100 percent donated and surplus commodities delivered to 12 NIS countries in 480 airlifts, costing under $174 million in transport(through the end of calender year 1996). We should be very proud of this accomplishment.

RUSSIA

While recognizing that some crucial forms of technical assistance, particularly those that address key impediments to investment like tax reform, will require continued work, the implementation of the Partnership for Freedom in Russia will create a much greater emphasis on Russia's regions and will address the following goals:

—1. Working with regional governments to address key obstacles to investment, helping them to gain access to international capital markets, and strengthening regional financial institutions.

—2. Increasing the availability of financing in the regions through EXIM, OPIC, the U.S.-Russia Investment Fund, other small and medium-sized lending and equity investment programs, and microcredit activities.

—3. Increasing the level of support for exchanges and regional and community-based institutional partnerships, that will link cities, universities, law schools, policy think tanks, and a variety of NGOS and citizens' organizations.

This regional approach to the PFF in Russia has been developed through extensive consultations with numerous American and Russian professionals and policymakers in the field of investment and economic development in Russia, who have identified the gaps in programs to date to be a lack of credit for smaller businesses in the regions—the major engine for growth and real incomes for the Russian people. Vice President Gore and Prime Minister Chernomyrdin highlighted the importance of a regional investment initiative in a joint statement at the last meeting of the U.S-Russia Binational Commission in Washington this past January. The Russian Far East has been acknowledged by both the U.S. and Russia as a region of great economic potential and will be included in this initiative. Other potential par-

ticipating regions include oblasts in the Urals region and the Southern Russia-Volga region.

One extremely promising oblast in the Northwest of Russia, Novgorod, has been identified as an appropriate area to launch a "quick start" demonstration of the PFF and the regional investment initiative, due to the regional government's reform action, strong interest from the U.S. business community in Russia, and a significant level of existing assistance resources and programs on which to build.

The Novgorod region, with a population of about 750,000 people, today provides one of the most compelling illustrations of Russia's promise to become a prospering market economy. Although the region suffers from the same fundamental economic and structural problems as the rest of Russia, it leads Russia with the highest per capita foreign investment. Perhaps not coincidentally, Novgorod has one of the oldest traditions of democracy in Russia. Founded in the 9th century, medieval Novgorod was governed by an assembly of its citizens, the "veche"; and prior to the establishment of St. Petersburg, was the major trading center of Northwest Russia. Now, through the dynamic leadership of its elected governor, Novgorod has established an investment-friendly climate, and has been recognized by the American Chamber of Commerce in Russia as one of the most progressive regions of Russia today. This region is not waiting for a handout, but instead is working diligently to enact reforms that have mobilized capital investment. This region, and others like it, should be the foci of our assistance effort through the Partnership for Freedom; there is no point to these programs if the local leadership, both in government and in the private sector, is not a major part of the solution, and willing to act to create real opportunity for the future.

One component of the PFF, "partnerships and cooperative activities" is best understood through the examples of working partnerships in the region. One notable example happens to be in Russia—the partnership between the World Institute for the Disabled and the All-Russia Society of Disabled. With the material support, know-how, and encouragement of their U.S. partner the Russia group's membership has climbed to 2.4 million in 78 different regions. They have helped members set up over 1700 enterprises, as well as manufacturing companies that make wheelchairs and other equipment for the disabled. Their public education and outreach, leadership training, legislative advocacy, and efforts to bring disabled children more into the mainstream of Russian life add up to an incredibly powerful lesson for all NGOs in the NIS. Partnerships such as this one must have an important place in our long term engagement with Russians through the Partnership for Freedom. Many more existing relationships between U.S. and Russian organizations will be able to have significantly greater impacts on their communities with relatively small amounts of money.

Securing and advancing reform also requires leadership, and we are very encouraged by the newly invigorated government's approach to taking on some pressing issues such as demonopolization and public administration reform.

UKRAINE, CENTRAL ASIA, THE CAUCASUS

The non-Russian NIS are still facing the most fundamental challenges of building new market democracies. These nations are building all of their government institutions from the ground up. The rule of law, media, and basic market institutions, such as banks, capital markets, and regulatory institutions are also at early stages in their development.

Our national interest in supporting these countries through their transitions to becoming stable, independent, market-oriented democracies is extremely strong. The Partnership for Freedom approach, and the Administration's fiscal year 1998 budget request of $900 million, will allow the appropriate level of assistance resources to be directed to the non-Russian nations.

In Ukraine, with the second largest population and economy of the NIS, stability and growth are crucial to a secure and undivided Europe. In 1996, several important actions, including the removal of the last nuclear weapons, ratification of a new constitution, and the successful introduction of a new currency, gave us great confidence in increasing assistance to Ukraine. Since last October, we have grown increasingly concerned about backtracking on key reforms—particularly in privatization, agriculture, and the energy sector, and about bureaucratic obstacles and corruption, particularly as these affect U.S. investors. I raised these issues in Kyiv last week with Ukrainian leaders. If these problems are not addressed concretely, we will consider scaling back assistance in certain sectors where backtracking on reform has been of greatest concern. We are also consulting with other donors and the IFIs to ensure that all of our programs are conditioned on measures of reform.

We have supported Ukraine because it is is our national interest to do so, and this has not changed. Ukraine's reforms, as in all of the NIS, are part of a generational process that will have setbacks as well as great breakthroughs. We must be prepared to stay engaged through this process, and we must retain flexibility in our assistance program so that we can respond to both the setbacks and the breakthoughs with appropriate levels and forms of support. We must be realistic and have the ability to be flexible in meeting changing circumstances

Assistance to the fledging market democracies of Central Asia and the Caucasus are strongly in our national interest. Their strategic location between Russia, the Middle East, and China, coupled with vast energy resources, make their stability vital to U.S. interests. We will continue to help nascent democratic organizations and institutions, such as the independent media, non-governmental citizens groups, and educational institutions, establish active, effective roles in these countries. Economic restructuring and support for small businesses will also continue to be a prominent part of our assistance program in Central Asia.

The Administration continues to oppose Section 907 of the Freedom Support Act, which since its inception in 1992, has hindered U.S. policy interests in the Caucasus region and Azerbaijan by severely limiting the promotion of U.S. investment, the encouragement of democratic and market development, and the advancement of the Nagorno-Karabakh peace process. We view our assistance efforts in the Caucasus region as a vehicle for furthering our policy objectives and interests in the region. The loss of U.S. influence in Azerbaijan threatens to undermine overall efforts for peace in the region.

CONCLUSION

The courage of the citizens of Russia, Ukraine, and all the New Independent States to stay on the path of reform is bolstered by our investment in democracy, free markets, and building strong people-to-people linkages with Americans. We must consider the strategic importance of the NIS both in a historical context, and as a part of our vision of the world that our children will inherit. The New Independent States greatly appreciate U.S. assistance, but do not want to rely on aid. The Partnership for Freedom is one of the top priorities of the Administration's foreign affairs budget. This is because the vital importance of constructive, mutually-beneficial relations with the NIS, and, as Secretary Albright recently expressed it in recent testimony, "the ultimate victory of freedom over despotism" are so important for the security of every American. U.S. assistance to date, and looking ahead to the Partnership for Freedom, is one of the smartest investments we can make to help insure the security, health and prosperity of future generations.

UKRAINE

Senator LEAHY. Is President Kuchma going to be told very strongly—is it going to be made very clear to him that the Congress is not going to continue sending money with this kind of corruption going on? One of the news items indicated Motorola walked away from an investment that could have been extremely helpful to them.

It is even the little things like gouging people who are there. I saw it myself when I stayed there, in a cockroach-and rat-infested room at $280 a night, and things like this. It is outrageous. And if they think they can just keep on doing it, even though they realize they are killing the goose that lays the golden egg, they are in for a surprise.

Mr. MORNINGSTAR. We had a hearing a few weeks ago, prior to my going to Ukraine, on the House side. And I quoted him. It was not just from one congressman, it was from several members. And I quoted them. And I told all of the officials at these high levels that you have got to understand, why should we be giving money to Ukraine? This is what we are facing on the Hill. Why should we give any money to Ukraine if you are treating our businesses this way?

And I think they understand it. And as far as the message goes, I have been involved very deeply in the preparations for the meetings between Vice President Gore and President Kuchma. In fact, I am the chairman of the Committee on Joint Economic Cooperation. And I can assure you that the message, in a very constructive way, will also be presented very strongly by the Vice President.

Senator CAMPBELL. Would the gentleman yield for a question on this point?

Senator LEAHY. Yes.

Senator CAMPBELL. I have always been a believer that there should be some linkage between American aid and how they treat our businesses. But I guess we are just supposed to keep giving it away and let our businesses take a bath. But I have one particular point, and I am sure there are many, but I just happened to pull something from our own files. One of my constituents entered a 10-year contract with authorities in the Ukraine to sell advertising time on television. And then, one of the two national channels, after he had a contract and after he got off the ground for a couple of years, simply managed, through government authority, to take the contract away from him and just virtually left him hanging. And he is now in the courts to try to get some redress.

Obviously, I think somehow he is not going to prevail. And I just wanted your opinion on whether we should not link some of this aid. You are asking for $900 million, and to give that without any kind of connection to how we are treated over there is wrong to do that.

Senator MCCONNELL. Let me add on, before you answer Senator Campbell's question, since we have kind of gotten started here. You mentioned setbacks versus breakthroughs. I would describe this as a setback, another setback. After you deal with that, I would like to know if there have been any breakthroughs in Ukraine.

Mr. MORNINGSTAR. Sure. Yes, first, the question with respect to the issue you have raised. You have raised, I think, one of the more difficult issues that comes up and has come up in Ukraine in a series of issues. And Mr. Lemire's case is an example—basically the same thing that involves problems relating to the National Broadcasting Council, in which there literally are arbitration decrees that have been awarded. The issue—and certainly in Mr. Lemire's case and some other cases I can point to—is not, as it turns out, that there was not a process by which one could go through to get relief. The issue has been, once the arbitration decree was awarded, it has not been enforced.

There is a promise outstanding, at least, with respect to Mr. Lemire's case, that the issue will be solved before President Kuchma shows up. We will see if that happens. What we have found is that, with respect to cases which are, in effect—and I do not want to shortchange the solutions, but ones that are easier to solve—for example, that just require the signature of the Prime Minister, even though there may be 6 or 8 months of delays in achieving that—that, it seems, we are dealing with right now, because of pressure, the pressure that has been shown.

Senator CAMPBELL. How about reducing the amount of money that their request is by the amount they have cheated American businesses?

Mr. MORNINGSTAR. Well, we could do that. And that would come pretty close to eliminating our Ukraine program.

Senator CAMPBELL. Well, they are trying to eliminate the American partners.

Mr. MORNINGSTAR. Let me answer that in a couple of ways. And I think there will be, if in fact some of these disputes are not solved, I think in fact there will be cuts. And I think it will be beyond any individual's control. But one of the things we have to be careful about is we do not want to cut our nose to spite our face either. The whole purpose of the Partnership for Freedom is to get into areas that are not direct assistance to government-related activities, to do things that will help the private sector, to create more partnerships, and establish the kind of relationships between communities that will help create pressure from the bottom up.

And I think that it is going to be very important that we emphasize those activities and that we do not lose that and we do not throw out the baby with the bath water.

Senator CAMPBELL. I understand that, Mr. Chairman. But when you go home, you have to justify giving $900 million of American taxpayers' money to Ukraine and the Soviet Union. And when you have businessmen in your own State that have been cheated out of their part of the business in the same place you are trying to give this money, it is a darn difficult thing to justify.

Senator LEAHY. You have the further problem, too, I might say, when you see something in Russia, when you see the way they jerk people around. Certainly like a very high profile thing like the exhibit that was at the Corcoran. It is a kind of shakedown that they are probably used to doing on the streets of Moscow, but suddenly they are doing it on the streets of Washington and the whole Nation is watching. And I come from a State that is pretty internationalist in its affiliations, and you know, they say we are making a mistake because all this money is just being siphoned off or we are being naive.

Our Ambassador in the Ukraine seems to take a far softer attitude toward it than you do, Ambassador Morningstar. Somehow we have got to get across that it is not a bottomless pit. I commend the chairman, who has been as strong an internationalist on this issue as anybody. But we all have to go back home and explain why.

I have supported money for Ukraine, and we have supported each other on the former Soviet Union, and we want it to work. I do not think there is anybody in this room that does not want it to work. Our business people want it to work. Our Government wants it to work. But I do not think they are listening over there.

Senator MCCONNELL. My question was, are there any breakthroughs to point to?

Mr. MORNINGSTAR. Sure, there have been some. It is easy to look at the glass as half empty, or maybe today one might argue two-thirds empty for the time being. The Ukraine has achieved the enactment of a constitution. They did that last year. And President Kuchma deserves a lot of credit for that.

From a macroeconomic standpoint, they have shown some very significant successes in bringing the rate of inflation down and introducing a new currency. That has maintained stability. There is

a lot of successful work that is going on out in the regions. We have achieved a memorandum of understanding with respect to Chernobyl. And we have had some success in our negotiations with them just in the last few weeks in connection with the sarcophagus. So there are successes.

And there are issues. And we have to address the issues. And it is not just simply by cutting off the aid. It is addressing the cause of the problems and trying to get assurances for the political will that will allow us to help them to create transparency, to create the deregulation which is necessary to eliminate a lot of the opportunity for corruption that has grown up over the years.

Senator MCCONNELL. Well, let us get Mr. Dine's statement, and then we will come back to questions.

SUMMARY STATEMENT OF HON. THOMAS DINE

Mr. DINE. Thank you, Mr. Chairman, Senator Leahy. I join Dick Morningstar in urging this committee to seriously consider the administration's request for the New Independent States of $900 million under the FREEDOM Support Act. USAID is scheduled and is planned to implement much of this appropriated number, and I think it is a critical, critical effort on all our parts to engage in this task.

AID has been and is a direct part of and involved with overall genuine progress in the region. In my prepared testimony, Mr. Chairman, I list a lot of results that AID has been directly involved in, and I urge that our prepared statements be inserted in the record, as I am sure they will be.

Senator MCCONNELL. Yes; they will be made a part of the record.

Mr. DINE. It is also true that in several spots of the region progress has been slow, uneven, among and in countries and in sectors, as one would expect, in dismantling communism and in building free market democracies.

The discussion that has just taken place among all of you about Ukraine, about the treatment of American citizens and American investments, I believe underlines three points: how difficult this job is to promote change—to promote change from where these places were for 70-plus years and if not even before that, the necessity of building a foundation for these societies, and, for the most part, Mr. Chairman and Senator Leahy, the people we deal with did not grow up with a textbook on capitalism. They did not grow up with a Constitution of the United States, with Hobbs, Locke, Montesquieu, you name it. We are dealing with people who are trying and having a great difficulty in building market democracies.

TRANSFER OF EXPERTISE, NOT CASH

And, finally, just to reiterate something or to correct something that Senator Campbell said. He kept using the word "give." I would say one of the important parts of this whole program has been the fact that when Congress passed the SEED Act in 1989 and the FREEDOM Support Act of 1991, you made sure that this was technical assistance, the transfer of expertise and not the transfer of cash. And so we are not giving anyone any money. We are trying to promote the transfer of knowledge, in fact, so that we can even-

tually get to that point that Dick Morningstar just mentioned about partnership.

REFORM PROGRESS IN THE REGION

Let me move on now to some charts, to give you a snapshot picture, a range of the progress that I mentioned.

Chart No. 1 shows the place of both the NIS and the central and Eastern European countries on a trend line. And you notice this is the average of economic policy and democratic freedoms. The European Union countries are up here. This data is taken from the European Bank for Reconstruction and Development [EBRD] and Freedom House here in Washington.

As you can see, the countries of the northern tier of central and Eastern Europe are by far in the lead. Then comes a second category of countries, starting with Romania and the first NIS countries roughly. Ukraine has been sliding backward in recent times, but we will get to that in 1 minute. Some of the NIS countries in the southern tier of the central and Eastern European countries are in the second bunch.

The third bunch are basically NIS countries. Two others did not make the chart frankly—Serbia and Bosnia—but they are also in the portfolio that I have been assigned responsibility for. You mentioned a couple of those, Mr. Chairman, in Europe, in your statement. Others are not reforming countries as of now, and that is a fact of life, although, I agree with you, they have tremendous natural resources.

Our objective, it seems to me—and that is what we have been trying to do—is, No. 1, get countries going this way and to get this trend line, which is now headed this way, closer and closer to the European Union standard. That is basically the strategy we are pursuing right now with the technical assistance, as well as with the World Bank, IMF, EBRD, European Union and other bilateral programs.

POLICY REFORMS BRING FOREIGN INVESTMENT

I have another chart. I just want to reconfirm what my friend Dick Morningstar has just said. This chart shows that countries that exhibit real policy reform—and again, the northern tier of central and Eastern Europe and those with natural resources you will see come up in this—but this chart shows that real policy reforms have greater foreign investment per capita. And this is what the Partnership for Freedom is all about, to increase the investment, to lure people where reform has taken place.

Changes are occurring. As I have indicated, USAID has had a hand in basic changes. We have been engaged, over the last couple of years, in privatization; 49 percent of the GDP of the countries of the New Independent States is now produced by the private sector. I have another chart for a different kind of hearing, but if you took the central and Eastern European countries, you would see that it is about 65 percent. Again, more progress is being made in central and Eastern European countries for a variety reasons, both historical as well as the fact that they have a couple of years head

start on the New Independent States. Some 55 percent of the GDP in Russia is now produced by the private sector.

So, again, Russia is ahead of all of the others. Unfortunately, Ukraine is hovering around the 40-percent mark. We have helped them with fiscal reform, we have been involved with budgeting and helping them with tax codes, et cetera.

In enterprise development, a tremendous amount of work has been involved in legal and regulatory reform, civil codes in Moldova and Russia and other places, guaranteeing freedom of contracts and protection of private property.

In the financial sector, we have been able to help set up stock markets and other capital markets, working with the national banks and commercial banks. But, as indicated in the previous discussion, so much of this is spotty. So much of this is still incomplete.

In the energy and environment area, we have had some success, including in Ukraine, although that has slowed down now. But among the Central Asian Republics, for instance, we have gotten involved in the Aral Sea problems, and from that, begun to work with all five countries of the Central Asian Republics, so they would work together on the water problem and water management and water financing. We have been a catalyst to 13 short-term water-sharing agreements between these five countries, and we look forward to more.

We have been involved in the Russian Far East on environmental reform. We have been involved with environmental NGO's, through the American NGO, ISAR.

And, finally, in democratic institution building, it could not be tougher. It is easier to do economic reform, frankly, than democratic reform. But we have been involved in civil society work, media work, judiciary work, and political party building. The overall point that I would like to stress here is the value of the process, the idea of transparency.

Transparency is really foreign to these folks. It is something that we are trying to transfer as we are engaged in our work, whether it is democracy building, tax code, or whatever. So while communism is defeated and even dismantled, democracy is still not victorious. And I think we have got to stay involved in this process.

UKRAINE

Finally, I want to contrast our activities in two NIS countries, Ukraine and Georgia. As this discussion has already indicated, Ukraine today faces excruciating difficulties the confluence of political stalemate, the lack of reform, and stagnancy in the economy that is showing signs of contraction. This is a very, very important time, frankly. It is a crossroads for Ukraine and for United States-Ukrainian relations. We see continued dominance of monopolies, state control of the agricultural sector, delay, again, in privatization, failure to collect payments in the electrical power arena, the resignation of the key reformer, Minister Pynzanek, and an international and domestic barrage of allegations and of corruption.

So this is coming to a head. And as Dick indicated, the World Bank is seriously considering the suspension of three major loans and delaying several new ones. The IMF has said it will not go for-

ward with the important extended facility fund unless all conditions are met. Foreign investors, particularly small and large American companies—and I am going to use your words, because I have got them down—are walking away. And Ukraine must face this particular dilemma.

President Kuchma will be meeting, as Dick indicated, with high officials of this administration, as well as yourselves. I believe this administration will be delivering a hard-hitting message on the urgent need to turn this situation around and get back on track, as it was 6 months ago, and implement economic reforms in a way that reinforces the reasons for the Congress earmarking so much technical assistance in fiscal years 1996–97.

Mr. Chairman, slowly but surely, Ukraine had been progressing, and we ought to keep that in mind. And USAID can show results in privatization and a modern constitution, in the energy sector, in local governments, in community-based projects, and an independent media.

GEORGIA

Let me turn to Georgia. Georgia faced a turning point 2 years ago, and held elections in December 1995—a nationwide election in which Edward Shevardnadze was duely elected President of the nation-state and a parliament was elected as well. That parliament has turned out to be not only very active, but very proreform. Together, the executive and legislative branches in that particular small country have been engaged together on reform policies. Therefore, we see a tremendous contrast there from the Ukraine. Again, like the Ukraine, Georgia has a new constitution. AID has helped set up a Center for Economic Policy and Reform, which has been at the heart of so many of these economic reform policies.

We have seen a frontal attack on corruption. President Shevardnadze has fired his finance minister after all kinds of allegations. There is macroeconomic stabilization. Inflation is way down. Prices are liberalized. Currency has stabilized. There has been a real development of reform for us and our involvement in energy restructuring, where we have seen the sale of hydro powerplants, a new national regulatory body for the power sectors, an agreement with the Azerbaijan international oil consortium and the Government of Azerbaijan on the oil pipeline issues, and the new Black Sea port of Sokhumi.

And, finally, we see a lot of investment coming into Georgia. And I believe, as Dick indicated, it is important that we increase the amount of assistance to Georgia, to reward reform.

PREPARED STATEMENT

So, Mr. Chairman and Senator Leahy, I hope this committee supports USAID's continuing efforts to help the NIS countries reform, and to vote for the full $900 million appropriations in the FREEDOM Support Act request for fiscal year 1998. It is in the U.S. national interest to sustain changes, or lock them in, to make them irreversible, and to continue to work on economic stabilization and structural change, so that these translate into growth and invest-

ment and the societies themselves head toward the victory circle of full participatory democracies.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF THOMAS A. DINE

Mr. Chairman, Members of the Committee: I am pleased to have the opportunity to testify today in support of the Administration's request for $900 million under the FREEDOM Support Act for USAID's activities in the Newly Independent States (NIS). I believe, and this testimony will demonstrate, that overall progress in dismantling communism and in building democratic governments and free market economies in its place merits your strong support. I also wish to restate the Administration's support for an appropriation of $492 million under the Support for East European Democracy (SEED) Act for our activities in Central Europe, $15 million in economic support funds (ESF) for Cyprus to support bicommunal activities and scholarships, and $50 million in ESF for Turkey plus $4 million for family planning. The Administration requests as well $19.6 million in ESF for the International Fund for Ireland which, like our Cyprus request, is designed specifically to promote peace between two communities sharing an island. I also wish to state that the Administration strongly opposes Section 907 of the Freedom Support Act because its restrictions impede the United States government's ability to implement more effectively our development assistance program in Azerbaijan and thereby slows the advancement of U.S. interests in a strategically significant region.

The President's request for $900 million for the NIS, an increase from $625 million this year, follows three years of falling appropriations levels. After the large fiscal year 1994 appropriation of $2.5 billion, assistance levels fell to $850 million in fiscal year 1995, $641 million in fiscal year 1996 and $625 million in fiscal year 1997. Resources for most of the New Independent States have dropped below the levels needed to spur and cement fundamental reform. The United States relationship with Ukraine, Russia, and other key states in the NIS remain vital to our national security, and we need a framework for a new phase of U.S engagement, focused on trade and investment and building enduring ties between their citizens and ours. The proposed Partnership for Freedom would be established for those purposes.

First a word on Ukraine. As reported extensively in the media, there are real problems in Ukraine. The perceived level of official and unofficial corruption is pervasive and deep. Internal reform appears stagnant and the economy is beginning to show signs of contraction. The Deputy Prime Minister, the country's leading reformer, recently resigned. Major and small U.S. companies, faced with harassment, intimidation, and bribery are leaving the country. Business disputes are on the increase and because of continued state control over the agricultural sector, delays in privatization, and failure to collect payments in the electricity sector, the World Bank is seriously considering the suspension of three critical loans. Corruption, of course, is nothing new in the areas of the former Soviet Union. Ukraine, no less than anywhere else in the former Soviet Union, lived under a regime that was conceived in corruption and governed corruptly until its fall from power. That is, in fact, why we are in the former Soviet Union—to help Ukraine, Russia and the others establish economic and governmental systems that are honest, transparent and fair. We cannot expect American investors to do business in Ukraine or any of the NIS countries if they are not going to be treated fairly. That is why the state of economic reform and the transparency of economic decision-making have been high on our agenda in discussions with the Ukrainian government and will be at the top of the agenda at the Gore-Kuchma Commission meetings next week.

It is the intention of the Administration to let the Ukrainian government know, in no uncertain terms, that we will not support the continued stalling of reform and transparency initiatives and certainly not the mistreatment of our citizens. We will be looking not only for a verbal response; we will also hold the GOU to a series of actions which it has, in various international loan and assistance agreements, agreed to undertake during the coming weeks and months if we are to continue our support. We are examining our program in Ukraine to gauge which activities are dependent on progress in reform. This committee has seen fit to earmark over one-third of total FREEDOM Support resources to Ukraine in 1997 and 1996. You have every right to know that these resources are being utilized to provide the maximum protection to U.S. interests including U.S. investors. You may wish to provide the Administration with sufficient flexibility on earmarked funds to ensure that your concerns, and ours, are being met. But, rest assured, in this case as in others, no

one is more determined than USAID to ensure that corruption does not taint our efforts and that our assistance is buttressing actions to root out corruption at all levels.

It has now been five years since this Committee took the historic step of funding assistance to the NIS. This action reflected the decision by Congress, and President George Bush, that the United States would seize the opportunity provided by the break-up of Soviet Communism to help the states formerly incorporated into the Soviet Union make the transition to democratic market economies. It was based on the premise that the people of these nations wanted to transform their entire way of existence and that reformers welcomed US technical assistance. It was based on the hope that our involvement would forestall the return of totalitarianism and state socialism and help ensure democratic futures for the people of the former Soviet Union. Today the American people have every right to hear if the programs they are funding have produced tangible results.

I am pleased to report that, at this juncture, we are witnessing broad and unmistakable signs that reform is achieving demonstrable results. Communism is being dismantled, and a viable middle class based upon the empowerment of the individual is being created—not evenly, not everywhere in the NIS and often in fits and starts—but across enough of the region, and in enough sectors, that we can say that its roots have taken strong hold of people's outlooks and expectations. Reform has given oxygen to the life blood of civil society and private enterprise. And it has produced some remarkable results.

That is especially remarkable when we consider the context. We are speaking here of the former Soviet Union, for seventy years under the fists of Brezhnev, Stalin, and Lenin.

Under Communism, there were no market institutions, no legal foundations for a market economy, no democracy and no basic institutions for citizen participation. All real power rested with the Communist party and the thoroughly corrupt central government. The individual was powerless, with no control over his or her personal destiny—much less over the destiny of his community or nation. Today, just six years after the hammer and sickle flag was lowered at the Kremlin, I am able to report to you about a region in transformation, about people suddenly empowered both economically and politically.

A quick snapshot. In Russia, the private sector now accounts for 60 percent of GDP and employs about half of the labor force. In Ukraine, some 400 formerly state-owned companies a month are being auctioned off. The Central Asian Republic of Kazakstan opened its first private stock exchange in Almaty in April 1995. In Kyrgyzstan, economic stabilization has helped make the local currency, the som, the most stable currency in the region, at times appreciating against the dollar. Eleven individual television stations operate in Georgia, independent and free of government control.

I am pleased to say that the United States, led by USAID, has had a part in each of those changes and the others I will attempt to describe for you today.

These results testify to a U.S. assistance program that has had a strong positive impact. Would I claim that change would not have occurred without the United States? No. The collapse of the Soviet system, and its history of eight decades of failure, ensured that much of the old system would be swept away as soon as the people of the region had the opportunity to rid themselves of it.

But, at the same time, I can state with confidence that without our assistance program, a program not of cash giveaways but of hard technical and practical assistance, change could have taken any number of paths—including authoritarian, nationalist approaches which would not safeguard personal freedoms and would have been inimicable to U.S. national interests. The wrong kind of change might even have reignited the cold war and all the costs the renewed threat of confrontation would entail.

Modern free enterprise does not just happen. You cannot expect a modern banking system or stock market to just evolve from the ruins of state socialism. Someone has to show the way, offer the models and the counsel. That is what we are doing. Similarly, democracy is an idea, a worthy political goal. But nations with little or no democratic tradition need someone to show the way to create a system that will support democracy. That means election laws and codes and constitutions. Again, the U.S. shows the way. And, although other nations and multilateral institutions are playing an important role in the building of the NIS, it is appropriate that the United States play a central role. The former Soviet bloc was governed by the principle that the state counts and that individuals do not. The United States, the world's oldest democracy, is built on just the opposite idea; the rights, privileges and opportunities for the individual is the bedrock of our nation's greatness. Our goal

is similarly to help empower individual citizens who, under the previous system, were considered insignificant or not considered at all.

The USAID program pursues three strategic goals in the region: economic restructuring, democratic transition and social stabilization. It is under these rubrics that USAID has achieved our results.

Economic Restructuring: Since 1992, USAID programs have contributed to sweeping economic changes, including mass privatization, land privatization, fiscal reform, development of modern financial systems and energy sector restructuring. Establishment of private property rights and the growth of entrepreneurship have given ordinary citizens a stake in the new economic system. With USAID assistance, most countries have made systemic changes such as creation of laws and institutions to permit private business, as well as specific changes in practices such as adopting Western accounting principles and banking practices. The severe output declines experienced by most NIS countries since the collapse of the Soviet Union appear to have bottomed out. Economic restructuring is pursued through privatization, fiscal reform, enterprise development, financial sector development and energy/environment reform.

Privatization: Almost 50 percent of GDP in the NIS is now generated by the private sector, as compared to less than 10 percent when the Soviet Union collapsed in 1991 USAID has been instrumental in this process. In Russia, for example, a recent agricultural land privatization law gives citizens the right to buy and sell land for the first time since the 1917 revolution. Titles to nearly a thousand parcels of land had been transferred to privatized industrial enterprises throughout Russia by October 1996.

Fiscal Reform: Throughout the region USAID has helped governments adopt more effective budgeting and expenditure procedures, reform tax regimes to make them more conducive to business growth, and improve tax administration to raise the revenues essential for good governance. For example, with USAID assistance, Kazakstan's new tax code was approved in April 1995 and introduced in June 1995. Regarded as the most efficient and equitable code to be adopted in any former Soviet republic, it is serving as a model for draft codes elsewhere. A new tax code has been completed in Uzbekistan and awaits enactment by Congress. A budget law and a treasury law are near completion.

Enterprise Development: In nearly every country in the region, USAID is assisting enterprises to operate more competitively, and helping reduce government interference in the marketplace. For example, in Russia, passage of the Civil Code, guaranteeing freedom of contract and protection of private property, is a major advance in creating a legal and regulatory environment to support a market economy.

Financial Sector Development: USAID is helping establish stock markets and improve commercial banks so that businesses get access to investment and operating capital and buy and sell assets. For example, Moldova is the first NIS country to establish an independent securities market agency with ministry status. The Moldova stock exchange opened in June 1995 and, by the end of the year, 300,000 shares had been traded.

Energy and Environment: Throughout the region, USAID is helping to reduce waste in the production and use of energy and improve the reliability of power supplies. It is also working to prevent further environmental damage and to reverse the effects of decades of indifference to the environment under the Communist regimes. For example, since 1995, with USAID assistance, 13 short-term water sharing agreements have been signed between countries in Central Asia. Three of seven agreements approved this past year have included provision for hydroelectricity generation in the Aral Sea.

Economic restructuring is starting to show results in terms of economic performance. The output decline which followed the collapse of the Soviet state has slowed considerably with preliminary estimates indicating that eight NIS countries experienced positive economic growth in 1996. Even more encouraging, impressive gains in inflation reduction bode well for future growth.

It is clear that foreign investment follows economic reform. All the countries of the NIS, with the exception of oil/gas-rich Kazakstan, Azerbaijan, and Turkmenistan, fall neatly along a trend line associating economic policy reforms and per capita foreign investment. This tells us that our efforts to assist reform will result in growth.

Democratic Transition: Democratic governance is critical to these formerly authoritarian states. Under communist rule, there was widespread abuse of civil and human rights and little access to information or citizen participation in political decisionmaking. Now free and fair elections are being held across the region, governments are being decentralized, independent media access is making information available and increasing government accountability, and NGOs are attracting sup-

port and influencing policy as they help articulate citizens' needs. USAID's democracy and governance programs help make recipient governments transparent and responsive to the public by creating checks and balances against the arbitrary power of political leadership and the state bureaucracy. They also create the legal and informational environments which facilitate community initiative outside government and protect individual rights. Increasingly, USAID's support for the development of commercial laws provides the environment necessary for individuals to enjoy economic freedom on a par with newly acquired personal freedom. Progress in building democratic institutions has been just as dramatic, and USAID has been just as central to this progress.

Civil society: In promoting citizen participation in civil society, USAID has helped install the machinery of free and fair elections, strengthened competitive political parties, assisted the development of NGOs, and aided the growth and independence of public broadcast and print media. In 1996, for example, Azerbaijan, Kyrgyzstan, Kazakstan and Russia all received election-related training and technical assistance which complemented ongoing long-term political process programs. In 1996, Russia held a free and fair presidential election after which the defeated parties accepted the results, pledging to continue their activities through the democratic process rather than seek to overturn the results.

We have helped build and strengthen the all-important nongovernment sector. In 1991, only a handful of NGOs operated in Russia; now there are more than 40,000. USAID has assisted numerous activities intended to support citizen and NGO participation in community and national life. We have helped establish free and independent media. Internews, an American NGO supported by USAID which trains print and electronic media professionals, has helped transform Russia from a nation which, in 1991, received all its news from one source to one in which there are more than 500 broadcasting companies. The new independent media coverage of the war in Chechnya is widely credited with having fostered public awareness of the situation there.

Rule of Law: USAID is also assisting countries throughout the region to strengthen the rule of law. We have helped draft constitutions, train judges, prosecutors, and trial attorneys, and establish jury trial systems. For example, in June 1996, after considerable input from USAID grantees, the Ukrainian parliament ratified its first post-Soviet constitution. Georgia is drafting a new civil code.

Local Government: USAID is helping to bring good government closer to the people by assisting with decentralization of power from the national to local level and working with mayors and municipal authorities to improve governance and delivery of essential public services. For example, in Kazakstan, USAID grantees have established housing associations, new institutional mechanisms by which citizens can get maintenance work performed.

Social Stabilization: When social dislocation is ignored or inadequately addressed, citizens suffer. Citizens associate their plight with reforms, and in some cases have used newly acquired voting rights to elect politicians who exploit these concerns. Neither USAID nor other donors can finance social "safety nets," but the agency can provide targeted technical assistance to strengthen the countries' own social protection systems. For example, helping Russia and Ukraine to move away from virtually free housing for all to market-based rents and maintenance fees has improved the quality of housing while freeing municipalities' resources for targeted subsidies for the most vulnerable groups. In areas affected by civil strife, USAID has played a major role in alleviating suffering, particularly in the Caucasus and Tajikistan.

Reproductive health programs are being funded in Central Asia, Moldova, Russia and Ukraine. Preliminary data indicate that service improvements have resulted in reduced abortion rates and increased contraceptive use. In Central Asia, the USAID-supported Aral Sea initiative has fostered regional cooperation in protecting the Sea from further degradation and will ultimately provide potable water to over a million people.

Noting these successes, it is reasonable to ask why, if things are going so well, do we need an increase in funding? The simple answer is that it is in the national interest of the United States to sustain these changes, lock them in, make them irreversible. Economic stabilization and structural change do not automatically translate into investment and growth, nor do new political systems automatically develop into full participatory democracies. As the political and economic transitions in the region proceed, we will move from guiding and advising on the mechanisms of structural change to maintaining connections to these countries in ways that sustain these transitions. Our engagement will evolve towards more normal, mutually beneficial bilateral relations.

The New Independent States still have far to go. This region is too critical to U.S. strategic interests for us to abandon. The stakes for the United States are still high

in terms of promoting regional stability independence from disruptive regimes in the region, and growing markets for American businesses.

We need a longer time frame and more resources than we had anticipated a year ago. Much remains to be done, including further work in improving the policy/legal/regulatory environment that has been discouraging trade and investment, reform of the tax regimes to facilitate business investment and provide the revenues necessary for legitimate public functions, developing capital markets and commercial banking so that private enterprise can flourish, restructuring wasteful energy systems, like those in Central Asia, continuing support to grass-roots NGOs and to the development of political parties and independent media that spur popular participation in civil affairs, strengthening of judicial systems to fight crime and corruption and facilitate the settlement of commercial disputes, and continuing the decentralization of power and authority from central governments to local governments in which local citizens have more say.

Accordingly, the Administration is proposing the Partnership for Freedom that would change the emphasis of our engagement with the countries that are ready for such a change—from assistance to partnership. It builds on successes in our assistance program while focusing on trade and investment, exchanges and cooperative activities. This initiative will support opportunities for U.S. business and help support partnership activities by private U.S. organizations. A key aspect of Partnership for Freedom activities will be their mutuality. U.S. assistance is not charity, and the Partnership for Freedom stresses areas in which both sides will benefit.

The results and successes I have just cited do not come out of the air. They are not the product of guesswork. Through a collaborative process with USAID development partners, field missions defined sets of results, performance indicators and targets for measuring progress against the achievement of strategic objectives. With these tools in place, USAID is systematically incorporating performance information into program reviews, planning and decisionmaking.

Country progress monitoring examines macroeconomic performance, democracy and governance, and social sector data to help determine whether continued assistance is necessary or justified. In combination with other factors, this information helps form the basis for country-level resource requests as well as decisions on country graduation from U.S. assistance.

By managing for results, USAID has confirmed that many of the countries in the region are implementing the policy and institutional changes needed to make reform real. Not all the indicators are good. While we applaud the successful completion of the first democratic Presidential election in Russia's history, we also must take into account that some 40 percent of Russian voters chose the anti-reform candidate. In several countries, economic reform has advanced far faster than democratic reform. The undermining of parliamentary independence by the government in Belarus, a repressive regime in Turkmenistan, and the disputed Fall 1996 elections in Armenia remind us that progress toward democracy in the NIS is far from uniform.

Some social trends are also troubling, indicating that economic reform has not always led to economic growth and equitable distribution of wealth. Some of the NIS countries—most notably Russia—are now experiencing income inequalities comparable to Latin American levels. Although this may be attributable, in part, to wealth creation among a few, poverty has also increased significantly. There is also the growth in crime which is a serious threat to democracy and to the willingness of US business to operate in parts of the NIS environment.

While five countries in the NIS witnessed an increase in life expectancy since 1991, on balance, the region experienced a decrease. Life expectancy among Russian males has plummeted—from 64 years in 1989 to 59 in 1993 and possibly as low as 57 today. In addition, six countries in the region have experienced an increase in infant mortality since 1991.

Just as the overall improvement in conditions in the NIS argues for our continued involvement to help sustain and deepen reform, so too do the less successful transitions argue for redoubled effort. The building of free enterprise democracy in nations that have primarily known despotism is not an exact science. There are no books that tell USAID how to confront the withering of both a nation's industrial capacity and its spirit after decades and decades of centralized repression. No books, no manuals, except the ones we are writing. We learn from our successes and we learn from our mistakes. That is why the program I am describing today bears so little resemblance to the program that the United States envisioned at the time the Soviet Union dissolved. At that time we thought that our immediate mission was to be the eradication of hunger; we discussed massive food relief. We envisioned humanitarian assistance. But almost immediately we realized that pure humanitarian assistance was not the answer. As the old adage goes, it is better to teach the hun-

gry how to fish for themselves rather than to provide a one-time supply. Thus we have developed our program of cooperation and partnership.

This year, in contrast to past years, I decided that our Congressional testimony would not be arranged by country. I decided instead that our testimony would reflect the way we actually do business—by strategic objective. USAID's program in the NIS is not a potpourri designed to produce a variety of salutary effects on life in this or that country. It is rather a tightly focused program of targeted assistance to promote U.S. economic and security interests by supporting economic reform, democratic transition and social stability in each respective country and across the region as a whole.

We have every right to be proud of our accomplishments in the NIS. And when I say "we," I mean two succeeding administrations, and the three Congresses. Back in 1992, it was President Bush who saw the fall of the Soviet state not merely as cause for celebration (which it was and is) but as an opportunity to build peace and trade relations with nations which, for decades, we essentially had neither. The FREEDOM Support Act, which funds our assistance program, was the vehicle this Committee sponsored and Congress enacted to facilitate this transition. Upon his inauguration, President Clinton continued and advanced his predecessor's vision.

I wish we could say that we have finished the job and are ready to pack our bags and come home. I cannot say that. But we have made progress throughout the entire region. As you will see in the appendix to this testimony, we have had successes in every country and in every area of reform. Reform is happening. But not overnight. As we have learned over and over, the revolutions that accomplish things overnight are those that tear down. Building takes time but we are doing it. I am bullish about the future of this region.

Mr. Chairman: Again, thank you for inviting me to appear today. I look forward to working with you over the coming years.

APPENDIX

RESULTS IN THE NEWLY INDEPENDENT STATES

BUILDING MARKET ECONOMIES

Russia:

As a direct result of USAID assistance, Russia's mass privatization program (completed in mid-1994) transferred ownership of approximately 120,000 businesses from the state to over 40 million private shareholders. The Russian people now have a stake in the economy and in reform, and have the opportunity as entrepreneurs and investors to make their own economic choices.

The private sector now accounts for 55 percent of GDP and employs about half of the labor force. New businesses are springing up, creating thousands of jobs. More than 200 institutions and organizations which support entrepreneurship and innovation, such as business incubators and business support centers, are flourishing.

A recent agricultural land privatization law gives citizens the right to buy and sell land for the first time since the 1917 revolution. Titles to nearly a thousand parcels of land had been transferred to privatized industrial enterprises throughout Russia by October 1996.

A nascent residential mortgage market has been formed on the heels of privatization of over half of Russia's housing stock. Some 25 banks are now making housing mortgage loans on market terms—so Russians can buy and sell. Where public housing remains, 80 percent of municipalities have means tests for housing allowances, permitting them to move to cost recovery.

The legal and regulatory framework to make the marketplace transparent and businesses subject to the public interest is beginning to be put in place. More needs to be done to make the tax system fair and non-confiscatory, to prevent money laundering and other forms of corruption, and to improve corporate governance, but a good beginning has been made:

Passage of the Civil Code, which guarantees both freedom of contract and protection of private property, is a major advance in creating a legal and regulatory environment to support a flourishing market economy. The passage of scores of other laws and regulations has begun to establish the basis for trade and investment.

Capital markets are up and running, and regulatory mechanisms are in place. Stock exchanges, clearing and settlement organizations, share registries and depositories, and a securities commission are operating. Several legal reform programs

specifically address capital markets issues, including corporate governance and shareholder rights.

Ukraine

Just two years into its serious economic reform program, Ukraine has made considerable progress in monetary stabilization, trade liberalization, and a substantial reduction in inflation, meriting support of the World Bank and IMF.

USAID-assisted enterprise privatization is now well underway. Bolstered by World Bank loan conditionality, some 400 companies a month are entering the auction process. Approximately 30,000 of Ukraine's estimated 40,000–45,000 small-scale state enterprises and over 3,500 medium and large enterprises have been privatized.

The National Bank of Ukraine (NBU) has taken significant steps toward establishing a sound banking sector. NBU's Interbank Payment System is fully functional with technical execution of payments now taking minutes rather than weeks. Prudent banking regulations have been enacted and approximately 1750 employees from over 100 banks have attended training at the National Center for Training Bank Personnel, which was created with substantial investment from NBU.

Parliament approved a broad strategy that establishes an open and competitive structure for the long term evolution of capital markets in Ukraine. An Association of Investment Businesses has been established, uniting 140 investment funds and trust companies under a common code of conduct. An Over-the-Counter trading system and a self-regulatory organization to govern it have been established. Live trading began in June 1996.

With USAID support, Ukrainian Government introduced targeted, means-tested subsidies for housing and utilities in conjunction with IMF-mandated price increases. More than 3.2 million families were reached through the subsidies program, enabling price increases for housing and communal services. As a result, net savings of $600 million was estimated for the 1995 national budget.

Moldova

Moldova is a reform leader, with a stable currency, low inflation, liberalized prices and open trade, and substantial privatization of state assets.

The mass privatization program has nearly been completed, with the participation of 90 percent of the eligible population and resulting in the privatization of an estimated two-thirds of the Republic's agro-industrial assets.

It is the first NIS country to establish an independent securities market regulating entity (SEC) with Ministry status. The Moldova Stock exchange opened June 1995 and by the end of the year, over 300,000 shares had been traded.

The Caucasus

Despite a necessary preoccupation with meeting humanitarian needs resulting from the region's conflict, Armenia has made progress in developing a market economy. It has moved into real economic growth, first in the former Soviet Union to do so; taken initial steps in privatizing agriculture and industry; and begun the legal, regulatory and policy framework needed for competition and growth.

Armenia was the first of the former Soviet republics to adopt a real property law which defines basic private property interests and rights. Housing stock is being privatized and a real estate market is developing.

The Central Bank of Armenia has greatly strengthened its primary functions, with U.S. technical assistance; bank examiners are enforcing bank laws and regulations, and installing an electronic accounting and payments system.

Efforts are well under way in Armenia to de-monopolize the electricity sector, rationalize energy pricing, and improve tariff collection. Armenergo, the power utility previously responsible for all electricity generation, transmission, and distribution, has been effectively "unbundled" into three generation companies, one transmission and dispatching company, and approximately 52 distribution companies.

Georgia has made progress in macro-economic stabilization, reducing inflation, liberalizing prices and stabilizing its currency.

Restructuring in Georgia's energy sector has resulted in the sale of a number of hydro power plants to private investors, and creation of a national regulatory body for the power sector. Georgia is participating in an agreement with the Azerbaijan International Operating Company and the Government of Azerbaijan on oil transit issues.

IN CENTRAL ASIA

Accession to GATT/WTO. Both Kazakstan and Kyrgyzstan are well along the way regarding the steps in the submission process for accession to the World Trade Or-

ganization. The memorandum on the Foreign Trade Regime of Kazakstan was prepared with assistance of advisors from USAID. Negotiations, which will take at least one year, are expected to begin in mid-1997. Accession would provide a certain level of comfort for foreign and domestic investors that a legal framework is in place. It would also provide for dispute resolution mechanisms, again, adding to the comfort level of foreign and domestic investors.

New tax codes in Kazakstan and Kyrgyzstan. With USAID assistance, both countries have signed into law the most comprehensive and systemic bodies of law dealing with taxes that have been introduced within the NIS. As such, they will serve as models for other Central Asian and NIS countries that seek to improve fiscal systems and strengthen government revenues. When fully implemented, both codes will have a tremendous impact on the establishment of a sound fiscal policy which is fair, transparent, enforceable, and non-confiscatory. Businessmen have long told us that lack of such codes has been a major constraint to investment and is a factor in business corruption.

Commercial Law. A commercial law training program for judges, attorneys, and prosecutors is being implemented in Kazakstan and Kyrgyzstan. This training is designed to address problems of white-collar commercial crimes which are a growing problem as these two societies undertake market reforms.

Capital Markets. In both Kazakstan and Kyrgyzstan, a Securities Commission has been established as a fully independent body apart from the Ministry of Finance with full regulatory authority over the capital market. The Central Asian Stock Exchange in Almaty has been operating for two years; the Kyrgyz Stock Exchange has approximately 25 companies listed on its exchange although trading volume is as yet very light.

Microenterprise Support. The FINCA Program (Foundation for International Community Assistance) in Kyrgystan is only a little over a year old, but has already started to show amazing success in mobilizing resources for the growth of microenterprises. Focused primarily on women entrepreneurs (98 percent), FINCA has created 264 village banks with trained staff and an active membership of over 3,000 depositors. These community institutions have lent $500,000 to over 8,000 microentrepreneurs in the past year. While only a small amount of money in traditional USAID project terms, this credit is not only attaining its objective of accelerating growth of microenterprises, but in many cases these enterprises are now stimulating development of new agricultural production and distribution systems in the rural sector.

Internet Homepage, a first for Kazakstan. You may be interested to know, Mr. Chairman, that Kazakstan's Stock Exchange is reaching out to investors worldwide, and with USAID assistance, has established an internet homepage. Available in both English and Russian, it provides company specific information on privatization and the Kazakstani securities market. The Homepage includes databases on joint stock companies, upcoming company sales, and legal information related to business activities. It is also the only location on the Internet that carries news from the Kazakstani press. USAID's objectives of "more sustainable private business operations" are being launched to new heights with the Homepage. Address: http://www.matrix.ru/stockinfo

Eurobonds. In December 1996, Kazakstan offered $200 million dollars of three-year maturity Eurobonds to international investors; interest was so high that the offering was oversubscribed. This offering came after USAID-funded U.S. Treasury advisors provided assistance to the Ministry of Finance. This bond offering is of critical importance because proceeds from this issue will be used to reduce government wage arrears, purchase electrical power and fuel, as well as fund the acquisition of medicines and other supplies for the health sector.

Energy Sector Reforms. As a result of USAID technical assistance and partnerships between Cincinnati Gas and Electric and Kazaki utilities, 70 percent of electrical generation in Kazakstan is being sold to the private sector, including American investors such as AES of Alexandria, Virginia. This reform represents billions of dollars of private capital. Soon to follow will be distribution companies. In the Caspian Sea context, the largest new petroleum potential in the world, USAID is currently helping to develop an oil and gas legal, regulatory and environmental framework based on international standards to further private investment.

ESTABLISHING DEMOCRATIC INSTITUTIONS

Russia

In 1996, Russia held presidential, parliamentary, and local elections all in the space of one year. And the process had real credibility among the citizenry and international election observers. The fact that 40 percent voted against reform in

the Presidential election tells us there is still much to be done to win support for further change, but it also attests to the legitimacy of the elections.

Judicial reform has resulted from workshops, training and exchanges, including a pilot program to reintroduce jury trials for serious criminal offenses in selected regions. USAID has provided copies of the Civil Code, Part I, to all judges and trained over 40 percent of them in commercial law.

There are now 40,000 registered NGOs in Russia, up from just a handful in 1991, representing citizens' interests and advocating policy change at the national and local levels.

One of the most striking differences between the Russia of 1991 and today is the variety of media outlets bringing information to people. In 1991, all Russia received its televised news from only one source, the government controlled service. Today there are at least 500 broadcasting companies producing original programming in Russia. The Russian government can no longer keep a war in Chechnya or the health of its leader a secret from its citizens. Internews, an American NGO, has played a key role in Russia with USAID funding by training and networking both broadcast and print media in the private sector.

Ukraine

A fundamental first step in the establishment of the rule of law was accomplished with the June 28, 1996 adoption of a new constitution. The U.S. Government's programs in Ukraine contributed significantly by sponsoring town meetings to encourage wide public debate; providing lawmakers with information on comparative constitutional systems; assisting Ukraine's independent media, which provided extensive coverage; and supporting a public education campaign.

With USAID assistance, local governments are becoming more responsive to their constituents. They have introduced a variety of democratic reforms such as more open budgeting, town meetings, citizen task forces, constituency outreach and local government watchdog groups, many of which have never before existed. Municipal services are more efficient and better financed.

USAID developed a network of 25 Press Clubs throughout Ukraine where journalists can meet on a weekly/biweekly basis with GNU officials to discuss different issues of privatization and economic reform. Weekly meetings at the Kiev Press club meetings are shown nationally during the main news program on UT–1, providing a very effective means for GNU officials to reach a large audience.

Caucasus

Armenia has made strides and had setbacks in its democratic transition in the past year. It held parliamentary elections and approved a new constitution in 1995. In late 1996, presidential and local elections were held but international observers described them as flawed.

An objective, professional and independent journalistic cadre is a necessary component of democracy, and its development is a major USAID focus. USAID helped to organize Armenia's independent television stations into a network with a capacity for objective, professional journalism.

Progress in democratic political processes is further along in Georgia than elsewhere in the Caucasus. The parliament is one of the most progressive in the former Soviet Union. There is a perceptible strong will in the political leadership, in the media and among civic groups to advance and protect the new democracy, to establish a transparent system of public administration and the rule of law.

Georgia is drafting a new Civil Code.

USAID support has led to the creation of 50 new Georgian NGOs participating in democratic and market reform.

An independent television network was created in Georgia with 11 individual stations.

In Azerbaijan, USAID and its NGO partners have made headway in strengthening the NGO sector, independent media These nascent entities are critical to support a transition toward democratic governance.

Central Asia

NGO Development. Turkmenistan is not a democracy, yet USAID provides critical support for the growth and development of country-wide citizen initiatives. We are providing this support through the ASSAYER (formerly the Institute for Soviet-American Relations) grant program for assistance to environmental non-governmental organizations. While government policy prohibits the import of foreign magazines and newspapers, the Turkmen NGO, Catena, working with its U.S. partner, the Sacred Earth Network, provides free NGO access to information from all over the world through Catena's Internet link-up. Catena pays for its work with local

NGOs by offering reasonable and reliable paid Internet service to Turkmen businesses and government officials.

Turkmen NGO Promotes Civic Education. Another Turkmen NGO, Dialog Center for Civic Education, can be counted along with Catena, as one of the few indigenous groups actively working in the rather restrictive environment of Turkmenistan. With USAID funding through the National Endowment for Democracy and a grant from the USAID funded NGO, Counterpart, Dialog recently took a significant step towards wide dissemination of the concepts of civic education by publishing a book entitled "The ABCs of Civic Education." This book has been well received as a vehicle for disseminating and promoting democratic principles and the concepts of civic education.

Media Support. Internews, an organization funded by USAID through the Soros Foundation, promotes independence and diversity of the broadcasting media in Kazakstan, Kyrgyzstan, and Uzbekistan. Internews has been a prominent voice in promoting democracy through the establishment of independent television stations. It is helping to establish independent television stations by providing equipment, technical, and business training. Numerous independent stations have benefited from workshops and instructional materials. The impact of the work of Internews is greater access by the public to an increasingly strengthened and diversified broadcast media.

National Elections. USAID provided funding to the American Bar Association and the American Legal Consortium to prepare analyses of the Kazakstani Constitution which was passed by national referendum in September 1995. According to the Kazakstani government, 90 percent of the population turned out to vote.

Responsive and Accountable Local Government. With USAID funding through International City Managers Association (ICMA) technical assistance, the Semipalatinsk region of Kazakstan is benefitting from a determination to reform local government. The region has privatized housing, established open and competitive contracting for providing goods and services and established a short-term safety net for those who are most affected by the transition process to a market economy. When housing was originally privatized, the government discovered it could no longer provide maintenance services. ICMA provided assistance in the formation of housing associations, the new institutional mechanisms through which homeowners may channel requests for maintenance services. Fledgling results are that homeowners now get maintenance work done much sooner and the government gets out of the recurrent cost business of apartment and home repairs and maintenance.

Eurasia Foundation. In the last couple of years, the Eurasia Foundation has blazed the trail in responding effectively to on-the-ground reform needs as seen by NIS citizens and institutions themselves. In the Central Asian Republics, the Foundation has invested roughly $6 million to support reform minded grassroots initiatives such as the liberalization of laws governing media and the free press, the development of new modes of citizen-government relationships through linkages between university and training programs on public administration reform, and the strengthening and expansion of the nonprofit sector through newly established NGO resource centers. Finally, to better address the growing demand such new and innovative programs in this area of the world, the Foundation has opened a smaller satellite office in Almaty that broadens its outreach ability.

STRENGTHENING THE SOCIAL SECTORS

Russia:

Social impacts of societal change are also critical. Reform efforts could be jeopardized if, for example, citizens cannot access basic health services or other services essential to their welfare. Likewise, failure of Russia to address its serious problems of environmental pollution and unsustainable management of natural resources will both undermine long-term economic growth and produce substantial negative global environmental impacts.

Health reform has produced new policies, laws, and models that are helping Russia improve the quality, organization, and financing of its health care system. Health care is no longer always controlled from the center, and is becoming more efficient and responsive to patient needs.

U.S.-Russian hospital partnerships have taught Russian health professionals state-of-the-art practices in several specializations, including women's clinical services, and contributed to improved hospital management. Modern contraceptive use is increasing and abortions are decreasing.

Modern economic tools are being incorporated in to environmental policy-making, e.g., introduction of user fees and regional forestry codes. Environmental NGOs are

vigorously pursuing public education, clean-up projects, and legal and legislative efforts.

Ukraine

Ukraine is making progress in protecting the most vulnerable members of society during the economic transition and making serves more efficient and financially sustainable. Universal price subsidies are giving way to assistance based on need. The income-based benefits program on housing and utilities, developed with USAID support, is a model for a broader program of means-tested benefits for the needy. It has resulted in a savings of $600 million in 1995 and a projected $1 billion in 1996.

The number of NGOs has grown markedly, from roughly 40 in 1990 to an estimated 5,000 in 1995, with almost half working to provide social services that the government may no longer be able to afford. USAID programs have trained over 1,200 NGO leaders, partnered U.S. private and voluntary organizations with Ukrainian NGOs, and provided critical support to social service, public policy, human rights, and women's NGOs and civic organizations. Recently, USAID launched a new program to strengthen social service and advocacy NGOs and to improve the legal and regulatory environment for NGOs.

Health care efforts are combatting a diphtheria epidemic, reforming delivery and financing at local levels, for better responsiveness to citizen needs, improving water quality, and making modern family planning methods available instead of abortion.

Caucasus

U.S. assistance to the Caucasus has been predominantly humanitarian, given the severe hardships engendered by regional conflict for all the peoples of this area. Food shipments have fed needy citizens, refugees and displaced persons; fuel shipments have increased electric power; winter warmth programs have provided heat for houses and schools. School attendance in Armenia rose significantly as a direct result of this heating program. Pharmaceuticals have met medical needs and large segments of the vulnerable populations have received vaccines against infectious disease.

Central Asia

Privatization in the Health Sector. In Kazakstan, the state-owned pharmaceutical distribution and retail system known as "Farmatsiya" has been almost completely privatized, helped along by USAID-funded technical assistance. Of 1,378 pharmacies, 691 have been auctioned and 562 were privatized by the end of 1996.

Health Reform in Kyrgyzstan. A critical element of USAID's health sector reform in the NIS is empowering consumers by promoting choice and responsibility. For the first time ever, Kyrgyz consumers have an opportunity to choose their health care provider. In June 1996, the health reform program launched a family medicine enrollment campaign in which 86 percent of residents in Karokol city and 96 percent of residents in Tyup in eastern Kyrgyzstan selected from a newly refurbished group of family practices.

Women's Health in Central Asia. USAID has allocated $22 million since 1993 to reduce high maternal mortality in the Central Asian Republics related to high fertility and the use of abortion for fertility control. As you may know, in the former Soviet Union abortion was the main method of birth control and many women had multiple abortions in their lifetimes. The American International Health Alliance (AIHA) received funds in 1996 to establish two women's health clinics in partnership hospitals in Kazakstan and one in Uzbekistan.

USAID reproductive health programs support modern, effective, and well-financed family planning services by providing assistance in strategic planning for nationwide approaches, clinical training, expanding contraceptive marketing and informing men and women about modern contraceptives as an alternative to abortion. In 1997, USAID will support family planning training for Kyrgyz general family practitioners in group practice to expand services beyond women's clinics, and continue to expand and strengthen contraceptive marketing programs in Kazakstan and Uzbekistan. Project sites reported a 58-percent increase in modern contraceptive use and a 30-percent reduction in abortions in 1994.

In 1996, a single center, Marriage and Family Center in Bishkek, Krygyz Republic reported an almost 50 percent decrease in the numbers of abortions since 1994 and a 200 percent increase in the use of oral contraceptives (1994–1,333 clients to 1996 4,140 clients) during that period. Clearly there is a hunger for modern methods which can lead to nation-wide impacts.

Aral Sea: In Kazakstan, Turkmenistan, and Uzbekistan, the US through USAID provided technical assistance for upgrading and improving water systems to supply potable water to populations at risk. By focusing on providing safe drinking water supply, which is an environmental problem of the highest priority to each national

government, U.S. credibility and access was greatly enhanced. USAID's tangible investments in potable water improvements have helped in turn to create strong working relationships with the region's new governments on issues of water management. Beginning in 1995, this credibility was used to establish a new USAID-supported regional program on water resources management to introduce concepts of water economics and conservation prevalent in the United States and Europe to the broader Aral Basin.

CONTRASTING GEORGIA TO THE UKRAINE

Senator MCCONNELL. I did find it interesting, your contrasting Georgia to Ukraine. Georgia has certainly made significant progress, and I think it is reasonable to assume that this subcommittee, at least in the chairman's mark, is going to reward that progress with additional support. Ukraine is certainly, for all of the reasons you all have outlined, a mixed bag.

I think of Ukraine's decision not to sell turbines for the Iran nuclear reactor, something which the Russians continue to support, as clearly something on the plus side for Ukraine. I mean it cost them $400 million or $500 million to refuse to sell those turbines to Iran, while our good friends, the Russians, continue to help the Iranians with that facility.

When I asked you, Mr. Morningstar, to give us some of the breakthroughs, you did give us some. But one does get the impression that it is really quite a mixed bag.

Is it your view, either of you, that in addition to the problems of organized crime in Ukraine, that there is also a problem, a significant problem, with official government corruption as well?

Mr. MORNINGSTAR. At various levels and in various instances, I think it is pretty clear that corruption is existent. I think if anyone has to look at the cause of some of that corruption and what one does about it, part of it, as I mentioned earlier, is a result of the incredible amount of bureaucratization and regulations that literally give the opportunity for government officials to assert undue influence.

Senator MCCONNELL. So it is more systemic?

Mr. MORNINGSTAR. I would say it is a combination. I think too often we simply say the problem in Ukraine is corruption. Yes; corruption is a problem. It is a problem in a lot of the NIS countries and other countries in the world as we all know. But it also is a systemic issue relating to some of the archaic laws and the bureaucracy and regulations in the country as well, and the opportunity, as I said before, to exert undue influence. We need to work on it.

Senator MCCONNELL. To the extent that it may also be individuals in key places, is it widely known who those individuals are? And if it is, in your view, why has not President Kuchma just dismissed them?

Mr. MORNINGSTAR. The answer is I have no idea why President Kuchma has or has not dealt with various officials. Anything that I would say about any individual would be pure speculation and not based on any hard evidence. I do know that President Kuchma, over the last month, as a result of his new clean hands campaign on anticorruption—at least I have been told—has had some very, very hard meetings with good government officials. And it is my

understanding that some officials have in fact been dismissed over the past month for corruption.

TRANSPARENCY

Mr. DINE. Mr. Chairman, I would just like to add one item, and come back to the term I used before, "transparency." The deregulation package that we and the IMF have proposed will enhance the theme of transparency that will start to overcome the official corruption that has been engaged in. So there are ways of working on this problem. But, basically, it is an internal problem that has to be faced up to.

AMERICAN VALUES

The thing that always amazes me, in the 3½ years I have been in this job now, every time I come back to this country, I always ask myself, how are we different? And the two things that always strike me is, No. 1, the Puritan ethic. And, yes, we have our problems with corruption, but it is considered a value, a no-no value. It is something that is ingrained in all of us about right and wrong.

And, second, it is the Constitution, the flexibility, the ambiguity, the genius of our Constitution. And these countries are still in a straitjacket of the past. The burden of history overwhelms them. If you read Russian literature even before communism, it is all about corruption. Most of our literature is about victory.

Senator LEAHY. Mr. Chairman, I just wondered, Ambassador Morningstar, in your answer to the question, among the people involved in corruption, would that include Prime Minister Lazarenko? I mean he is accused, in the press anyway, of all kinds of corruption.

Mr. MORNINGSTAR. I think it would be unwise for me to make any kind of direct allegation with respect to the Prime Minister. I certainly do not have any specific evidence of corruption on his part. But I am well aware of everything that has been written.

PREPARED STATEMENT OF SENATOR LEAHY

Senator LEAHY. I just want to make sure you are aware of what has been said.

Mr. Chairman, can I just leave my statements and questions for the record? I have to go back to another committee.

Senator MCCONNELL. Yes; Senator Leahy's statement will be made a part of the record. And you are also submitting questions, are you?

Senator LEAHY. I am. I raise some of the same skepticisms as you. And I think we both want to help in any way we can. But they are making it harder and harder to pull this sled.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK LEAHY

Mr. Chairman, it would be hard to think of a more important foreign policy goal that supporting democracy and market economies in the former Soviet Union. I was pleased to see the increase in funding for aid to the NIS in the President's 1998 budget request.

These countries are really starting over from scratch—in fact it may be even harder because they have to reverse so much of the damage that was done over the past 70 years.

We have to be realistic in our expectations—the problems there are not going to solved overnight. But we also need to learn from our mistakes. As far as I can tell, our efforts have been plagued by poor design, poor management, and often disappointing results.

Some of that was predictable—we are talking about countries where there are powerful forces opposed to change. But we have seen some of the same problems of other hastily conceived aid programs. I am reminded of what happened in Panama after the overthrow of General Noriega. We rushed a lot of money down there, and a lot was wasted. We did the same thing in Nicaragua. Then, just to show how little we learn from our mistakes, we repeated some of them in Russia and Ukraine.

That is not to say that nothing has been accomplished. When you consider where they started, a lot has been accomplished—from hospital partnerships to legal reform. But many AID personnel were ignorant of the language and culture, and relied on foreign nationals who took advantage. High-priced contractors with past connections to AID but no previous experience in the NIS, "reinvented" themselves to get AID contracts from NIS funds.

Today, many Russians, who have not received a paycheck in months, have lost faith in their government and in our ability to help them. I am sorry to say that I share some of their disillusionment.

Add to that the rampant corruption and organized crime, and the picture becomes pretty bleak.

I want to see this program succeed. I think the new "Partnership for Freedom," as much as I dislike slogans, represents a step in the right direction. I am a big fan of partnerships and exchange programs. Like Chairman McConnell, I strongly support programs to combat organized crime. And I certainly favor doing all we can to promote trade and investment.

But if someone asked me whether AID and the State Department are capable of carrying out a cost effective program in the NIS, I would have to say "I don't know." The record is mixed.

I have supported aid to Ukraine, and believe President Kuchma is trying to do the right thing. But the corruption that has infested his government, which has plagued American businesses trying to get a foothold there, is outrageous. Investment contracts don't seem to be worth the paper they are printed on. Company representatives have been threatened, their property stolen, and several large businesses have simply pulled out. Millions of dollars have been lost. Others are fighting their cases in the Ukrainian courts, with little hope of getting justice. The Gala Radio case is one appalling example.

I know Chairman McConnell is concerned about this, as I am, and we will be watching the situation there very closely.

I know you both—Mr. Morningstar and Mr. Dine, are also concerned. But it is no longer enough to say you are "raising these concerns at the highest levels." The situation is worse, not better, and the Ukrainian officials' response has been to dismiss most of the complaints as fabrications. They are not.

Mr. Chairman, I am going to support the President's request for the NIS, because I believe it is in our national interest. But I also want to work closely with you so we get the maximum results for our money, and American investors are treated fairly.

Thank you.

CORRUPTION

Mr. MORNINGSTAR. Is it possible, since you did ask, just quickly before you leave, Senator Leahy—you did ask a question—why should we continue to pour money into these countries? Could I just briefly respond to that?

I think that we need to have the discipline, all of us, to do what is rational and to do what makes sense. And in my view, that means doing what is in our national interest and carrying out those programs which make sense, which continue to make sense, depending on whatever the circumstances may be. I think, for example, to cut assistance simply as a pure punishment does not make sense.

I think what makes sense is that if the Ukraine, for example, is making no progress—if we determine, in consultation, that in fact they are making no progress in the agricultural area—and I could make a very strong case that they are not—then, yes, maybe that program should be suspended or deferred until certain conditionality takes place. That, in effect, is what the World Bank is doing. I think you could say the same with respect to the energy market and with respect to privatization.

But I think it would be a mistake and against our own national interests simply to take the punishment approach, whether it be with respect to Ukraine, Russia or any of the other countries. But, again, we want to help the private sector, to help the communities, to help the individual citizens.

Senator LEAHY. Thank you.

UKRAINE

Senator MCCONNELL. The dilemma, it seems to me, is fundamentally this. Because of size and strategic geographic location, I am sure we would all agree—with all due respect to the other former Soviet republics—that Ukraine is potentially the most important of all the non-Russian republics. Although we have had some tussles over just how much emphasis you put in Moscow at the expense of the other republics, helping Ukraine achieve its potential is in our national interest, we would all agree.

At this juncture, having seen the mixed bag of progress—and, clearly, when contrasted with Georgia, they do not a have good record—the dilemma is what is the best way to go from here?

Now, the administration—any administration—would prefer to have no earmarks, and we have had those tussles in the last 4 years. I have felt we needed to have them or you would spend all the money in Russia. You have wanted the flexibility, and I understand. If I were in your shoes, I would want it as well.

But this year, after 4 years of this subcommittee's steady support for Ukraine, with the earmark I find myself disappointed in what those 4 years have brought. And I am trying to think through—and I am thinking out loud here with you—as to where we go from here.

Even though you would like to have a blank check, I think we are probably not going to give you a blank check. But in filling in some of the lines in the check, I am torn this year as to what is the best way to send a message, the carrot or the stick. It seems to me it is not clear.

Mr. Dine.

Mr. DINE. I think you and I have experienced other accounts in which this question has come up. There is no doubt in my mind, that, after all of this effort, if things seem to be as bad as we all agree, you have to hold out the opportunity, but only if they perform. To me, that is natural, that is human nature. And that is often how we get over some stumbling.

You know, if you look at Georgia before that December 1995 election, it was mired in corruption, assassination, and the whole Abkazia situation had complicated things further. And we were very, very concerned. The election itself happened to be a liberating event. And all of the attributes that we have so respected Mr.

Shevardnadze for and also the parliament—you may have met the 33-year-old speaker when he was here—he was impressive. And there are many more like him.

And I think, with patience, with hard work, patience, carrots and sticks, Ukraine is going to bust out of itself, too. We have got to help them get beyond the past.

Senator MCCONNELL. I like having the Georgian example in the neighborhood.

Mr. DINE. They butt up against Hungary, too. And Hungary, in foreign investments, is No. 1. And it drives them crazy every time we use it as an example. Again, the basic fundamental stuff of private property, of individual rights, and of limited government has to get through to them. After all, that is our revolution, and it is still going on.

Senator MCCONNELL. Let me ask you one more question in this round, then I will turn to Senator Murray.

I know, of course, you would like to have no earmarks at all. On the assumption you are going to have some, which would you rather have? Given where we are today with Ukraine and where we could like to go, where would you put your priorities?

Mr. MORNINGSTAR. Do you mean from a country earmark standpoint?

Senator MCCONNELL. Let me rephrase the question. Assuming we gave you essentially unearmarked funds for Ukraine, tell me again what your priorities would be for the next 12 months.

PARTNERSHIPS

Mr. MORNINGSTAR. I would say that the priorities should be in four or five different areas. First, I think we should institute in Ukraine as many Partnership for Freedom-type activities as possible. I think we ought to emphasize activities that are at the local and community level, and increase exchanges and increase partnerships and use those as vehicles and mechanisms to get assistance and cooperation to the local level. That, in turn, will generate pressure on the national level.

Second, I would want to continue to work with Ukraine in the area of legal reform—to the extent that we have determined that in fact there was a will and there is a chance of moving forward to continue to work with them on criminal codes with respect to criminal procedures codes and generally with respect to the rule of law.

Next, I would want to get into areas where they really showed a genuine commitment to move forward. If President Kuchma can convince all of us that in fact he is serious about the issues relating to corruption, I think we do need to help with respect to transparency issues, both in connection with the regulation—work with him on things such as conflict of interest, open tender processing, the kinds of things that basically will show that they have a fair process. I think we should continue working with small business.

Senator MCCONNELL. What about the law enforcement training issues?

Mr. MORNINGSTAR. I would include that. The law enforcement training continues to be important. I think those programs are beginning to show some results.

Senator MCCONNELL. How about the economy? They are doing great work.

Mr. MORNINGSTAR. Everything I hear about it is sensational. We ought to be increasing what we can do in that area. I think that, with respect to Chernobyl, we are going to have to make sure to continue that. A memorandum of understanding and some of the earmarks with respect to that assistance should continue to move forward. The issues are basic, in the area of energy reform, the area of agriculture, the area of privatization, whether or not Ukraine shows that they are serious.

I can make a very strong argument that given the continuing development of Parastatal, the failure of the privatized grain elevators, the issue relating to grain embargoes, all the work we have done on commodity exchanges is going to naught because of state control over that issue. And that is an area that we gave some very serious consideration to suspending or deferring until they show that they are moving ahead.

I think we also need to work very closely with the World Bank, in coordinating with them with respect to their conditionalities and when they feel that they can go forward in the areas of central agriculture, energy and public administration and privatization, that we should work with them in a coordinated way.

REFORMISTS' TRIUMPHS IN BULGARIA AND ROMANIA

Mr. DINE. I fully agree with what Dick just said. We faced a similar situation a couple of years ago in Bulgaria. The socialist government ruled from the center and refused to reform. We were knocking our heads up against the wall. And our mission director there said let us go to the cities, let us go to the municipalities. And we started working in 10 municipalities, even with socialists. And after the elections, reformers had won 9 out of 10. These folks wanted to reform as fast as possible—privatization, housing, you name it, land, urban land, utilities, urban waste, great.

And Romania had its breakthrough on its election. There is a new day there. And we are working very closely with the government. And now there is the Bulgarian situation. And so if we do the steady work, the fundamentals, I believe time takes care of itself.

Mr. MORNINGSTAR. The type of thing we ought to be doing—just to give a plug to a program—a prominent member of the Ukrainian art community came up with a program that AID is now funding that is exactly the kind of thing we need to be emphasizing, which is pushing the relationship between cities and using relationships between cities as vehicles to provide assistance to Ukrainian communities.

For example, if a given community has a problem with respect to sewage or a problem where it wants to learn more about municipal bond financing or whatever it may happen to be that these are the kinds of things we need to do.

Senator MCCONNELL. Senator Murray.

Senator MURRAY. Thank you, Mr. Chairman.

And thank you, Mr. Morningstar and Mr. Dine. It is good to see you again. I appreciate all of your work, particularly, of course, in the Russian Far East.

As you know, we have had continuing conversations about that. And, as you know, that is an area that my State is very interested in, both dealing with the challenges and the tremendous opportunities that are there. And I appreciate the work that has been done there.

I just have a couple of questions. And you probably know my first one, which is the funding for the west coast group, for the Gore-Chernomyrdin Commission. I heard there is a little bit of progress in that. Can you tell me about it?

Mr. MORNINGSTAR. The commitment was made, as you know, by me some months ago. And as I understand, a letter went to you from Mr. Kalicki of the Commerce Department, pledging the $216,000 that would go to the secretariat. In any event, there is no question that money will be provided. And it is necessary that it be provided for the activities.

EXCHANGE PROGRAMS

Senator MURRAY. I am very much looking forward to receiving that letter. If you can make sure that that happens.

The other area I really wanted to ask you about today is exchange programs that have been funded by USAID. And of particular importance to me is the Newly Independent Youth Exchange Program. I wondered if you could update me on where you see that going, particularly with the consolidation in the State Department.

Mr. MORNINGSTAR. This is something we were concerned about in our office when we announced the consolidations would take place. And in fact we confirmed with USIA that there would be no interference at all with how the exchange programs are run, at least through fiscal year 1998, as a result of this consolidation. And we can give you and the staff some more information with respect to that.

The Partnership for Freedom program budget, you might note, wherever it is on one of these charts here, if we can pull it out, would show a doubling of moneys that would be going to exchanges. It is going from about $30 million in fiscal year 1998 to $59 million, as that chart shows. And we think that the efficiencies in the program would literally more than double the exchanges.

Senator MURRAY. Efficiencies meaning?

Mr. MORNINGSTAR. Lower cost per exchange. And we have been successful in the last couple of years in reducing the cost of exchanges significantly, in many cases by as much as one-half, by doing more with respect to home stays and doing more with respect to, at least on a professional level as opposed to the student level, people paying their own way. And it is interesting, by paying their own way, they are able to use Aeroflot, which is much, much less expensive than American carriers, I have to say.

Senator MURRAY. I appreciate that. And let me just say for the record that I think this is extremely important that we keep those programs intact. The real way we are going to have democracy in the future, the real way that Russia is going to succeed in the future is for those young people to have those kinds of experiences that allow them to go home and share with their fellow students and to become leaders for tomorrow. And so I want to make sure

that we keep those intact as we go through some of these changes in those programs.

Mr. MORNINGSTAR. And that is the basic underpinning of our new initiative.

Senator MURRAY. Thank you.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Murray.

OK, let us go to Russia. Last year, the Russian GDP declined 6 percent. A lot of the problem seems to result from a tax system, described by the New York Times as "a hodgepodge of Soviet-era law, ad hoc new taxes and favors granted to the well connected." Because of the revenue shortfalls at the end of January, workers were waiting for $8.6 billion in overdue wages, a problem compounded by the fact that the soldiers have not been paid in 4 months.

Last year you came up here and said the IMF and the administration had confidence that laws were on the verge of being passed to rationalize the tax system. In fact, just before the elections, the IMF had enough confidence to release an additional installment of a $10 billion loan—a decision some viewed as rather political. Since then, the IMF has withheld three installments because of a lack of tax receipts and the absence of any budget reform. Apparently, last week, based upon commitments by President Yeltsin to reform telecommunications, energy and rail monopolies, the IMF announced plans to release more than $700 million.

I guess the question is this: Is the appearance of reform rather than concrete results all that seem to matter to IMF, and, for that matter, to the administration?

Mr. MORNINGSTAR. Obviously my answer is "no." But I will elaborate. First of all, the whole area of tax reform is one of the few areas of technical assistance in Russia that I think we need to stay very much involved in. In fact, in our new program——

NEW INVESTMENT INITIATIVE

Senator MCCONNELL. Assuming we have any credibility at all in tax reform.

Mr. MORNINGSTAR. Part of the new investment initiative includes continuing to provide moneys with respect to obstacles to trade and investment. The whole situation with respect to the Tax Code is obviously very important. Things went very slowly in the last year, obviously. And it is very frustrating and had a lot to do with elections, and it had a lot to do with President Yeltsin being sick and all sorts of excuses.

That does not matter. What does matter is that because of our work with the appropriate officials in the Russian Government, a tax code, a rational tax code, was finally agreed to by the government just a couple of weeks ago. There was an article about it, I think, in today's Wall Street Journal. And that code has been submitted to the Duma. Or if it has not been submitted, it is within hours of being submitted.

Senator MCCONNELL. Does that have a pretty good chance of passing, do you know?

Mr. MORNINGSTAR. There is some optimism. What happened is, one of the debates that has been going on in Russia over the last

couple of months is whether it should be submitted as a full code or whether it should be submitted in pieces. What they finally decided to do was submit it as a full code, which includes total revision of the value-added tax. It includes a revised corporate profits tax, which allow for basic business expenditures, for example, that never existed before. It allows for depreciation and for revisions with respect to tax administration. And there are other aspects as well.

And so what their strategy was to do was to submit it as a full code, and then, if necessary, break it up into individual pieces. But they are optimistic that it can pass, hopefully during this year. And one of the things that I found in my trips to Russia, in dealing with government officials at high levels, as well as the Duma members and members of the Budget Committee, who were very much involved with the tax codes, and frankly members of all parties, is that they all requested tax assistance. And it really does need to be cleaned up. So we do hold out some optimism.

Also, one of the more positive things that happened is when the finance minister came in, one of the changes that was made virtually right away was the change in the new director of tax estate services, who was appointed. And there was also a note in the paper this morning that said that Gazprom—and this is just a note in the paper, I do not have any other information—had agreed to pay $2.5 billion in back taxes. And again, they are getting serious about the issue.

Mr. DINE. The government has agreed to pay Gazprom several more billion more dollars, though.

Senator MCCONNELL. I was just thinking, if the Russians pulled this off and successfully reform their tax code, we may have them testify over here before the Finance Committee. [Laughter.]

Mr. DINE. But, overall, Mr. Chairman, the economy in Russia is on the right course. In the month of April, they had only 1 percent inflation. This is the first time it has reached 1 percent. Whether or not it is going to continue to go down, we will see.

Senator MCCONNELL. What statistic did you use in the percentage of the economy in private hands in Russia?

Mr. DINE. I said 55 percent.

Senator MCCONNELL. Fifty-five percent; I thought you said 65. Was it 55?

Mr. DINE. I said 55 percent of GDP comes from their private sector.

That is the official statistic. In all these countries, if you look at the gray economy, it changes. But those are the official statistics.

Senator MCCONNELL. On the corruption issue, we spent a lot of time on corruption in Ukraine. It is a fairly serious problem still in Russia. Have there been any examples in the last year or so of any senior Russian officials being indicted or prosecuted for corruption?

ORGANIZED CRIME

Mr. MORNINGSTAR. I do not know. I am not saying it is not the case, but I do not know of any senior official that has been actually indicted. I know people have been removed from the government. But I do not know of any.

Senator MCCONNELL. Is the organized crime problem still about where it was 1 year ago?

Mr. MORNINGSTAR. It is still obviously a very significant problem. If you talk to Russians, they will argue that in fact the situation has gotten somewhat better. If you talk to American businesses in general, they think the problem is handleable—handleable from the standpoint that I think that most business people, American business people, who I have spoken to, will say that if you know who you are dealing with and if you lay down the ground rules right up front as to how you are going to deal with your partners and people within the government, that they can generally avoid many of the problems.

That is not true in every case. I can give you horror stories in Russia, as is the case in Ukraine. But there seems to be the view that the problem is manageable, but that we need to keep working very, very hard with respect to it.

Mr. DINE. And again, in conversations I have had recently, individuals have indicated that they do not have to park their money anymore in Cyprus or Switzerland.

Mr. MORNINGSTAR. One of the other factors that has happened in the last couple of months—and we will see how it all works out—is that Nemtsov, who really, if you take what he is saying at face value, is really trying to do some very remarkable things with respect to demonopolization and corruption. I had an opportunity to meet with him a few times in his prior life, when he was the Governor. And he really is a very impressive person. And I tried to explain myself and not get too excited about some of these breakthroughs, just like we do not want to get overly excited about some of the setbacks.

Senator MCCONNELL. Ambassador Morningstar, with regards to your testimony for a minute, you had a section on lessons learned that was refreshingly frank. I was particularly pleased to see you acknowledge the subcommittee's longstanding interest in seeing an emphasis on more small-scale, grassroots initiatives. However, I am somewhat stunned by your statement, "We have learned that it does not make sense to spend additional dollars on restructuring large, formerly state-owned companies." And that is a quote from your statement.

According to one private study, we spent more than half-a-billion dollars on privatization and follow-on activities. And so I am curious as to when you figured out that was the wrong approach and why.

Mr. MORNINGSTAR. Well, I very early came to the conclusion that we were not going to be very successful at our efforts with respect to larger-scale enterprise structures. We had a program—and Tom and I agreed to cut it very shortly after I came into my position—called the Powers Program, in which we were given $800,000 each, through a group of consultants, and to then take that $800,000 and go into a specific company and tell them how they were going to restructure things.

What we found out very quickly was, one, that it did not work, and, second, that these companies can afford to do it themselves. They have plenty of assets. And even beyond that, if we simply hand out the money for programs such as this, they are not going

to have anywhere near the commitment to following through on the recommendations that in fact are made. These companies have to have a piece of the action if they are really going to believe or they are really going to appreciate and follow through on the advice that they are getting. And we have taken that approach now through all of our business training programs.

The Morozov Institute, which has, I think, been a very successful, now Russian-run, training program, is very much on a cost-sharing basis.

Senator MCCONNELL. What is happening to all of these megaenterprises? Are they fading away, downsizing, going out of business? What is happening to these massive, state-run enterprises?

Mr. DINE. It depends on which country you are in.

Senator MCCONNELL. We are talking about Russia.

STATE-OWNED COMPANIES IN RUSSIA

Mr. DINE. Well, there is a whole range. Some of them look like they are petrified at a period in time and they are just standing still. Nothing is going on inside. Some are paying or pretend to be paying workers still, but nobody wants to buy the whole thing or part of the dinosaur. And so they are just going to languish until somebody comes in and buys the land and starts all over.

Senator MCCONNELL. Well, they are presumably not making a profit if they are laying people off.

Mr. DINE. They are not making a profit and not laying people off.

I remember one discussion outside of Moscow less than 1 year ago with a company manager. He was railing about all of the expenses he had because he had to run the hockey team, he had to run the high school and the grade school, he had to run a dormitory, he had to run a food servicing unit, and he also had to do some products. And he was not breaking even. But he could not break—the state cannot pick up—there is no social safety net, or not a sufficient one, and, therefore, he was stuck with all of these expenses. It was not a dead dinosaur; it was alive. He was trying to take part of the factory and make it profitable.

Mr. MORNINGSTAR. They are having some successes, I guess, with respect to some of these companies, with people coming in and purchasing bits of it.

But if there is any issue that keeps me up in the middle of the night, this is the one. Because I have a really hard time figuring out how these large-scale enterprises are going to come down in size in a way that is balanced by the growth of new business and the creation of new jobs. And that is why I keep coming back to the point that we have got to do as much as we possibly can do in these countries to build from the bottom up and build the private sector. And even then, it is still going to be a major, major issue for years to come.

Senator MCCONNELL. Are not a huge number of these enterprises, by Western standards, bankrupt?

Mr. MORNINGSTAR. Sure.

Senator MCCONNELL. Is there such a thing as bankruptcy in Russia?

Mr. DINE. Yes; but there is not enough case law even in the civil codes. They comment on the bankruptcy, but——

Senator MCCONNELL. It probably ought to be in receivership or bankruptcy, the assets.

Mr. DINE [continuing]. But they are still owned by the state.

Mr. MORNINGSTAR. This is one of the things that I believe Nemtsov is trying to do. And the value of doing it is at least this whole question of hidden unemployment will disappear. When they talk about their unemployment numbers being in the low-single digits, it is ridiculous. I mean you have all of these people that are sitting, doing nothing, in these large enterprises. And they need to recognize the situation for what it is, and then determine how do we take care of these people if there are not any jobs coming fast enough to take their place.

Senator MCCONNELL. I will never forget, I was at a seminar 4 or 5 years ago, there was a speaker there who was talking about one Russian enterprise that made SS–18 or SS–24 missiles and Christmas tree lights. Obviously, some central planner in Moscow said, now, who are we going to assign the Christmas tree lights to? And they found a place on the map. That kind of thing is still hanging on.

Mr. DINE. Well, the ministries, politically, hold on to these useless companies. And this gets to, again, given the broader brush, the 35-year-olds and below are not interested.

Senator MCCONNELL. They are all starting small businesses. That is the good news.

Mr. DINE. And the interesting thing to me is that those above that, who came out of these factories, who came out of these enterprises, who are now major entrepreneurs, I mean clearly, in the human chemistry, they just knew how to take off without stealing.

Senator MCCONNELL. But there is the vitality in the economy, people are starting little businesses and growing off to the side.

Mr. MORNINGSTAR. Absolutely. That is what the Partnership for Freedom is all about. And the problem with the large enterprises, if I might, is it affects other areas of reform as well.

One of the things we are concerned about in Ukraine is the energy reform. Over the last year, the World Bank is complaining the tax collections are coming down, overall collections are coming down. There is a reason why that is happening. One, it is harder to collect in winter than in the summer. But what is happening in the winter is that the government is continuing to provide subsidies to its large enterprises with respect to electricity. And so that is grossly inflating the problem of nonpayment. So how do you do energy reform when you have these kinds of issues?

Mr. DINE. Just one other point. Do not forgot that in this whole account, there are other countries. There are economies beginning to move quickly. And it is proliferating with the small businessmen. For the most part, they are really moving and they are showing real growth. I will mention Georgia and Moldova. There are varying degrees of progress here. And it is going to be the middle class, the entrepreneurial middle class, that will build these countries for the future.

Senator MCCONNELL. Just a couple of things to close. The Russian Enterprise Fund has been a big disappointment, I gather.

They have spent more on legal fees than on successful investments. And Mr. Morningstar, you were going to review it. I am curious if you could give us any hope.

Mr. MORNINGSTAR. I think there is some hope. We have been working very, very hard with all of the enterprise funds, not just the United States-Russian investment fund, over the last 6 months, to work with them to develop performance measures and to develop strategic objectives that will in fact increase the rate of investment. They have had, I think, a difficult time over the last few years.

Even successful enterprise funds in Eastern Europe have taken some time to get up and going. We are caught in between the need for and the importance of making rational business decisions. We do not make investments in projects that they do not expect to be successful—that is not going to teach anybody anything—while at the same time trying to get money.

We are emphasizing small business lending in the regions, which we think can be very successful—it already is—and can be a more successful major activity. And we are encouraging them to be open to projects that they think can be commercially profitable and, when that is the case, to take the risk.

We think that the new CEO understands the importance of moving forward. He has told me he is concerned. He wants to move faster. And one of his principal objectives is to get more reasonable projects out the door more quickly, including in the Russian Far East. And that is where Senator Stevens' staff and Senator Murray are working.

UKRAINE HEALTH EARMARKS

Senator MCCONNELL. Finally, last year I put a couple of earmarks in for breast cancer and for children of Chernobyl, and I wonder if you could give me an update on where implementation of those stand.

Mr. DINE. These are beginning to work out pretty well. On the Ukraine earmark on birth defects, we have received a proposal from the University of South Alabama. We have reviewed it. We have provided preliminary comments. And we are optimistic that we can develop that into a good program.

On Ukraine childhood mental and physical illness, we are going to issue a request for applications during the next few months regarding screening and treatment of mental and physical illness and children. And we understand the birth defects requirements to be technically and operationally distinct from the broader mandate to address childhood mental and physical illness related to Chernobyl. So we are taking those very seriously.

ADDITIONAL COMMITTEE QUESTIONS

Senator MCCONNELL. All right. Well, thank you both for being here. I appreciate it very much and we will continue to talk.

There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

AGENCY FOR INTERNATIONAL DEVELOPMENT

INDEPENDENT MEDIA OUTSIDE MOSCOW

Question. I have read recent news reports regarding the consolidation of broadcast media in Moscow by powerful economic powers, leaving concerns that the sovereignty of the media will succumb to political forces as well. What is USAID doing to support decentralized, independent media outside of Moscow?

Answer. USAID/Russia works with Internews and the Russian American Press and Information Center (RAPIC) to support the development of independent television, print, and electronic media—almost exclusively outside of Moscow.

Internews provides training and advisory services on both technical and business issues, seed grants of equipment, and program support to more than 90 regional independent television stations. Although most of these stations started from scratch in the early 1990's, by the end of 1996, more than 20 stations were grossing in excess of $100,000 in monthly revenues. Internews now estimates that up to 30 percent of the prime-time viewing audience is now watching regional stations.

RAPIC works principally with independent, regional newspapers. Through the Media Development Program (which RAPIC and Internews jointly implement), RAPIC has deployed a number of consulting teams which bring American media specialists to Russia on a volunteer basis to work with independent media organizations on business practices, including financial management and advertising. RAPIC is also exploring mechanisms to encourage alternative investment mechanisms, particularly leasing mechanisms, which would provide cash-strapped independent regional media organizations with an alternative to state-owned presses, transmitters, and other capital equipment.

The competition for advertising revenues is tough and the availability of needed capital financing is still limited. Top quality independent media operations are, however, increasingly seen as good investment opportunities. The U.S.-Russian Investment Fund (TUSRIF) has already invested in media companies in St. Petersburg. Metromedia (U.S.) continues to pursue its business interests in radio and television. And, as the question notes, major Russian companies with apparent political biases are also purchasing media outlets.

In USAID's view, Russian television managers hold the keys to the two factors most likely to ensure the continued independence of independent media in the regions: Presentation of high-quality and unbiased presentation of news and managing financially-sound businesses.

Therefore, USAID's strategy is to continue to work with regional media managers on these highly-related goals. Without a good quality product capable of attracting a growing audience, advertising revenues are not going to grow. Without good management of those advertising revenues, the media company is unlikely to attract larger equity investments or secure needed loans.

This strategy may not prevent a biased investor from taking over a regional media operation but it should ensure that managers can turn down such potential investors if they wish.

QUESTIONS SUBMITTED BY SENATOR LEAHY

AMERICAN COLLEGE OF PHYSICIANS PARTNERSHIP PROGRAM

Question. Mr. Dine, I have been approached, as I believe you have, by representatives of the American College of Physicians, about their idea to develop a partnership program dedicated to professional medical education in the NIS.

The idea is to send American doctors, who would volunteer their time, to the NIS to provide continuing medical education in the diseases that contribute the most to excess morbidity and mortality, and where appropriate medical care could bring a measurable benefit to health. They are talking about cardiovascular disease, infections, diabetes, oncology, respiratory disease.

They believe this would be complementary to the hospital partnership program and other efforts we are making to improve healthcare there. What do you think?

Answer. A partnership between representatives of the American College of Physicians and a counterpart institution or institutions in the NIS focussing on professional medical education in the NIS would certainly complement current USG efforts to improve health care in the NIS, including the hospital partnership program.

The current hospital partnership program under the American International Health Alliance agreement with USAID is scheduled to conclude in December of 1998.

Beginning in fiscal year 1998, USAID plans to compete a follow-on partnership program, the specific parameters of which have yet to be determined. However, such a partnership as proposed by the American College of Physicians may be considered during any future solicitations for follow-on partnership programs. All future partnerships are contingent on the availability of future funds.

AGRICULTURE

Question. Mr. Dine, let me read you a quote from a recent "L.A. Times" article about the current state of agriculture in Russia: "Agriculture reform's most visible result has been to create a new underclass of rural poor, tied to the land because they have no money to leave, with little more hope of freedom or well-being than their serf ancestors had more than a century ago."

I hear that USAID is pretty much out of the agriculture business. Grain harvests in Russia are steadily shrinking. Have we neglected an important part of the Russian economy?

Answer. It is true that USAID support for the Russian agriculture sector has been limited. Because of the magnitude of the economic problems and the fact that this sector has been one of the least reform-minded, USAID (as well as some other donors) felt that in helping to create a market economy, agriculture was not the place to begin. Instead, we concentrated on promoting systemic changes such as tax and legal reform and development of capital markets (which would also benefit agriculture), and in other areas where opportunities for short term success were greater. In the past 3 years, with USAID/Russia's increasingly severe budget constraints and little progress in agrarian policy reform, we continued to give relatively low priority to agriculture.

Nevertheless, USAID's Russia program has undertaken some significant activities in farm reorganization and post restructuring support. Over 400 new, smaller, more efficient, privately owned agricultural enterprises were created from 64 reorganized farms in 15 oblasts. An institutional capacity was also established for Russians to expand farm reorganization in these oblasts and to new regions. Through the Market-Oriented Farm Support Activity (MOFSA), we are developing replicable pilot models for agribusiness, credit, and social services. Recognizing the success of the farm reorganization activity, the Russian government requested USAID to extend the program; however, because of budget restrictions we were unable to do so. Similarly, MOFSA, while designed to be implemented in four oblasts, was cut back to two.

With reformers now back at the helm of the federal government, personnel changes in the Ministry of Agriculture, and a number of regional governments taking progressive approaches to agrarian reform, we hope to begin a dialogue with Russian federal and regional authorities on a range of agricultural reform initiatives.

CENTER FOR CITIZEN INITIATIVES

Question. I know you are familiar with the Center for Citizen Initiatives, and its efforts to develop a sustainable agriculture extension program in Russia.

USAID has supported this in the past, and I understand you are going to find some money for them this year. I want you to know that I support this. Environmentally safe agriculture makes as much sense in Russia as it does anywhere else. If we can help them promote these techniques—if there are people there who want to learn, we should help them. Would you like to comment?

Answer. In all of USAID's agricultural projects, we are concerned with promoting environmentally safe and sustainable agriculture. We agree that CCI's work in this field has been useful. We are now carefully considering CCI's proposed new activities. Development of a full-scale agricultural extension system is a long term and ambitious undertaking, which the current Russia budget will not allow. We are encouraging CCI to focus on providing extension-type information that will give privatized farms access to technology and help them to better manage their resources, thus enabling them to compete in a market economy.

QUESTIONS SUBMITTED BY SENATOR BENNETT

TITLE VIII FUNDING

Question. The complex post-Soviet transition requires the United States to continue maintaining the domestic intellectual resources that have helped shape our policy. At present, the only program currently devoted to this objective is the program on research and training on Eastern Europe and the Independent States of the former Soviet Union (Title VIII). Do you support the continuation of the Title VIII program? If so, how do you propose to best ensure the integrity of this important program?

Answer. We share your confidence that the Title VIII program has historically produced significant research on the countries of Central and Eastern Europe and the NIS. We continue to support the Title VIII program. The budget for Title VIII will be $4.2 million for fiscal year 1997, with $900,000 from the SEED budget (for Central and Eastern Europe) and $3.3 million from FREEDOM Support Act funds (for the NIS).

Congress enacted Title VIII to promote the U.S. national interest by funding important research that otherwise was not financed by private and academic sources. We are happy to see that Central and Eastern Europe is increasingly the subject of privately funded American research. For example, institutions which did not exist when Title VIII was conceived, such as the Central European University, the American University in Bulgaria, and the Soros Foundation, are now promoting long-term research by American scholars in this critical region.

Congress urged funding of Title VIII in the SEED and FREEDOM Support Act budgets. While we understand why this was done, it is a very tenuous arrangement. The non-Bosnia funding under the SEED Act continues to decline. Further, we expect SEED, as a temporary program, to be greatly reduced by the year 2000. We have recently announced the "graduation" of five more Central European states from SEED over the next three years. As a result, we have had to apply cuts to the Title VIII program along with the rest of the SEED program. To preserve the long-term integrity of Title VIII, a more durable funding vehicle than SEED must be found.

At the request of the State Department's Bureau for Intelligence and Research (INR), we have agreed to seek fiscal year 1998 funds for Title VIII within the combined resources of the SEED Act and FREEDOM Support Act accounts. Traditionally, funding for Title VIII has come from the INR Bureau's budget. We look forward to working with Congress to find a better lasting funding arrangement than the SEED Act and FREEDOM Support Act accounts.

RUSSIAN DEMONOPOLIZATION

Question. A recent Russian Government initiative has been a prominent anti-monopoly drive designed-ostensibly-to break apart the communist era monopolies that inhibit further economic reform.

Yet the major monopolies-such as Gazprom and the Unified Electrical System-are to remain under government control. And the Russian government is now moving to create a state monopoly in the telecommunications industry.

First Deputy Prime Minister Boris Nemtsov has even stated that "the richer Gazprom is the richer Russia is."

Are any U.S. assistance funds being provided to what amounts to a Russian policy of claiming demonopolization, while at the same time strengthening them?

Answer. U.S. foreign assistance funds have, in fact, been deployed to assist the Government of the Russian Federation (GOR) in formulating recent reform initiatives related to natural monopolies, i.e., those sectors such as utilities where the magnitude of infrastructural investments make more than one provider inefficient or impractical). U.S. foreign assistance is also being used to strengthen regulatory commissions whose purpose is to foster competition and prevent monopolistic entities from exploiting their market position. The combined assistance in these two areas has been approximately $4 million since 1994. However, it should be clear that U.S. assistance is not returning Russia to Communist era monopolies, but rather supporting a series of structural reforms and improved Western-style regulatory actions.

The Russian Government's commitment to the reform process was demonstrated on April 28, 1997, when President Boris Yeltsin signed Decree No. 426 approving a concept of structural reforms in the natural monopolies and a three year plan to improve the system of regulation of the natural monopolies, including price regulation, deregulation of activities that are not "natural monopolies," and promotion of competitive markets for natural monopoly products and services. These reforms are

to include the privatization of certain areas controlled by monopolistic entities, such as Gazprom and the Unified Electrical System Rossii (UES Rossii).

Presidential Decree No. 426 specifically calls for Gazprom to be demonopolized to the extent that exploration, development and production functions-which are not, in reality, natural monopolies-will be opened up to other competitors. In addition, regulatory steps will be taken to ensure that these competitors will have non-discriminatory open access to the pipeline network and reasonable transportation tariffs.

The Decree also calls for UES Rossii restructuring from a monolithic entity, to separate entities in the fields of power generating supply, power transmission, the operation of the national wholesale energy market, and local distribution of power.

The GOR exercises the regulatory control necessary to ensure competitive and economic pricing and fair access to transportation services; however, it does not control the 75 percent of stock required under Russian law to effect the reorganization of the two companies advocated in Decree No. 426. In fact foreign investors own large blocks of UES Rossii stock. It is hoped that the restructuring proposed under Decree No. 426 as well as the influence of foreign investors will result in enterprises that are well-managed, appropriately regulated, and prosperous.

A comprehensive reform of the telecommunications industry is also addressed in Presidential Decree No. 426. Although the GOR does plan to combine the monopoly in local service with the monopoly in long-distance, this is, in fact, an effort to package the telecommunications entities so that large parts of them can be privatized. The GOR has stated that the sale of 49 percent of the combined monopoly is imminent, subject to signature of the Presidential Decree. Plans for the sale are virtually complete. Provided the sale goes forward as planned and the new Federal Communications Regulatory Commission is formed-which will be due in large measure to U.S. assistance-the reform of the telecommunications industry will, in fact, be significantly advanced. In addition, expanding cellular telephone networks are already creating substantial competition within the telecom industry which serves to mitigate monopolistic tendencies.

PROPERTY RIGHTS OR FREEDOM OF SPEECH

Question. The development of property rights and the creation of a free and independent press are key objectives of American assistance policy in the NIS.

Yet these two fundamentals of a democratic society are now in conflict as Lukoil, Russia's largest oil company, has attempted to censor Izvestiya, a leading pro-reform newspaper. Piotr Nayev, a Lukoil spokesman, summed up the conflict by concluding that "property rights are [more] important and freedom of speech * * * must be in second place."

What provisions has the administration made to handle America [sic] policy in the event of conflict between fundamental assistance priorities? Will it support property rights or freedom of speech?

Answer. USAID does not envision a fundamental "trade-off" between property rights and freedom of speech issues. Property rights—so long as governed by rule of law and accepted anti-monopoly limitations (which have not yet taken hold in Russia)—should, in principle, go hand in hand with freedom of the press. The development of diversified capital markets, as free as possible from corruption or from state domination, would maximize the range of lending and investment sources available to the mass media, enabling the free development of a broadly pluralistic range of media outlets. In principle, property rights as well as freedom of speech constitute mutually-supporting components in democracy and in democratic media systems.

USAID supports the freedoms of speech and press through many programs, including the RAPIC-supported Standing Commission on Freedom of Information, the Glasnost Defense Foundation, and the Media Law and Policy Center. These and other USAID programs promote legal progress toward a regulatory environment that is conducive to the continued development of a free press.

USAID's Media Development Program (MDP) and Media Viability Fund (MVF) are working to expand the range of lending and investment sources available to the independent media. These programs, in addition to the LUKOILs of the world, will provide independent media outlets with many additional sources of capital infusion.

In terms of property rights, USAID has provided technical support for privatization, legal drafting, and improved regulation of natural monopolies in the public interest, including in the telecommunications area. A broadened range of legally recognized property rights, with careful limitations placed upon monopolistic tendencies, will serve to provide important preconditions for a more pluralistic range of ownership in the media sector as well.

SUBCOMMITTEE RECESS

Senator MCCONNELL. The subcommittee will stand in recess until 2 p.m., Tuesday, May 20, when we will receive testimony from the Secretary of the Treasury, Hon. Robert E. Rubin.

[Whereupon, at 4:05 p.m., Tuesday, May 6, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, May 20.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

TUESDAY, MAY 20, 1997

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:41 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Bennett, and Leahy.

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY OF THE TREASURY

ACCOMPANIED BY DAVID LIPTON, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

OPENING STATEMENT OF SENATOR MC CONNELL

Senator MCCONNELL. The hearing will come to order.

Secretary Rubin, we apologize for being a few moments late; we had a vote. And that always comes first.

Mr. Secretary, there is good news and bad news. The good news is the Budget Committee resolution, as it currently stands, essentially protects the President's request level for the 150 account. It also specifically allows for adjustments in the discretionary caps if we decide to appropriate funds to cover U.S. arrears, the most notable being $234 million for the International Development Association.

The bad news is I believe Congress will be reluctant to fulfill the new pledge of $800 million to IDA 11 and provide the $234 million to complete the IDA 10 pledge unless there is an immediate positive decision, allowing United States procurement access to money segregated by donors in the interim trust fund.

Let me provide my understanding of where I think we stand. Last year, IDA donors expressed their frustration with U.S. arrears by establishing a separate account, allegedly as a bridge to cover fiscal year 1997 project funding shortfalls. Although our obligation at the time was $934 million, the ITF set aside $3.3 billion, which only companies from ITF donors could bid on. At the same time, the subcommittee strongly recommended the United States withhold all fiscal year 1997 funds unless this idea was abandoned. Our views reflected the longstanding fact that the U.S. share of pro-

curement has consistently been less than our share as the single largest IDA donor. So a decision to link procurement with contributions was inconsistent, ill-advised and, for that matter, just plain unfair.

Nonetheless, the administration voted to approve that arrangement. It should not have come as a surprise when the Congress decided to withhold funds until March 1997, when you were to report on efforts to dismantle the ITF and open up procurement. That report was a helpful review of the administration's efforts to overcome considerable legal, political and practical obstacles presented by the ITF. Not the least of the problems was the fact that by the time a key deputies meeting was held in February, nearly two-thirds of the ITF resources has been obligated for projects, leaving a balance of roughly $1 billion.

After intensive negotiations, I understand you now have a tentative agreement which potentially will make the balance available for U.S. competition. The exact status of a decision on this balance will have a clear impact on our recommendation in the coming weeks regarding your fiscal 1998 request, as well as clearing up the arrears. And we are obviously hopeful you can make a report on that today.

Let me turn for a moment to some specific concerns about the management of the World Bank and IDA. I want to commend Mr. Wolfensohn for his declared intent to increase the development impact of lending as he improves cost effectiveness and services. His agenda has been well outlined in a recently released report, known as the strategic compact. I hope this is not one more study in a long line of studies which have failed to produce real progress.

Some 5 years ago, the Bank's portfolio management task force report identified serious performance problems related to project structure as well as the policy and practical impediments to development posed by borrowing nations. While the Bank continues to attempt to address past task force recommendations, and no doubt will respond to Mr. Wolfensohn's new challenges, there are ongoing systemic concerns. The Bank has been slow to effectively implement, coordinate and make improvements in the country assistance strategies which link new lending with ongoing assessments of performance.

The consequence of not enforcing benchmarks is evident in the Bank's internal assessment that the percentage of problem projects has not declined since 1992. Their documents reflect the fact that of the 737 projects funded between 1985 and 1993, 32 percent of World Bank and 41 percent of IDA projects were rated unsatisfactory. Reviewed by region, the numbers tell another important story. In the Pacific, 81 percent of projects received a satisfactory rating, but in Africa—the target of one-third of IDA loans—only one-half the projects were considered satisfactory.

Let me just note that these projects are not exactly failing a particularly tough test. The standards for meeting the satisfactory test are not only lenient, the evaluations are largely administered by the loan managers, consulting from headquarters with the borrower. Rigorous independent field audits are not currently conducted, but I think they must be considered to establish integrity and credibility in the evaluation process.

Obviously concerns such as these are what prompted Mr. Wolfensohn's review. However, I am dubious about the congressional support, given the strategic compact's solutions will cost $100 million to $150 million a year, largely to get rid of so-called redundant staff, while at the same time, Bank officials are enjoying the luxury of a new gold-leaf executive dining room, which Newsweek reported cost $25 a square foot.

Mr. Secretary, I raise these issues because I respect how hard you have worked to restore congressional confidence in the multilateral banks. In light of these observations, it may seem a thankless task on your part, but let me assure you it is because I believe these institutions are vital to leveraging resources to serve development interests that we intend to work with you to try to improve them.

Let me now turn to my good friend and colleague, the ranking member, Senator Leahy.

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Thank you very much, Mr. Chairman.

Mr. Secretary, I want to commend you and the Treasury Department for what you have done over the past couple of years in negotiating replenishments for the international financial institutions. It probably reflects some of your skills from Wall Street or some magic or something, but you were able to reduce the amounts of U.S. contributions at a time when are not even able to pay our past debts.

I suspect it also reflects that some of the other donors can and should pay more. Our pledge to IDA has dropped from $1.25 billion to $800 million. I am sitting here with the chairman trying to figure out where we get the $800 million, but it is a lot better than $1.25 billion.

We have seen similar reductions at the other banks. You have also negotiated some important reforms. The African Development Fund is an example. The institution has squandered hundreds of millions of dollars, and it is now headed in the right direction. I do not know if we are going to be able to come up with the $50 million pledge, but I want to applaud you because you pushed for changes that were long overdue.

These institutions are extremely important to the United States. They are extremely important to their client countries. In many ways, they are also the bane of our existence. They have far more than their share of arrogant, overpaid staff. They strike me, at least, as not having the time of day for anyone unless it is a government official. I can get through easily if it is Senator Leahy calling. If it is somebody else who they don't know, it is a different story.

They pay attention to a government official. They prefer one, I think, that is equally disinterested in the views of the very people who are most likely to be affected by their decisions.

I suppose a lot of bureaucracies act like that, but it is amazing. I cannot think of very many that could rival the arrogance of some of the bureaucracts at IMF and World Bank. They treat representatives of the nongovernmental community like pests to be pacified, grudgingly—it's an old boys network.

Now, having said that, I know exceptions, like Jim Wolfensohn. I think he is the right man for the job. Nobody else has been able to get control of the place. And his strategic compact, if it gains broad support within the institution, could make a real difference. But if I cannot get, or my staff cannot get, the Bank's or the IMF's attention on even the little tiny issues, I hate to think what other people have to go through.

The people who the long-time bureaucracy ought to emulate are the people who are most respected, like Mr. Wolfensohn. He is capable of understanding. He is accessible. He does understand what is needed. And I wish some of those below him would. It makes me wonder if we should sit things out for a year to see if they might change their attitude, or maybe somehow we might end up with a new crop of middle managers who do not act like they own the place.

I guess they know we are not going to walk away for a year. They figure that presidents of the Bank will come and go, Members of Congress come and go, Secretaries of the Treasury will come and go. Certainly even some of the countries they are supposed to help, unfortunately, come and go. But, by God, they and their perks stay on.

And I do not fault you, obviously. You have done more to try to improve this than anybody I know. But I have stood up for these institutions in the past, notwithstanding some of the arrogant indifference of some people down there. I have done it because I thought that our national interest and world interest demanded that. But I am finding it more and more difficult to defend, especially as more and more people come to me with examples that, if it was my staff doing that, they would be fired on the spot.

I mention that for whatever it is worth. But again, I want to compliment you for what you have done. And if I could say anything at all, it is just keep it up.

Thank you, Mr. Chairman.

Senator MCCONNELL. Let me just say before turning to you, Mr. Secretary, we had a similar problem to the one Senator Leahy was describing with regard to burley tobacco programs in Malawi. The top managers were as responsive as the desk officers were abusive. They actually told my constituents that they were wasting their time. That is a direct quote. It is really an astonishing state of affairs. Nevertheless, Mr. Secretary, please proceed. And we are glad to have you here. [Laughter.]

I bet you are delighted.

SUMMARY STATEMENT OF SECRETARY RUBIN

Secretary RUBIN. Very nice to be here, Senator.

I do not know that I have a very meaningful response, other than to——

Senator MCCONNELL. I am not expecting you to. Go ahead.

Senator LEAHY. We are not. We just want to put this on the record. And not that anybody is going to pay the least bit of attention down there to what we say.

Senator MCCONNELL. Yes; we feel so much better. [Laughter.]

Secretary RUBIN. Well, you transfer your grief, I guess. [Laughter.]

You know it is interesting, though. Having run a large private sector organization for a while, the people at the top in our place I thought were always very responsive. The more junior you got in the organization, the more arrogance seemed to be a problem. So I think it is not a problem unique to the World Bank or the IMF, though it may exist in exacerbated levels there; I do not know.

In any event, let me say, Mr. Chairman, Senator Leahy, that it is a pleasure to be here. And as you both have said, this is a concern that all of us share and all of us recognize the vital importance of these institutions to our national interests. And it is my hope that the spirit of bipartisanship, that has prevailed in recent weeks in regard to the budget agreement and the CWC before that, can be applied to dealing with these very important institutions.

The President has said on a number of occasions that we are truly the indispensable nation, and I can see it as I go to G–7 and other meetings. We are truly the only Nation in the world today who can provide effective leadership on the issues of the global economy. But I think it is also equally clear that if we are going to maintain the ability to do that, we have got to be seen as bearing our fair share of the burdens. And that very much includes full participation in these institutions—in the United Nations and the various international financial institutions—the World Bank, the IMF, and the regional development banks.

The contributions that we make to these institutions and other international programs, as you know, Mr. Chairman, are less than 1 percent of our budget, but they give us enormous leverage. We have calculated, with respect to the multilateral development banks, that our roughly $1.2 billion contribution put us in a position to have enormous, enormous influence over roughly $46 billion of lending. And that is the kind of influence that, it seems to me, is enormously in our Nation's self-interest to maintain.

We have worked forcefully for reforms, as Senator Leahy suggested in his comments—even as we have negotiated major reductions in our budgetary commitments. If you go through this account by account, we have negotiated, on average, a 40-percent reduction in future U.S. obligations to the multilateral development banks. And once we pay our arrears, then on an ongoing basis, we will be at a level of about $1.2 billion.

We have also taken the lead in securing broad-ranging reforms in the international financial institutions with respect to both the multilateral development banks and the IMF. There are programs to reduce overhead. There are programs to become more open, and to do more to prevent corruption—a more recent but I think very important focus of both institutions. And lending has been shifted to provide the underpinnings for the private sector, rather than to try to substitute for what the private sector can otherwise do. There has also been an increased sensitivity with respect to environmental issues.

I have in my written statement a number of examples. I will leave that for the written statement and not repeat them here, other than to mention two. One is, as you mentioned, Jim Wolfensohn's strategic compact at the World Bank, which we think is very responsive to the issues of the World Bank and which we have supported very strongly, while at the same time continuing to

work with Jim Wolfensohn and the World Bank with respect to minimizing the costs associated with the program.

And second is the African Development Bank, which has had serious problems. They have now instituted a sweeping reorganization, including term limits and replacement of 70 percent of its managers.

All this notwithstanding, we are now behind in our payments to the multilateral development banks by $862 million. And though we are by far the world's largest and richest economy, we are the largest debtor in the United Nations. And we account for the great preponderance of the arrears to the multilateral development banks and the global environmental facility.

Our budget request of $1.6 billion for the multilateral development banks includes something over $300 million to partially pay down those arrears. And that is the first payment on a proposed 3-year payment plan, which will then eliminate the arrears altogether. The remainder, of course, would go to meet our annual commitments.

I do not think there is any question, Mr. Chairman, that if one goes to the G–7 meetings and attends meetings at these institutions that we are getting to the position where, if we do not both pay our arrears and participate fully on an ongoing basis, that we very much put at risk our ability to continue to have a quite disproportionate influence on shaping economic policy with respect to the developing countries. We also put at risk achieving various of our foreign policy priorities through the international financial institutions, which have been very active in Bosnia, the former Soviet Union, and Africa as just three examples.

As I said a moment ago, our budget request is based solely and simply on the view that it is in our national self-interest, both in terms of our economy and our national security. As developing nations grow, their markets become larger. And as their markets become larger, we export more to them. And that, of course, increases American jobs and standards of living.

Let me just, if I may, focus on one particular area of the world, because I think it has now become front and center in our thinking, and that is Africa. The IMF's ESAF, IDA debt reduction, and African Development Fund requests are integral to a broader effort on the part of the administration to foster growth in Africa, which is clearly that part of the world that lags furthest behind the global economy.

A growing and dynamic Africa, an Africa with democracy and open markets, economic reform and sustainable development would not only provide higher standards of living to its people, but it would provide new and better markets to the United States. It would deal with environmental problems that affect not only Africa but affect us. And it would contribute to our national security, particularly, hopefully, enabling us to avoid the costs that are involved in dealing with the crises that have developed from time to time in Africa.

We have proposed a bold initiative to foster solid macroeconomic conditions, open trade and other economic reforms to attract private sector capital to Africa, and to promote growth in Africa. And we are working with Congress on a bipartisan basis to do that. The

international financial institutions play a critical role in that effort. The international financial institutions' work in promoting growth in developing nations clearly has benefited American businesses and workers. United States firms exported more than $25 billion worth of goods and services to the 79 very poor countries that are eligible for IDA—or that were eligible—for IDA funds in 1995, and roughly $60 billion to IDA graduates.

The IMF, for its part, has been critical with respect to fostering stability in the global financial markets, preventing crises, and when crises did develop, in dealing with those crises. And that is very much in the interest of all members of the global financial community, very much including ourselves. In effect, they have become the guarantor, of this vastly increased global financial market, with the vastly increased flows of capital that have enormous benefits, but also carry with them risks.

Before I close, let me mention one final issue. Our fiscal year 1998 budget includes a request for $3.5 billion for the U.S. participation in the IMF's new arrangements to borrow. This new line of credit would build on the general arrangements to borrow, and in effect, would provide a larger reserve for the IMF in the event of threatened systemic crisis.

The idea for the NAB really grew out of the Mexican situation, when, looking at that situation, it struck us that, in these vastly enlarged global financial markets, there could come a day when there might be a crisis that could be of such size and such systemic significance that it could not be dealt with adequately with the resources currently available.

We are also reviewing the adequacy of the IMF's normal quota reserves. And if—and I stress if—that review shows that a quota increase is necessary for the IMF to do its job over the medium term, and if we can negotiate a satisfactory arrangement—and that is a second very important if—then we will request an increase in the U.S. quota. Obviously we will continue to consult very closely with Congress on this matter.

In both cases, as you know, the funds that would be used both in the NAB and in the quota, if called upon, would not count as outlays in the budget process, and, therefore, would not increase the deficit.

PREPARED STATEMENT

Mr. Chairman, let me close by saying that the administration stands ready to work with you, with your committee, to maintain the bipartisan commitment to these institutions that has existed for over 50 years, and which I believe enormously serves the economic and national security interests of our country.

Thank you very much. Assistant Secretary Lipton and I would be delighted to respond to any questions you may have.

[The statement follows:]

PREPARED STATEMENT OF SECRETARY ROBERT E. RUBIN

Mr. Chairman, it is a pleasure to testify today on the President's fiscal year 1998 budget request for foreign operations. Over the last few weeks, we have seen how much we can accomplish when we act together in a bipartisan manner: Congress passed the Chemical Weapons Convention and, of course, we've reached an agreement on a plan to balance the budget. We should now carry that spirit of bipartisan-

ship to other key priorities that are facing the nation and we will be working on issues such as fast track authority and most favored nation status for China in the near future. Today, I would like to discuss one of our most important priorities: the imperative of maintaining U.S. leadership in the global economy by fully funding our share in the international financial institutions.

As President Clinton has said, the United States is the only country that can provide effective leadership in today's world—and it is more important than ever for our own well-being that we do so. However, for us to function as the world's indispensable nation, we must participate fully in the international institutions and the global economy. We must fully commit to our foreign affairs budget, which pays for the United Nations, bilateral assistance programs and the international financial institutions (IFI's)—the World Bank, the International Monetary Fund and the regional development banks. Accounting for less than one percent of the federal budget, these programs provide an enormous return for American taxpayers. Abroad, they help bring peace and stability, foster democracy, build free markets and free trade, and promote sustainable development. At home, that leads to increased exports, high quality American jobs and greater economic and national security.

The Clinton Administration has worked hard with Congress to maintain support for the multilateral development banks (MDB's). We have achieved increases in social sector lending by the MDB's and worked forcefully for continued reforms, even as we have negotiated major reductions of our budgetary commitments. We have, in fact, made significant progress on all fronts. Account by account, we have negotiated, on average, a 40 percent reduction in future U.S. obligations to the MDB's, which, after we pay our arrears, will lower our total annual commitment to $1.2 billion. On the basis of this annual U.S. investment, we are able to strongly influence the $46 billion that the MDB's lend.

The Administration, working with Congress, has taken the lead in securing needed administrative reform in the IFI's. The MDB's and the IMF are reducing overhead, becoming more open, doing more to prevent corruption and promote the private sector, and becoming more sensitive to environmental concerns. They are, in fact, providing us with better value for the money than at any time in their history. To cite a few examples:

—The World Bank, long a target of criticism, has become more open, and has cut its administrative budget 10 percent in real terms over the last two years. The Bank has now embarked on a new reform program, the Strategic Compact, which is very responsive to U.S. reform priorities. We support President Wolfensohn's efforts to reform and we are working closely with him to minimize the costs associated with this program.

—The IMF has also controlled its administrative budget, cutting it by one percent in real terms over the last three fiscal years. It has made substantial advances in transparency and strengthened its capacity to detect financial crises.

—The Inter-American Development Bank has cut its budget by 5 percent in real terms since 1995 and staffing is down 12 percent from its peak in 1988. Yet loans managed by the bank have increased 48 percent since 1991.

—The African Development Bank has instituted a sweeping reorganization including term limits and replacing 70 percent of its managers.

Despite this progress, we are now behind in our payments to the MDB's by $862 million. We are the world's largest and richest economy yet we are the largest debtor to the United Nations, and account for the lion's share of arrears to the MDB's and the Global Environment Fund. Nations around the globe, who look to us for leadership, are seriously questioning our willingness to lead. Our budget request of $1.6 billion for the MDB's includes over $300 million to partially pay down those arrears, the first payment on a proposed three year plan, with the remainder going to meet our annual commitments.

This year is critical. If we do not meet our commitments, we will put at risk our leadership in these institutions and thereby our ability to shape policy with respect to developing countries. This risks affecting foreign policy priorities in places from Bosnia to the former Soviet Union to Africa. Failure to meet our commitments would also undercut our ability to direct ongoing reforms. We cannot lead with other people's money.

We make this budget request purely and simply because it is in our economic and national security interest. The IFI's are important to our interests for two basic reasons. First, they help foster growth in the developing world. That, in turn, promotes global prosperity and stability, which creates new markets for U.S. goods.

The IFI's have been instrumental in the economic renewal of Asia, Latin America, and central and Eastern Europe, helping foster economic reform and democracy which has turned these regions into dynamic emerging markets. The MDB's are also building the essential foundations for growth in the poorest countries by funding

child survival, and improvements in health, education and basic infrastructure. The IMF's Enhanced Structural Adjustment Facility (ESAF) lays the groundwork for the banks' efforts through the macroeconomic and structural conditions attached to ESAF loans.

Last month, I traveled to Vietnam, a very poor country in the midst of transformation from a state run economy to a market economy, struggling to build the infrastructure of a modern economy. I met with the general secretary of the Communist Party, the prime minister and the finance minister. These officials—the leaders in what is still a communist country, a country that fought a war with the United States only 25 years ago—were keenly focused on what constitutes a market economy, how you get there, and how to attract more foreign investment. It is precisely this kind of help in developing a modern market-based economy that the IFI's can provide.

While in Vietnam, I visited a school outside Ho Chi Minh City. I saw how World Bank funds provided for a new school building and textbooks for children. I only wish that every member of Congress could see what our money buys.

The ESAF, IDA, debt reduction and African Development Fund requests are integral to the Administration's effort to foster growth in Africa, an area vastly behind in development. A growing and dynamic Africa—an Africa committed to democracy, economic reform, and sustainable development—will provide higher standards of living for its people and be more stable politically and socially. That, in turn, will present new markets for American businesses, create jobs and increase standards of living in this country. It will also strengthen our national security as stability in any part of the globe contributes to our national security. Hopefully, it will save us the very high costs of responding to crises in Africa. We have proposed a bold initiative to foster solid macroeconomic conditions, open trade and other economic reforms to attract private sector capital and promote growth—and we are working with Congress on a bipartisan basis to enact it. We will need the help of the IFI's to move forward with our initiative.

The IFIs' work in promoting growth in developing nations has clearly benefited U.S. businesses and workers. U.S. firms exported more than $25 billion worth of goods and services to the 79 very poor countries eligible for IDA funds in 1995 and roughly $60 billion worth to IDA graduates. Of course, the MDB's also benefit American businesses and workers directly through the projects they finance. In the past year alone, U.S. firms received over $3.2 billion in direct business from the MDB's.

The IMF is critical to fostering a stable, well-functioning global financial system that facilitates the trade and investment flows necessary to the growth and opening of markets around the world. The IMF serves us very well as the guardian and guarantor of that system, helping to integrate its newest participants and preventing and containing severe financial shocks.

Before I close, let me mention one final issue. Our fiscal year 1998 budget includes a request for $3.5 billion for U.S. participation in the IMF's New Arrangements to Borrow. This new line of credit would build on the General Arrangements to Borrow and provide a larger reserve tank for the IMF to respond to financial shocks that create systemic risk, and do so in a manner that reduces our share of the burden. We are also reviewing the adequacy of the IMF's normal quota resources. If that review shows that a quota increase is necessary for the IMF to do its job over the medium term—and if we are able to negotiate a satisfactory agreement within the IMF—then we will request an increase in the U.S. quota. We will continue to consult closely with Congress as this process develops. Like funds for the NAB, use of these funds would not be scored as outlays, as they are offset by the creation of a counterpart claim on the IMF that is liquid and interest bearing.

Mr. Chairman, there has been a tremendous movement over the past decade toward a global economy. Countless U.S. workers and businesses depend on trade—and a thriving global economy—for their livelihoods. The World Bank, the regional development banks, the IMF, the United Nations and bilateral assistance programs, play vital roles in the global economy by promoting economic growth, democracy, free markets, the rule of law, a stable international monetary system and sustainable development. They advance the interests of the American people.

But our ability to advance those interests will be gravely jeopardized if we do not begin this year to pay what we owe and to fully fund our current commitments. The Administration stands ready to work with you to maintain the bipartisan commitment to these institutions that has existed for fifty years and which gives us the power to guide global economic growth and reform. Thank you very much.

BURMA

Senator MCCONNELL. OK, thank you very much. I am going to ask that your full statement be made a part of the record and lead off with a question about Burma. At the Asian Development Bank meeting in Japan recently, Burma was lobbying for a resumption of funding. And the President of ADB, the Asian Development Bank, Sato, indicated Burma "badly needs economic aid."

What is the current U.S. position on resumption of loans to Burma?

Secretary RUBIN. Well, we are in the process, as you know, of imposing sanctions on Burma, although the content of those sanctions are still under discussion in the administration.

Senator MCCONNELL. On that issue, when do you expect that to be finished and the sanctions to be imposed?

Secretary RUBIN. I am not sure, Mr. Chairman.

Do you know when the work on that will be done?

Mr. LIPTON. It should be in the next day.

Secretary RUBIN. The next day.

Mr. LIPTON. I believe so.

Secretary RUBIN. That is tomorrow.

Mr. LIPTON. On the Executive order? I think it is coming.

Secretary RUBIN. OK. Well, in the relatively near future, then. [Laughter.]

Senator MCCONNELL. But what about the question of ADB loans?

Mr. LIPTON. Well, as far as we know, there are no operations being prepared. I was unaware of the statement of President Sato to which you referred. But it would be our position not to favor—not to vote to support any loans that they might choose to——

Senator MCCONNELL. I am sorry?

Mr. LIPTON. I say, it would be our position to oppose any loans that they might bring to the board. But it is not our—it is our understanding that they have no planned operations in Burma.

Senator MCCONNELL. But if they did, we would oppose it?

Mr. LIPTON. It would be our position that we would oppose those.

Senator MCCONNELL. Good.

You spent some time speaking about IDA. I can see we may get into a chicken and egg problem, where other donors are insisting we fulfill the fiscal year 1998 commitment and clear arrears or they will not release the $1 billion from the ITF, while we insist the funds be released before further appropriations. I just want to make it clear that the blackmail did not work last time and it is not going to work this time.

We have been the largest contributors over the longest time to IDA, and, frankly, demanded very little in return. Without specific action, there may be a serious backlash and there might be little support for funding even here in the Senate. I am just curious, how do we solve this problem?

Secretary RUBIN. It is a good question, Mr. Chairman. As you know, we worked very vigorously. We have sent letters. When I spoke at the World Bank, I referred to it in my remarks. And sometime in the last two or three G–7 finance ministers meetings, I brought it up there. We abstained—we did not vote in favor of this, by the way—we abstained at the meeting.

We are very much opposed to this being done. On the other hand, the view of the other donors was that many of them had—in fact, probably all of them—had worse deficit problems than we did, and they were contributing and we were not. And they had parliamentary problems of their own. And so they said that the only way they could warrant or justify this with their parliaments was to say that if we did not participate, then we would not have procurement opportunities.

We opposed that, we strongly opposed it, but it succeeded nonetheless. We did manage to get this billion dollars put aside. And I think you are right, we are in a bit of a chicken and egg situation. We have exerted every bit of energy and resource that we can think of to get this thing reversed now for the very reason you just said—so that it would not create a burden in terms of our working with Congress. And thus far at least, we have not been successful, although we will continue to try. But I do not know how we get it unraveled at this point, Mr. Chairman.

But I must say, we are totally opposed to what they did. I think it was a mistake. I think it was foolish. I think it has interfered with their ability to get funding. And it was a very unwise thing to do. But from their perspective, they have said that they have worse deficits than we do. We have been for some years now, the most successful major industrial country in the world economically, and yet we are the one country that is not willing to contribute. So they felt, from that point of view, this was the position they needed to take with their parliaments.

Senator MCCONNELL. Obviously we have a continuing dilemma.

Secretary RUBIN. We have a continuing dilemma that we will do our best to unravel, but I cannot promise you that we are going to be successful—although it is not for lack of trying.

Senator MCCONNELL. In the justification materials for IDA, your Department stated, "IDA increasingly conditions its lending on implementation of specific economic reform programs, rewarding those who reform and denying loans to those who do not."

I am curious as to whether or not you could give me some examples of nonreformers who have been denied loans.

Mr. LIPTON. Well, first, to make a summary statement, if you look at the IDA-eligible countries, the top—if you look at the best performances, the top 50 percent, they have been receiving 84 percent of the funds from IDA. So that is a measuring, of course, in terms of the results of their reforms, but I think it shows that the World Bank has attempted to channel the funds, in general, to those that are embarking on reforms.

I think, clearly, there are examples—and I can get you a list of examples—from Africa, where countries that are not embarking on reform are not receiving support. And there are also a number of countries where there is a prospect for reform. The World Bank negotiates a structural adjustment or a sectoral adjustment loan, but withholds the go-ahead for funding until the reforms that have been promised have been carried out.

And to give an example there, in Haiti, a country that is very important to us, the World Bank has negotiated a loan last year, but it is awaiting further reform steps by the Haitian Government in order to begin the disbursement.

Senator MCCONNELL. Well, I would like the list of all the non-reformers who have been denied loans.

[The information follows:]

INFORMATION ON IDA SELECTIVITY BASED ON ECONOMIC REFORM

Countries with the best policy performance received much higher IDA funding per capita over the last 3 years than countries with below-average policy performance. IDA-eligible countries who received the top rating in terms of their progress on economic reform received $13.4 per capita in IDA loans over the 1994–96 period. Those with the lowest rating received $1.1 per capita. Overall, 84 percent of IDA lending over this period went to countries rated average or better.

Countries with very poor policy performance do not receive any funding from IDA. For instance, there has been no lending to Myanmar, Nigeria, Sudan or Zaire for a number of years. Other countries where poor policy performance has resulted in minimal levels of lending include Angola and the Central African Republic.

IDA's objective is to concentrate its efforts in the poorest countries and in countries with the social and economic policies more conducive to development. Bolivia, Cote d'Ivoire, Mauritania and Vietnam are among the IDA-eligible countries with better policy performance and are also among the highest recipients of IDA lending.

At the same level of income, the better the country's policies the larger the lending program IDA is prepared to undertake. For instance:

—Mali and Niger have per capita GNPs in the $200–250 range but Mali's superior policies are reflected in recent annual lending averaging $9 per capita compared to $5 per capita for Niger;

—IDA lending to Laos averages $9 per capita per year, while Cambodia's weaker policy performance results in lending of only $6 per capita there;

—Malawi's policies have allowed IDA to lend an annual average of $12 per capita to this very poor country (GNP per capita equal $160), while even poorer Tanzania (GNP per capita equal $130) received less than $4 per capita because of its much weaker policy performance; and

—Senegal and Guinea both have GNP per capita in the $500–600 range but Senegal's policy performance warranted annual IDA lending of $12 per capita while Guinea's performance led IDA to limit lending to about $7 per capita.

WORLD BANK

Senator MCCONNELL. The World Bank reports that 81 percent of the projects in Asia are in satisfactory shape—I think I mentioned this in my opening statement—compared with a 51-percent approval rating for African projects. Given this disparity, why are we only making a down payment, roughly, of $50 million out of $237 million on the Asian Development Fund's arrearage, while clearing all of IDA's, where more than a third of the lending is to Africa?

Secretary RUBIN. Let me take the first shot at that and then let me ask David to participate.

I guess it would be my view, Mr. Chairman, that IDA is really dealing with the most difficult problems that we face right now in the developing world, and particularly in the case of Africa. And I think that that is where the largest amounts of money exist. That is where our influence can have the largest effect on the developing world. And I think it is where our credibility is most at stake if we do not pay back our arrears.

So I think that clearly in IDA, which is the flagship multilateral development bank, and also the one that is in many ways dealing with the most serious issues that we need to face, we need to get ourselves back where we need to be. That would be my sort of overall, if you will, strategic——

Senator MCCONNELL. But in this particular situation, is not saying the poorer your performance, the more we will award you?

Secretary RUBIN. I do not think so, because I think you are dealing—and I will let David answer, because he can probably give you, in many ways, a more specific answer than I can—but I think that you are dealing with much more difficult circumstances in many cases when you look at the full range of the IDA portfolio than when you look at it from the point of the Asian Development Bank.

David.

Mr. LIPTON. I think that we are concerned about the problem that you mention, the performance of projects and loans. We have tried to approach getting improvements in the banks by negotiating replenishments that we think suit the needs of the Bank, and trying to see that the lending is kept within the bounds of the resources available. We would like to see the arrears paid down to all the institutions.

I think the reason we have focused on IDA first is, as Secretary Rubin mentioned, because it is the flagship bank and because of the very great attention that other donors have brought to bear on the arrears that we have had there for some time period.

Secretary RUBIN. You know, it just occurs to me, too, I was at lunch a few weeks ago over at the World Bank, and Jim Wolfensohn was talking with the representatives of the Board about the focus that he intends as he goes forward. He intends to have a heightened focus on the quality of the loan portfolio.

And I think, you might be influenced by where you think they are going. Basically I think it is a strategic judgment of which institution should priority—of the importance of IDA and the importance of our making up our arrears, and of what they do with the breadth of countries they deal with, including, as I say, a lot of the most difficult problems in the developing world.

Senator MCCONNELL. Well, I look forward to getting the list of nonreformers who have been denied loans. My general reaction is that we have a different standard at work here. I think I hear you admitting that we have a different standard here, because of the problems.

Secretary RUBIN. You know, I am not sure it is not necessarily a different standard as much as it is that if you are going to deal with more difficult countries, I think you are going to wind up with lower success rates.

Mr. LIPTON. Yes; surely the problems in Asia in World Bank loans were greater when the Asian countries were not doing as well. And I think that their performance is surely improved in part because of the work that they have gone through with the World Bank, and now the performance numbers at the Asian Development Bank, in some measure, reflect that.

Secretary RUBIN. Just, if I may, make one other comment. I think it was last year that we did not fund the African Development Bank, was it not, because we really had lost confidence in the top management.

Mr. LIPTON. It was 2 years ago.

Secretary RUBIN. It was 2 years ago. If you felt at the World Bank you had a real lack of confidence in top management, then I think, Mr. Chairman, all of what I said notwithstanding, it seems to me that you might take the position that we are going to withhold funding or reduce it or one thing or another. But just exactly

the opposite is the case—we have a president who we really have enormous confidence in, although I think he has got a very difficult job ahead of him.

Senator MCCONNELL. Well, speaking of Asia, why is IDA in China at all? I mean China is still getting IDA loans. Given the huge influx of private capital, why have not we graduated China from this kind of concessional lending?

Secretary RUBIN. David.

Mr. LIPTON. We have negotiated with other IDA donors that, following the next replenishment, the IDA 11 replenishment, China will be graduated. At present, we vote against all loans to China, all World Bank loans to China, besides those that satisfy basic human needs requirements, as a part of our China policy. We have a very great sympathy with the idea of graduation. And we have also been urging, I think with success, that the amount of funds that China will receive during IDA 11 is diminished, and that then they are graduated thereafter.

Senator MCCONNELL. OK, I am going to stop my first round.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

I notice the budget agreement calls for $19 billion for international affairs, which is good; an additional $415 million for U.N. and MDB arrears, but only if the Congress appropriates this additional money. Why this kind of arrangement?

Secretary RUBIN. You mean the arrearages money?

Senator LEAHY. Yes.

Secretary RUBIN. Well my understanding——

Senator LEAHY. Why not just put it in the budget right to begin with?

Secretary RUBIN. Yes; my understanding was that that was a function of some different views and degrees of enthusiasm amongst some of the participants. Your chairman is shaking his head, probably with respect to doing this. And so that was the technique that was developed. Is that a fair characterization?

Senator MCCONNELL. I think that is a fair characterization.

Senator LEAHY. Well, unfortunately, a lot of the Members of Congress have been able to contain their own enthusiasm for these arrearage payments. And this probably will not kindle—this arrangement probably will not kindle enthusiasm. But we will see what happens.

Secretary RUBIN. Well, it may not have been optimal, but it may have been the art of the deal.

Senator LEAHY. I understand. So you are telling me what I suspected.

The MDB's do not really talk to many local people about what they are going to do on their loan decisions—at least I get that impression. It is sort of like an Olympian—we know better than all of you folks, so we will just kind of make up our mind in our board rooms and over our lunches and so on.

I know the World Bank conducts environmental impact assessments before approving loans. But would it not make sense for them to go down and actually consult with the local people who are going to be affected, rather than just the Government or just some

very high-level parts of government—especially in some of the countries where there is a lot of corruption at the highest levels?

Mr. LIPTON. Yes; I think that that is correct and I think it is something that we have been pressing the World Bank and the other development banks to do. I think it is something that Jim Wolfensohn has focussed on right now. An important part—perhaps the most important part of his strategic compact—involves moving to the field people with the responsibility to make decisions about the World Bank's lending operations, and having what they call greater front-line contact, in part, to increase the interactions that their staff have with people, not just the Government, but people who are affected by the operations that they undertake.

Senator LEAHY. Well, we also see this with the IMF. I mean the IMF has all this confidentiality, which strikes me as, you know, confidentiality is cover your ass kind of confidentiality. That is a parliamentary expression. [Laughter.]

It is from an old Jefferson manual that is rarely used today. Mr. Lipton does not know quite what to do with that.

Mr. LIPTON. No; I appreciate the expression. [Laughter.]

Senator LEAHY. It is not unknown in the hallowed halls of the Treasury?

Mr. LIPTON. No; I have heard that. I have heard that expression. [Laughter.]

Again, we have urged the IMF to publish its board papers. We have now gotten to a point where they publish the so-called recent economic developments papers. There are other member governments who probably allegedly heard that expression and do not want the so-called confidential assessments that the staff make of their economic policies to be published unexpurgated.

Senator LEAHY. And I understand that. But it is also you can kind of spin it out too far.

Mr. LIPTON. Oh, no; I agree.

Senator LEAHY. It is like for years the Department of Defense, the CIA, and everybody else in our own Government, everything was classified. Well, everything was classified because a lot of mistakes get covered up that way. Those who resist the Freedom of Information Act in our country, it is so often because it covers mistakes.

And I realize you do not want to start looking for an assessment on a loan and topple a government doing it because of too much candor, but what I am concerned about, and I think it underscores my point, is that many times that is not the reason. Many times it is that a lot of these things just go belly up and nobody wants to ever have to take responsibility for it.

Mr. LIPTON. I think that is part of it. And I think that the point you made in your opening remarks about culture is an important part of it. I think that there has been a culture of closed, confidential operations at the IMF in particular, but also at the World Bank, for a long time. And I think, especially at the World Bank, Wolfensohn is trying to address that.

And at the Fund, we continue to press for further disclosure of reports. There is now going to be so-called press information notices that summarize, somewhat expurgated, the conclusions that

the IMF has made about a country's policies. We will continue to press to have candid assessments of the staff made public.

Secretary RUBIN. David, is not there also a new information disclosure—well, these new disclosure requirements that started about 6 months ago or something like that?

Mr. LIPTON. Yes; that is different. That is to get countries to reveal the data in a very transparent way, the data that describe economic developments in their countries.

Senator LEAHY. I am looking at a couple of the different things in the budget—the Middle East Development Bank, the North American Development Bank. You propose to fund the Middle East Bank with economic support funds rather than multilateral assistance. I suspect we are going to have precious few economic support funds, or ESF, to play around with, to say nothing about putting it in something like the Middle East Bank. And then we are already giving one-half our foreign aid to the Middle East. And we have got to rob this from somewhere else if we are going to put it there.

Then you look at the North American Bank, which is on our border, there is pollution, a need for water treatment, waste disposal and all, that affects an awful lot of Americans very directly. If we have to choose between the Middle East Development Bank or the North American Development Bank, which one do we go with?

Secretary RUBIN. We would recommend you do both. [Laughter.]

Senator LEAHY. There are going to have to be choices. Do we go with U.S. interests along our border? Or do we say that we are already spending billions of dollars in the Middle East and maybe somebody else ought to help out?

Secretary RUBIN. Well, could I take one shot at that? Senator, if you take a look at the budget, at least as we have submitted it, all of this would fit within the budget that was part of the budget agreement. So I do not think you would actually be forced to make that choice unless——

Senator LEAHY. Well, if we take ESF funds, I mean we are going to take them from somewhere. There is not enough money to do some of the things we are now doing.

Secretary RUBIN. For the Middle East Development Bank you are talking about?

Senator LEAHY. Yes.

Secretary RUBIN. Yes, David?

Mr. LIPTON. Yes; I mean——

Secretary RUBIN. But that would not be a choice between that and the NAD Bank, I do not think.

Senator LEAHY. No; I know. But I am just saying that I do not think everything can be funded. That is what I am saying.

Secretary RUBIN. The use of the ESF funds, that is another question. David?

Mr. LIPTON. The Middle East Bank funding request is in the ESF mainly because it is understood that the success of that bank will come along with progress in the peace process. That is one where there would be multilateralization of our contribution. We hope still to entice other countries who have not yet joined that effort to do so.

The North American Bank is very important to us.

Senator LEAHY. Which is more important?

Mr. LIPTON. I think that is a very hard question to answer.

Senator LEAHY. Well, I know it is a hard question. That is why I am asking you.

Mr. LIPTON. OK, I would say that the—in terms of the time priorities, I think it is unlikely that the Middle East Bank will be up and running until the peace process makes further strides and there is a greater coming together among the parties in the region about working together in such a cooperative way. So in terms of time priorities, I think that the North American Bank is now beginning to operate and will need these funds and is a very high priority.

Secretary RUBIN. But I guess I still do not quite understand why you frame the choice that way. And I do not profess——

Senator LEAHY. Well, because I think, Mr. Secretary, I am looking at this budget, and somehow everything that the administration wants is funded in here, but there are other things that the Congress wants that are different from the administration that are not funded if we fund all of the administration's priorities. So we are going to be making some choices. And I realize one is ESF and one is not.

Secretary RUBIN. That is what I meant.

Senator LEAHY. But at some point we have got to make choices. Do we really break arms and knuckles and all to fund one or fund the other? And if it is a question of which is more important to U.S. interests, which of the two?

Secretary RUBIN. The only reason I made my comment—I know there are a lot of people who felt the NAD Bank was sort of a concomitant part of NAFTA, to deal both with problems in communities with trade displacement problems as well as environmental problems, and that is listed in our list of multilateral development banks and the like, whereas the Middle East Development Bank was moved over to the ESF—was this year the first time?

Mr. LIPTON. This year.

Secretary RUBIN. Yes; this year for the first time. So I would have thought maybe—maybe this is wrong—but I would have thought maybe the choice with respect to the Middle East Development Bank was versus other items in that ESF account. That is all I meant.

Senator LEAHY. I would note just a couple of points in here, Mr. Chairman—that while our law says that the administration should oppose loans to countries that give sanctuary to war criminals, about 1 week ago Senator Lautenberg and I sent a letter to the Secretary urging a delay of a vote on a World Bank loan to the Government of Croatia for its failure to live up to its commitment to arrest and turn over war criminals.

And I understand from a letter just received from Secretary Rubin that they had to support the loan because the State Department said to support the loan. And I understand that. I am not questioning, on a foreign policy issue like this, the ultimate call on something like that should be with the State Department. But a few days ago, I think the State Department was criticizing Croatia for not arresting war criminals. So I think it is an issue that, when Secretary Albright comes here, we should ask about. Because we

either go after them or not. We are going to support the war crimes tribunal or not.

Another thing I should note is that the World Bank is negotiating an agreement with Croatia. And they said they will support demining programs only if the Croatian Government agreed not to lay more land mines in their territory. I wish all the banks, if they are going to give countries money—and I, as you know, strongly supported demining efforts worldwide—they should be able to give you the money, but you should have to agree to stop using mines.

I have other items that I will put into the record, Mr. Chairman. I probably caused enough confusion already this afternoon, or problems.

Secretary RUBIN. No, no; we appreciate the comments, and it gives us good things to focus on.

Senator LEAHY. And everybody else. My phones will be ringing off the hook now. Thank you.

Senator MCCONNELL. Thank you, Senator Leahy.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I appreciate the opportunity of visiting with you in this forum, somewhat different from the one where we usually have contact.

You talk in your formal statement about visiting Vietnam.

Secretary RUBIN. Yes.

Senator BENNETT. And you say, and I quote:

> I visited a school outside Ho Chi Minh City. I saw how World Bank funds provided for a new school building and textbooks for children. I only wish that every Member of Congress could see what our money buys.

I have been to Vietnam and realize, with you, how poor a country that is and how much they need any kind of help they could get. But I would like to now go over the border, up to China, and raise the issue of whether or not the money that the World Bank is putting into China is going for schools and textbooks for children or in fact, since money is fungible, is it going for something else?

Now, it may just be coincidence that World Bank loans for China last year were about $2.5 billion and Chinese purchases of weapons from Russia were about $2.5 billion. But, again, money is fungible, and it could well be that they say, well, we are spending your money on school buildings and textbooks for children, while we are spending our money on weapons from China.

Are you aware that China has been engaged in a very extensive and expensive program of modernizing its strategic rocket forces and purchasing advanced weaponry from Russia?

Secretary RUBIN. Senator, I have a general awareness from discussions that I have been part of that they have been modernizing their military forces. You say, on the one hand, the World Bank—we do not support any loans with respect to China that do not go for what we call basic human needs. On the other hand, you correctly say that money is fungible. And in the final analysis, there is probably no way to really be strictly enforcing with respect to that.

I think it may have been before you came in, but Secretary Lipton mentioned to the chairman that we have been a very strong

supporter of China no longer receiving IDA funds. And they will graduate at the end of this IDA 11.

Senator BENNETT. Yes; I heard that, and I have the figures in front of me. Here is a report: "China and the Multilateral Development Banks," done for the Congress by CRS over at the Library of Congress. Just from this report—and quickly, I will not expect you to get the numbers, but they are in the report and I will just run them down in a hurry—the World Bank gave China $1.5 billion—this is in 1996—$1.5 billion for infrastructure, $400 million for industry, $60 million for agriculture, $10 million more social sectors, $500 million for the environment—and the author of the report makes it clear that the word "environment" is being stretched enormously to cover just about anything—and nothing for economic reform.

But you go down to IDA, they have nothing for infrastructure—$90 million for industry, 100 for agriculture, 220 for social sectors, 50 for the environment, and nothing for economic reform. You begin to put these together—then you go down to the Asian Development Bank, they have got $652 million for infrastructure, 280 for industry, 70 for agriculture, 28 for social sectors, 112 for the environment, and nothing for economic reform.

You have three sources. You end up with $4 billion. And you blend them in these various categories, and each category gets funded fairly well. And they can say, yes, the IDA money is getting cut off, but we are going to pick it up from the Asian Development Bank or from the World Bank. And we are still going to buy weapons from the Russians, trying to build up a nuclear capability and maybe cause problems for their neighbors, and eventually for the United States. I think it is something worth raising and being concerned about.

Secretary RUBIN. When you say pick it up from the World Bank, Senator, I am sorry? Are you talking about the hard dollar window?

Senator BENNETT. Yes.

Secretary RUBIN. Yes; I would imagine—David, I do not know—that if they did not borrow it from the World Bank, giving that it is a hard dollar window, they could probably get comparable money in the private sector, I would think.

Mr. LIPTON. In some cases, I think that is true.

Senator, I think you put your finger on a very important problem of fungibility which applies to China and other countries around the world. The World Bank tries as best it can to overcome the problem by trying to see that its loans, where it is supporting policy reform, are bringing changes that promote sound economic policies—our economic values. And there is some of that in the case of China.

When they do project loans—and there is the issue of fungibility—they try to ensure that they are carrying out projects where there is some additionality, whether it is conveying expertise or in some way, whether it is working on environmental projects, where they can show that the Government would not or might not have done this on its own.

But in the case of China, I think we concur with you that the overall risk of this is too great that China's policies are those that

we do not support. We do not support lending there, and we try to convince other member countries of the World Bank to join us in this effort. We only support loans that are in the area of basic human needs, essentially for this family of reasons.

Senator BENNETT. Thank you. I appreciate hearing that. I am one who supports MFN for China. I think the worst thing we could do in terms of having an impact on China would be to withdraw, so that there would be no American influence there at all in economic terms. And the strongest American influence I think we exercise there is in terms of American companies who are there, who would be forced out if we were to deprive China of MFN. So I am not one who says, in the name of human rights or arms purchases or anything else, we should kill MFN for China.

But I did want to raise the issue of Western money, using the term in a nongeographic sense—an ideological sense—Western money going into China so that they can then use the fungibility of that money to purchase weapons of mass destruction from the Russians and perhaps then import them for additional profits to the Iranians and the North Koreans, and there is some indication they are doing some of that.

Thank you, Mr. Chairman. I have nothing further.

Senator MCCONNELL. Thank you, Senator Bennett.

Just a couple of more, Mr. Secretary.

As a lot of people predicted, the Bank has been pretty slow to achieve any measurable results in Bosnia. One of the explanations has been the requirement that the Bank work directly with the counterpart development agencies, which were of course shattered by the war. I wonder if you could give us an update on the Bank obligations in Bosnia. What have they actually accomplished and where?

Secretary RUBIN. Mr. Chairman, David Lipton has been the lead person in the United States Government on dealing with Bosnia with respect to all economic issues.

Senator MCCONNELL. OK.

Secretary RUBIN. David?

Mr. LIPTON. I think the Bank has played a remarkably constructive role in Bosnia. First, even before the Dayton negotiations, they helped to map out a reconstruction plan for Bosnia. They had relations with the Muslim authorities, the Bosnians, going back into the summer of 1995. They developed a recovery plan that had recovery, over the period to the year 2000, rising to two-thirds of the prewar income. They developed sectoral plans for reconstruction, and they developed a basic policy framework.

They began with the very difficult problem that Bosnia had inherited claims and debts to the World Bank upon the dissolution of Yugoslavia, and worked hard to find an imaginative way to in part get those repaid and in part get those rescheduled. And they began a lending program in the early part of 1996.

They had to be a little unconventional in beginning to support Bosnia before there was an IMF agreement with Bosnia. This support came in essence, before the state institutions had come together. And so what they did was work with the Republic of Bosnia and with the Federation entity—one of the two entities under the Dayton process.

At this point, the Bank has made one very substantial program loan. It is called a TAC loan. It was disbursed late last year. They have a number of project loans that they have prepared. They are awaiting—and I think it makes sense for them to—to await an IMF agreement. The IMF has been negotiating for most of this year with the State Government of Bosnia and the two entities, the Federation and the Republic of Srpska, to try and come together on a set of economic institutions, where the parties will cooperate, and a set of macroeconomic policies that makes sense for Bosnia.

We believe that further large loans from the World Bank should wait until there is this overall cooperation structure and policy structure, but that then the World Bank should resume policy lending in that context.

Senator MCCONNELL. OK. Finally, I want to touch on the European Bank. It is rather impressive that the Bank has committed to self-sufficiency after the current capital increase. I am curious as to how they achieve that result and if we can expect any other bank to accomplish the same results.

Secretary RUBIN. David?

Mr. LIPTON. The European Bank is in a bit of a unique situation in that it supports transition in Eastern Europe and in the former Soviet Union. And I guess we all are hoping that transition will in fact be temporary. The replenishment doubles their capital base from $10 billion to $20 billion, roughly speaking. And they will have the ability to lend or invest out of the reflows from the first installment.

But already the EBRD is beginning to graduate certain of the countries in central Europe, something that we have supported as long as graduation is not a cutoff that is absolute for countries. We believe that many of the countries in central Europe can be graduated from certain kinds of support as the private sector can pick that up, and that the Bank should turn its attention to the southern tier—Bulgaria and Romania—and to the parts of the former Soviet Union that really are now in greater need.

But the approach that leads to declaring that they will not need any further capital is the idea that in another 10 years or so, really, the transition should be, as far as reforms are concerned and creating private sector institutions, the transition should be completed. And then a process of income convergence would continue for some years after that.

Senator MCCONNELL. Since we are the largest shareholder in that Bank, do you find it curious that we are between fourth and sixth in all of the procurement categories?

Mr. LIPTON. Yes; I believe that the last data I saw had us at fifth, with about 8-and-some-odd percent of the procurement, with about a 10-percent share. Typically, our shares for procurement are somewhat less than our shares of contributions, because borrowing countries are able to be in the procurement pool along with contributing countries. It is true that we are behind a couple of the borrowing countries, where there is a lot of local procurement that is allowed. I think we can provide you with a list of those.

[The information follows:]

EBRD PUBLIC SECTOR PROCUREMENT

[Top 10 countries—1991–96]

Country	ECU million[1]	Percent
Germany	204.77	11.3
Italy	183.63	10.1
France	161.13	8.9
United States	124.14	6.9
Russia	116.27	6.4
Hungary	115.37	6.4
United Kingdom	89.41	4.9
Slovenia	89.12	4.9
Poland	79.53	4.4
Finland	57.95	3.2

[1] Exchange rate on December 31, 1996 was 1ECU=$1.24.

Senator MCCONNELL. Anything we can do to improve that?

Mr. LIPTON. Well, I will grant that—I have heard complaints from U.S. companies who say that they feel that they should be doing better. And they suspect that the Bank is not being fair. We have pressed and will continue to press to see that American companies are treated fairly in this process. But I think that it would not really make sense to try to block the regional countries, the borrowing countries, from being involved in the procurement. It is really part of the effort to promote their private sectors, to try and get their private companies—in particular, construction companies—into the process.

Senator MCCONNELL. Senator Bennett, would you like another round?

Senator BENNETT. No, thank you, Mr. Chairman.

Senator MCCONNELL. I think we are essentially through, Mr. Secretary. Thank you very much for coming.

Secretary RUBIN. Mr. Chairman, thank you for having us.

ADDITIONAL COMMITTEE QUESTIONS

Senator MCCONNELL. There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing.]

ADDITIONAL COMMITTEE QUESTIONS

Question. Mr. Secretary, I am concerned about the current number of cases involving expropriated property of American citizens abroad.

Could you provide the subcommittee with a comprehensive list and approximate values of properties expropriated by foreign governments in which claims by American citizens have not been satisfied?

Answer. This information is outside Treasury jurisdiction. I will have to refer this question to other agencies in the U.S. Government.

[CLERK'S NOTE.—The Department of Treasury, or any other U.S. Government agency, was unable to provide an answer to any part of this question as of December 31, 1997.]

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

UPCOMING VOTES ON ASSISTANCE TO COUNTRIES THAT MAY BE HARBORING WAR CRIMINALS

Question. What upcoming votes are there at the World Bank or any other international financial institutions for which you are seeking advice from the State Department with respect to implementing Section 568 of the Foreign Operations Appropriations Act, 1997, concerning sanctions against countries that are harboring war criminals? What countries have you been advised are on the "watch list" because of their lack of cooperations with the war crimes tribunal?

Answer. The State Department has cited concerns about Croatia's implementation of the Dayton accords, including its cooperation with the International Criminal Tribunal for Former Yugoslavia (ICTY). In March, at the State Department's request we instructed the U.S. Executive Director at the IMF to abstain in the vote on the proposed Extended Fund Facility arrangement for Croatia. Indeed we seek guidance from the State Department on all proposed IFI loans for Croatia. Also, we seek guidance from State on all IFI loans to Bosnia-Herzegovina that would benefit the Republika Srpska. Since Serbia-Montenegro is excluded from IFI membership under the "outer wall" of sanctions agreed by the international community, it is not eligible for loans from the IFIs.

Rwanda is also on this list.

Question. I have run up against obstacles in trying to obtain information about votes that are taking place in the IFI's. Can you provide me with a list of all World Bank and IMF votes related to Croatia, Serbia, and Bosnia that are projected to take place between now and the end of 1998, including a description of the projects to be voted on and the projected dates of consideration?

Answer. The following is a tentative list of upcoming projects in the IFI's.

CROATIA

July

World Bank Investment Recovery Project loan to four commercial banks for on lending to private sector and enterprises to be privatized; $30 million.

EBRD equity investment to help establish the first venture capital fund in Croatia, the Croatia Capital Partnership Ltd; co-sponsors include privatized Zagrebacka Banka (with about 24 percent remaining ownership by State funds and State-owned companies, including State-owned companies in the process of privatization) and a group of British private investors; $5 million.

IMF completion of first review under EFF Arrangement; SDR 28.78 million (about $40 million).

MIGA guarantee to Danish investor Brodrene Hartmann A/S for an investment in a privatized Croatian egg-packaging company, Hartmann-Bilokalnik Ambalaza d.o.o.; to be approved on a "no objections" basis, unless 3 EDs request a Board discussion; $6.7 million guarantee.

EBRD loan to the Government-owned National Agricultural Wholesale Market Company for on lending to 6 regional government-owned wholesale market companies; the project aims to improve the efficiency of wholesaling in Croatia's 6 largest cities; $17.9 million.

Late July

EBRD investment in privatization of Slavonska Banka; related to World Bank Investment Recovery Project above; $19 million.

October

EBRD multi-project facility for $50 million of equity investments with the Italian dairy products company, Parmalat SpA, in various countries of eastern Europe and the former Soviet Union; EBRD management would have the authority to decide on investing in these sub-projects, including possibly in Croatia.

End of November

EBRD discussion of its proposed investment Strategy for Croatia.

December

IMF Board's second review under Croatia's EFF Arrangement; SDR 28.78 million (about $40 million) of immediate purchases will be authorized by Board, provided that Croatia has satisfied the end-September 1997 performance criteria. Another $40 million tranche would be authorized automatically in February 1998, if management determines that Croatia has satisfied end-December performance criteria.

EBRD investment to support privatization of Slavonska Banka; related to World Bank Investment Recovery Project above; awaiting Government of Croatia decision; $19 million.

Early 1998

World Bank Municipal Environmental Infrastructure Investment Project loan to reduce environmental pollution by financing assistance to 6 municipalities to improve their wastewater collection, treatment and disposal systems; under preparation; $45 million.

World Bank Municipal Environmental Infrastructure Investment Project loan to reduce environmental pollution by financing assistance to 6 municipalities to improve their wastewater collection, treatment and disposal systems; $41 million.

January through March

EBRD loan to a Croatian food company; at least DM 50 million.

February

IMF EFF tranche of SDR 28.78 million (about $40 million) becomes available without Executive Board review, provided Croatia has satisfied end-December 1997 performance criteria.

February through March

Possible IMF Board discussion of Article IV consultation on economic policies.

March

World Bank Railway Rehabilitation Project loan to rehabilitate the damaged railroad system including reintegrating the areas that had been under rebel Serb control; $100 million.

No tentative date

World Bank Public Sector Adjustment Loan to reduce recurrent public expenditures and improve the fiscal and regulatory framework of public finances; under preparation; $100 million.

World Bank Public Sector Adjustment Loan to reduce recurrent public expenditures and improve the fiscal and regulatory framework of public finances; under preparation; $100 million.

IFC loan and equity investment in partly privatized paper manufacturer, Belisce d.d., for modernization, environmental improvements and refinancing some existing loans; $13.4 million.

BOSNIA-HERZEGOVINA (ALL DATES TENTATIVE AND SUBJECT TO CHANGE)

July

EBRD investment in share capital of private sector bank, Market Banka, based in Sarajevo; Board approved with U.S. support; $1.5 million.

August

IDA Interim Trust Fund credit for Emergency Wood Supply and Forest Management Project to rehabilitate harvesting capacity and support management of forest resources in the Federation and Republika Srpska; $7 million.

IDA credit for Republika Srpska Reconstruction Assistance Project; finance imports of farm machinery and livestock, repairs of public apartment buildings, imports of road maintenance equipment and spare parts, repairs of water supply and sewerage systems, imports of critical parts to restore electric power supply and fiscal support; policy objectives are to reform trade policy, link and reintegrate infrastructure between the entities, and to assist RS economic recovery; $26 million.

IDA Interim Trust Fund credit for Second Transport Reconstruction Project; support for reconstruction and rehabilitation of roads, bridges, tunnels, railways, and urban transit systems throughout the Federation and RS; $30 million.

IDA Interim Trust Fund credit for Second Education Reconstruction Project; finance reconstruction of war-damaged schools, emergency delivery of textbooks and other educational materials, and support teacher education in the Federation and RS; $11 million.

End-August

EBRD investment in Horizonte Enterprise Fund; joint project with IFC; $5 million.

September

EBRD Emergency Power Sector loan; emergency renovations for three public utilities in Bosniak, Croat and Serb regions; $15.6 million.

Possible IMF Standby Arrangement.

EBRD equity investment in Horizonte Enterprise Fund which will invest in small and medium-sized enterprises in Bosnia and Herzegovina; joint project with IFC and Scandinavian Government-owned funds; $5 million.

October

IDA Emergency Gas System Reconstruction Project credit to support reconstruction of transmission pipeline and distribution system in Sarajevo and to strengthen institutions; $25 million.

EBRD loan to Sarajevska Pivara, partly privatized brewery in Sarajevo; joint project with IFC; $5.2 million.

November

IMF Board discussion of Article IV consultation on economic policies and institutions.

December

IFC loan to small private sector Sarajevo-registered firm, Akmeat—Akova Impex, to refurbish existing facilities and install new equipment for the production of hot dogs and other meat products; $1.8 million.

IFC loan to socially-owned/state-owned pharmaceutical manufacturer Bosnalijek to refurbish existing facilities and install new equipment to modernize and expand production capacity for oral drugs; the company is to be privatized; $2.4 million.

January

IDA Republika Srpska Emergency Pilot Credit to provide line of credit to enterprises in Republika Srpska; $5 million.

No tentative date

EBRD Telecommunications Rehabilitation Project loan to 3 public utilities in Bosniak, Croat and Serb areas for emergency renovations; under preparation; $20 million.

EBRD investment in Bosnia & Herzegovina Reconstruction Equity Fund, a small business venture capital fund; under preparation; $16 million.

IDA Banking and Enterprise Privatization Project credit to support design and implementation of a privatization plan and to provide lines of credit to banks for restructuring; under preparation; $30 million.

IDA Public Finance Reform Project credit to improve fiscal efficiency and ensure policies conducive to private sector led growth; under preparation; $million to be determined.

IDA Second Electric Power Reconstruction Project credit to support rehabilitation of power stations and transmission and distribution networks; under preparation; $25 million.

IDA Interim Trust Fund credit for Wood Supply and Forest Management Project to rehabilitate harvesting capacity and support management of forest resources in the Federation and Republika Srpska; $7 million.

IFC Wood Sector Agency Credit Line to provide a line of credit to 6–10 small and medium-sized wood sector enterprises in the Federation and Republika Srpska using up to 5 local commercial banks as IFC's agents; $10 million.

IDA Republika Srpska Enterprise Credit to provide line of credit to enterprises in Republika Srpska; $5 million.

EBRD Emergency Power Sector loan; emergency renovations for three public utilities in Bosniak, Croat and Serb regions; $15.2 million.

IDA credit for Reconstruction Assistance (Republika Srpska) Project; finance essential reconstruction activities, including civil works for housing repairs and water supply system rehabilitation, imports for agriculture and repairs to electric power systems; also support economic reintegration of Bosnia through trade reforms; postponed from August 28 at U.S. request; $17 million.

PREVENT WAR CRIMINALS FROM BENEFITING

Question. In a recent letter to Senator Leahy and me, you mentioned that the Treasury Department "will continue to work closely with the World Bank to ensure that monitoring takes place to prevent any suspected war criminals from benefitting from Bank-administered loans."

Could you describe specifically what the Treasury Department and the World Bank have been doing in this regard?

Answer. Treasury and State consult with World Bank staff in implementing the conditionality policy agreed upon by the international community to support those localities implementing the Dayton accords, including cooperation on war crimes issues, and to withhold support from those not implementing Dayton. These consultations include discussions of the loan pipeline.

While the World Bank must be non-political, it wants to support the Dayton accords. In designing its projects, the Bank consults very closely with the Office of the High Representative, which advises donors on conditionality issues, including war crimes issues.

Question. Are the ownerships and boards of recipient companies or entities checked in some fashion to ensure that the indicted do not benefit? Is there written material describing this process? Who is responsible for doing so?

Answer. So far, the Bank has done very little lending involving companies in Bosnia. The Bank's Project Implementation Units (PIUs) are under a commitment to screen all proposed disbursements. The PIUs are audited much more frequently in Bosnia than elsewhere, because of general concerns about corruption as well as war criminals.

As part of its due diligence, the Bank audits the PIUs more frequently, and consults with the OHR and with NGOs and other particular groups about corruption and war crimes issues.

So far the Bank's projects have never benefitted war criminals.

MIDDLE EAST DEVELOPMENT BANK

Question. The United States was a leader in the effort to create the Bank for Economic Cooperation and Development in the Middle East and North Africa (MEDB), and effort which I strongly supported. The MEDB is a key element of the effort to strengthen the economic foundation that will be essential if we are to have a lasting peace in the Middle East.

Why has the Administration proposed funding the Bank out of Economic Support Funds (ESF) instead of funding it directly as is done with other regional development banks?

Answer. It is most appropriate to use ESF to support the Bank because the mission of the Bank is closely linked to the political and economic objectives of ESF.

The Bank originated as a joint proposal by the four core parties in the peace process: Egypt, Israel, Jordan and the Palestinians.

The Bank will be a major presence in the Middle East, helping to lock in the political commitment to peace and regional economic cooperation. The regional parties will be able to demonstrate the concrete economic rewards of cooperation.

Question. What do you see as the prospects for getting the Bank off the ground during the coming year?

Answer. The MEDB Articles of Agreement will enter into force—allowing the Bank to begin operations—when shareholders with 65 percent of the agreed subscriptions ratify the Articles. Since the U.S. represents 27 percent of the agreed subscriptions, entry into force could theoretically occur without U.S. involvement but it is highly unlikely given the importance of a U.S. role.

INTERNATIONAL DEVELOPMENT ASSOCIATION

Question. I am concerned about funding for the International Development Association (IDA) which lends money on concessional terms to the poorest countries of the world. Because of U.S. failure to pay our entire contribution to the tenth replenishment to IDA, other donors have had to fill in the gap for fiscal year 1997, and U.S. companies have been excluded from a portion of this year's IDA procurement. I'd like for you to clarify on the record what effect our arrears to IDA have in poor countries and on the U.S. leadership role in the world?

How effective has IDA lending been in terms of economic development and poverty alleviation?

Answer. Because of its focus on poverty alleviation, IDA has made a significant contribution to poverty alleviation. Below are cited some of the strongest indicators of how poverty has been reduced in the last several decades. We believe that many of these improvements would not have come about were it not for IDA. The U.S. role in guiding the IDA and the other MDBs in the last 50 years has focused and shaped their operations, tangibly improving the lives of millions in the developing world, and making poverty reduction a primary goal. Even though it may not always appear so, life in even the poorest countries has improved dramatically in many respects, thanks in large part to the efforts of the IDA and the other IFIs.

Since 1970, in the poorest countries (with incomes less than $700 in 1993) the following results have been achieved:

—Fertility rates and infant mortality rates are both down 40 percent.

—The number of children enrolled in secondary schools has nearly doubled from 22 percent to 42 percent and primary school enrollment has increased 36 percent.

—Literacy rates have risen 33 percent.

—Life expectancy has increased from 54 to 62 years.

—The percent of people with access to safe drinking water has risen from 22 percent to 69 percent.

Question. How effective has IDA lending been in terms of opening up new markets for U.S. goods and services?

Answer. Building new markets in the developing world is critical to U.S. economic interests as long as our domestic growth continues to rely heavily on exports. Thirty-five percent of our economic growth over the last five years has come in the export sector. With exports to developing countries now 42 percent of total exports and growing at nearly twice the pace of those to industrialized countries, we need to nurture stable, growing trading partners to ensure our future prosperity. IDA graduates purchased $65 billion in U.S. exports in 1996, up from $61 billion in 1995. Current IDA borrowers purchased $27 billion in U.S. exports in 1996.

Question. Has the United States lost influence with other donor countries and the general direction of the IDA program because of its failure to fully fund its contribution to the tenth replenishment?

Answer. When the U.S. does not make its payments, our influence does indeed erode. We are regularly pushing the Bank to accomplish reforms and enact policies that we believe are important to improving the Bank's development potential, but by not paying IDA–10 on time, we lost our leverage in pushing our initiatives forward.

Our IDA–10 payments should have been completed in fiscal year 1996. The Bush administration negotiated the agreement and Congress authorized it. In fiscal year 1997 we put no new money toward IDA and instead put our full appropriation toward paying off arrears. The U.S. was faced with being the only country to fall three years behind its commitment. Prompt payment of arrears is essential for any country's credibility, but particularly for the U.S. since we control such a large part of the voting shares.

Our future commitments to IDA and the rest of the MDBs have been reduced by 40 percent. With full MDB arrears clearance, we will be able to fund all of the MDBs, including IDA, for less than we used to pay for IDA alone.

Question. In your opinion, is the U.S. share of the next IDA replenishment (the eleventh) fair?

Answer. The U.S. pledge of $800 million per year for two years is 40 percent less than the prior annual commitment to IDA–10 of $1.25 billion per year, which had been negotiated by the previous Administration. The overall level of IDA concessional lending is expected to average over $7 billion per year despite the U.S. reduction in funding, with World Bank net income, carryover of IDA–10 resources, and IDA repayments making up for lower donor contributions. Thus, the U.S. share is fair not only for the U.S., but also for the Bank.

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

DENVER SUMMIT OF EIGHT

In June, my home state of Colorado will host the Denver Summit of Eight, which will bring together leaders of the seven major industrialized nations and Russia for three days to discuss economic and monetary policy.

This meeting marks an historic change in the format for the G–7 Summit. For the first time in the 23-year history of these economic summits, Russia will participate as a member, rather than as an observer.

Question. The United States provides millions of dollars in foreign aid to Russia. What additional steps can the United States take at the summit to improve the climate in Russia for American businessmen and women?

Answer. For the past five years, U.S. assistance to Russia has been aimed chiefly at promoting the country's transition to a market-oriented economy. Through our intensive work with the international financial institutions and bilateral efforts through the Gore-Chernomyrdin Commission, the US has helped Russia stabilize its economy and advance the process of improving the country's investment climate. We have been and continue to promote legal reform and the development of regulatory

mechanisms in Russia that are vital to enabling American and other foreign investors to participate in the many opportunities available in Russia on an equal footing with domestic investors, and to create an environment in which investors can be confident of a return ontheir capital as well as return of their capital. Our efforts have been aimed at critical areas including:

—Reforming Russia's tax system to promote lower rates that are more uniformly applied and enforced across taxpayers.

—Advancing Russian legislation pertaining to Production Sharing Agreements (PSAs) that could open the way for US companies to participate in the development of Russia's vast energy resources.

—Reducing onerous licensing requirements faced by both foreign and domestic firms, involving payment of fees and administrative burdens, which could stop even a highly motivated entrepreneur from starting a legitimate enterprise.

The upcoming summit provides us with an excellent opportunity to engage Russia's leadership at the highest levels in an effort to advance these critical reforms.

Question. What are some of your goals for the United States during the Summit of Eight?

Answer. Treasury's work for the Denver Summit is focused on Summit Leaders' economic and financial discussions. We anticipate three chief themes: financial stability; development, with a special focus on sub-Saharan Africa; and cooperating to combat international financial crimes.

At the Denver Summit, we intend to build on the financial stability accomplishments from Halifax and Lyon to manage the risks presented by globalization of financial markets, such that a financial crisis originating in a major financial institution or market is less likely to spill over to other markets. Special working groups have been preparing reports on improving prudential standards for emerging market countries,

We will work to improve governance, which is crucial to sustainable economic development, by asking IFIs to help countries combat corruption and reduce incentives and opportunities for corrupt practices, and regional development banks to collaborate fully with World Bank efforts to raise public procurement standards worldwide.

We will seek Summit Leaders' endorsement of the OECD Ministers' call to eliminate tax deductibility of bribes, and to negotiate by year-end a high standard international convention to criminalize bribery, to submit national criminalization legislation by April 1, 1998, and to seeks its enactment and convention entry-into-force by the end of 1998.

We will particularly focus our development attention on Sub-Saharan Africa, committing to improve their exports' access, and to consider strengthened assistance for reforming countries with the greatest need. We will examine our own bilateral aid and trade promotion programs to ensure their support for climates conducive to economic growth, and to strengthen cooperation among concerned institutions to facilitate and coordinate capacity building efforts. We also will urge IFIs to strengthen efforts to support reforming Sub-Saharan African countries, reporting on implementation at the September World Bank/IMF annual meeting.

We will seek Summit countries' commitments to help reduce international financial crime, including money laundering, through endorsing an expansion of the Financial Action Task Force, which is leading the international fight against moneylaundering, and mandating recommendations on strengthening international cooperation between law enforcement and financial regulatory agencies on international cases involving serious financial crimes and regulatory abuse.

Question. What are the implications for the United States from the change in Russia's status at the summit?

[CLERK'S NOTE.—The Department of Treasury was unable to provide an answer to any part of this question as of December 31, 1997.]

QUESTIONS SUBMITTED BY SENATOR BENNETT

Question. When will the World Bank's new policy on child labor be finalized and how will it be carried out?

Answer. The World Bank paper on child labor is expected by the end of the year. We will work with the Bank on full and rapid implementation of the measures in the paper.

[CLERK NOTE.— Prior to the subcommittee publication date, the World Bank completed the Child Labor Report and Treasury has submitted it to the subcommittee.]

Question. What is the U.S. position on Asian Development Bank funding for the military regime in Burma i.e., the SLORC?

Answer. Public Law 104–208, the Fiscal Year 1997 Foreign Operations Appropriation Act, requires the United States to vote against assistance to Burma in any of the IFI's until the President determines and certifies to Congress that Burma has made progress in improving human rights practices and implementing democratic government. Since 1988, no new loans or technical assistance of any kind had been extended to Burma from the ADB. The U.S. has been one of the most active Bank members in ensuring that the military regime receives no funding.

Question. The Congressional Research Service[1] judges that the Chinese Government will not borrow market rate money to fund social programs and non-commercial agriculture. Does Treasury agree with this?

Answer. China has generally been unwilling to borrow at market rates for social programs and non-commercial agriculture. We have no reason to expect that this position will change.

Question. About how much has the World Bank lent to China since 1985?

Answer. The total amount from IDA and the IBRD since 1985 is $25.3 billion.

Question. Is it not true that the Chinese government has been engaged in a multi-billion dollar strategic and advanced conventional weapon acquisition program?

Answer. China is seeking to modernize its forces, but increases in spending are not dramatic and much spending has gone for increased personnel costs.

Most of China's weapons technologies are 30–40 years behind those of the U.S. China's power projection capability is rudimentary and its sustained power projection ability virtually non-existent.

Question. Does not World Bank Group support for social programs and non-commercial agriculture allow the Chinese Government to divert resources to modern weapons programs?

Answer. As China develops economically, it seeks funding from MDBs, like other developing countries. Through our engagement policy, we are attempting to develop a relationship that will encourage China to accept what we believe to be true—that it will be able to find greater security inside, rather than outside, the international system.

Encouraging China's economic reforms and its integration into the world economy—including through MDB programs—is a key part of our engagement strategy.

SUBCOMMITTEE RECESS

Senator McCONNELL. The subcommittee will stand in recess until 10:30 a.m., Thursday, May 22 when we will receive testimony on the fiscal year 1998 budget request from the Secretary of State, Hon. Madeleine Albright.

[Whereupon, at 3:43 p.m., Tuesday, May 20, the subcommittee was recessed, to reconvene at 10:30 a.m., Thursday, May 22.]

[1] Document 97–518 F [summary page].

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

THURSDAY, MAY 22, 1997

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:35 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Specter, Bennett, Campbell, Stevens, Leahy, Lautenberg, Mikulski, and Murray.

DEPARTMENT OF STATE

OFFICE OF THE SECRETARY

STATEMENT OF HON. MADELEINE K. ALBRIGHT, SECRETARY OF STATE

OPENING STATEMENT OF SENATOR MC CONNELL

Senator MCCONNELL. This hearing will come to order.

I want to welcome the Secretary of State again this year, although in a different capacity.

This week the Senate will pass a budget resolution which increases funding for the administration of America's international relations. This is a very positive, important development which you have vigorously promoted and for which you deserve high praise. Senator Leahy and I have been waging a campaign for several years to add $1 billion back to the function 150 account, but were unable to persuade the White House or the State Department of the urgency of the crisis in previous years.

I want to say, Madam Secretary, I know that you weighed in on this issue this year. I want to congratulate you for your success in that regard. We intend to support your request here in the Congress on a bipartisan basis.

Reacting to a perception of public indifference, the administration has been fundamentally averse to accepting the price of our global responsibilities. It has been clear to me for some time that public opposition to all things foreign has been greatly exaggerated. The proof is evident in the consistently strong votes for the subcommittee's bills. Unfortunately, it is also clear that we could not strengthen funding levels without the administration's commitment to the effort which, as I indicated, you have skillfully engineered.

Your fresh perspective has made a decisive difference and we thank you for that.

The increase is vital to our interest and it is certainly well-timed. The world today seems relatively peaceful, particularly when compared to the past violence in Central Africa, Central America, Bosnia, Chechnya, and Cambodia. For more than a decade, few continents have been conflict free. However, I believe we should all be cautioned. The absence of conflict must not lull us into a false sense of security, a sense which could suggest that it is time to withdraw from the rest of the world. To the contrary, our times are framed by high expectations and real risks, enormous opportunities and steep costs. Stability, the hallmark of success, hinges on a durable, believable American commitment to steady leadership and sustained engagement.

Let me illustrate my point by turning to two examples, Bosnia and Cambodia, where a heavy investment of American credibility and resources has reduced tensions but not yet solidified democracy or economic growth. Indeed, I worry that a false sense of security risks a return to conflict.

A few weeks ago, I met with Bosnian Minister Silajdzic who identified the three top issues which I agree must be addressed for his country to survive. They are reconstruction, refugee resettlement, and war crimes.

Tuesday, when Secretary Rubin testified, I raised my concerns about the slow pace of the World Bank reconstruction efforts. While our bilateral aid program is in reasonably good shape, with more than $400 million committed of the $600 million pledged, standing alone it is insufficient to meet the urgent and massive requirements. The bank must accelerate the commitment of funds.

The more intractable issues which I urge you to focus on today are the safe resettlement of the displaced and refugee population and the arrest and prosecution of war criminals. We probably all need a better sense of how our aid program is facilitating solutions.

As an outspoken critic of the atrocities committed to achieve ethnic cleansing, I know you share the view of many on this subcommittee that reconciliation and peace in Bosnia are not possible without the moral reckoning envisioned by the war crimes tribunal. However, it seems this worthy idea is foundering. Short of a major renewed effort when our troops withdraw, I fear Bosnia will once again disintegrate into conflict, and this time with an American arsenal. In this context, I am especially interested in hearing your perspective on how our assistance program might be used to prompt the regions leaders to turn over war criminals.

Cambodia presents similar problems and opportunities to leverage our aid. After $3 billion and a major international peacekeeping intervention, we all had high hopes Cambodia would recover from the savage legacy of the Khmer Rouge killing fields. Instead, we have seen Hun Sen systematically destroy the legitimate political opposition. Easter Sunday at a rally against government corruption, four grenades were tossed into the crowd, killing 16 and injuring more than 80 people, including 1 American.

Madam Secretary, this incident is a part of an ominous pattern which threatens Cambodia's future and the region's stability. Our policy should express clear and unequivocal opposition to political

violence. Our aid must leverage judicial reforms, the protection of a free press, and an immediate end to the campaign of terror and violence against legitimate political parties.

We also should concentrate our considerable influence and resources in support of a regulatory framework and institutions to assure the elections scheduled for next year are conducted in a free and fair manner. We are 18 months from elections and there is no census, no voter rolls, no independent election commission, nor an agreed draft to electoral law.

These are two trouble spots that have the potential to challenge, if not jeopardize, our political interests in European stability and our economic stakes in expanding prospering markets in Asia. As threats they hardly stand alone. Beneath a surface calm, there are countless problems which U.S. diplomacy and dollars are in a unique position to prevent or resolve. To summarize just a few, NATO expansion, so key to European stability, began and has been sustained, obviously, by American security assistance and leadership. Peace on the Korean peninsula assumes an American role. A solution to the stalemate between Armenia and Azerbaijan depends on United States aid and meaningful participation in the Minsk group. Zaire's troubles are far from over and should Mr. Kabila commit to a democratic course, he will need all the assistance we can offer to reconstruct that shattered nation. And, finally, our active leadership is essential in the effort to restore Aung San Suu Kyi to office and democracy to Burma.

PREPARED STATEMENT

I welcome your energy and your activism. We are looking forward to this hearing.

I am going to call on my dear colleague, Senator Leahy, the ranking member, and then we will hear from you, Madam Secretary. Senator Leahy.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MCCONNELL

This week, the Senate will pass a budget resolution which increases funding for the administration of America's international relations. This is a very positive, important development which you vigorously promoted and for which you deserve high praise. Senator Leahy and I have been waging a campaign for several years to add $1 billion back to the function 150 account, but were unable to persuade the White House or State Department of the urgency of the crisis.

Reacting to a perception of public indifference, the Administration has been fundamentally averse to accepting the price of our global responsibilities. It has been clear to me for some time that public opposition to all things foreign has been greatly exaggerated; the proof is evident in the consistently strong votes for this Subcommittee's bills. Unfortunately, it was also clear that we could not strengthen funding levels without the Administration's commitment to the effort which you skillfully engineered. Your fresh perspective has made a decisive difference.

The increase is vital to our interests and well timed. The world today seems relatively peaceful, particularly when compared to the past violence in Central Africa, Central America, Bosnia, Chechnya, and Cambodia. For more than a decade, few continents have been conflict free. However, I believe we should all be cautioned—the absence of conflict must not lull us into a false sense of security, a sense which could suggest it is time to withdraw from the world. To the contrary, our times are framed by high expectations and real risks, enormous opportunities and steep costs. Stability, the hallmark of success, hinges on a durable, believable American commitment to steady leadership and sustained engagement.

Let me illustrate my point by turning to two examples, Bosnia and Cambodia, where our heavy investment of American credibility and resources has not yet produced either prosperity or stability. Indeed, I worry that a false sense of security risks a return to conflict.

A few weeks ago, I met with Bosnian Minister Silajdzic who identified the three top issues which I agree must be addressed for his country to survive. They are reconstruction refugee resettlement and war crimes.

Tuesday, when Secretary Rubin testified I raised my concerns about the slow pace of the World Bank reconstruction efforts. While our bilateral aid program is in reasonably good shape, standing alone it is insufficient to meet the urgent and massive requirements. The Bank must accelerate the commitment of funds.

The more intractable issues which I urge you to focus on today are the safe resettlement of the displaced and refugee population and the arrest and prosecution of war criminals. We probably all need a better sense of how our aid program is facilitating solutions.

As an outspoken critic of the atrocities committed to further ethnic cleansing, I know you share the view of many on this Subcommittee that reconciliation and peace in Bosnia are not possible without the moral reckoning envisioned by the war crimes tribunal. However, it seems this worthy idea is foundering. Short of a renewed effort on the order of magnitude of the Dayton negotiations, I fear Bosnia will once again disintegrate into conflict, and this time with an American arsenal. In this context, I am especially interested in hearing your perspective on how our assistance program might prompt improved cooperation from the region's leaders.

Cambodia presents a similar problem and opportunity to leverage our aid. After $3 billion and a major international peacekeeping intervention, we all had high hopes Cambodia would recover from the savage legacy of the Khmer Rouge killing fields. Instead, we have seen Hun Sen systematically destroy the legitimate political opposition. Easter Sunday, at a rally against government corruption, four grenades were tossed into the crowd killing sixteen and injuring more than eighty people, including one American.

Secretary Albright, this incident is part of a ominous pattern which threatens Cambodia's future and the region's stability. Our policy should be clear and unequivocal in opposition to political violence. Our aid should leverage judicial reforms, protection of a free press, and an immediate end to the campaign of terror and violence against legitimate political parties. We also should concentrate our considerable influence and resources in support of a framework and institutions to assure the elections scheduled for next year are conducted in a free and fair manner.

These two trouble spots have the potential to challenge, if not jeopardize, our political interests in European stability and our economic stakes in expanding prospering markets in Asia. As threats, they hardly stand alone. Beneath a surface calm, there are problems which U.S. diplomacy and dollars are in a unique position to prevent or resolve. Peace on the Korean peninsula assumes on an American role. A solution to the stalemate between Armenia and Azerbaijan depends on U.S. aid and meaningful participation in the Minsk group. Zaire's troubles are far from over and should Mr. Kabila commit to a democratic course, he will need all the assistance we can offer to reconstruct his shattered nation. And, finally, our active leadership is essential in the effort to restore Aung San Suu Kyi to office and democracy to Burma.

I welcome your energy and activism and look forward to your assessment of our place in the world today.

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Thank you, Mr. Chairman.

Madam Secretary, it is a pleasure to have you here. Secretary Albright and I have known each other I think almost from the first month I came here to the Senate, and I do not think there was anybody more pleased than I and the other members of the Leahy family when she was nominated and then confirmed to be our Secretary of State.

I want to echo what Chairman McConnell said about the time and effort you have devoted to winning support for additional resources for foreign assistance. Sometimes some of your predecessors did not recognize what you obviously know so well, that you can have the greatest policies in the world, but if you do not have

the resources to carry them out, they are not much more than historical talking points that will be in somebody's archives somewhere. You want them to be enacted, not archived, and I agree with you on that.

Our foreign assistance budget has been dangerously underfunded since the end of the cold war. Now, that in not to say that some of the programs we had were not in dire need of reform. We threw away money in Zaire and in Central America. We propped up some of the world's worst dictators. We ignored pressing development needs. We could have used our money more wisely during that period.

But that time is gone. Now we have new challenges. The news from the Budget Committee has been encouraging. As Senator McConnell said, he and I have consistently called for the funds necessary for the United States to play a leadership role in the world. We have done this under both Democrat and Republican Presidents. So, you have some dependable allies here both among Republicans and Democrats.

I will make one other point. It is also a point you have made very strongly. There is no substitute for American leadership. We are the wealthiest, most powerful, Nation on Earth. No democracy in history has ever attained what we have, but we should not just slap ourselves on the back. It has a whole lot of leadership responsibilities that go with it. We are not or should not be an isolationist country. We have responsibilities worldwide and you, Madam Secretary, have shown a willingness to face up to those responsibilities and those opportunities as much or more than anybody I know. Whether it is protecting the Earth's environment or controlling the spread of plutonium, or building global defenses against health epidemics or fighting international organized crime, or banning the use of antipersonnel landmines, it is not going to happen unless we set the example and push forward. These are immensely difficult challenges and I am going to do whatever I can to support you when I can.

But I also hope that you will encourage the administration to challenge conventional wisdom. Take risks. Not everything we do is going to work out. Not everything is going to be successful. Not everything is going to be politically popular.

I think of the Marshall plan. When President Truman proposed that, I think it had around 10 percent support or less in this country. Think what the world would be like today if he had not persisted.

Take risks. It is the only way we can leave the past behind and seize what I think are the opportunities of a very unique period in our history as we go into this new millennium. You and I spoke a little bit about these challenges yesterday, in Bosnia and the Middle East, China and Central Africa. Your plate is overflowing and more so all the time.

I think it is time for the United States to push hard for solutions. Do not hold back.

Obviously, one area that I have always been concerned about is antipersonnel landmines. They maim or kill somebody every 22 minutes. The United States has proudly taken strong steps on the Test Ban Treaty on Nuclear Weapons by taking the initiative and

going first. We have taken strong steps in the Chemical Weapons Convention by taking the initial steps unilaterally and going forward. Landmines have killed a lot and maimed a lot more innocent people than chemical weapons or nuclear weapons.

Yesterday the British Government announced they will sign a treaty banning the weapons at Ottawa this December, the United States should do that. We ought to be leading the world, not sitting on the sidelines on such an important moral issue. We need the kind of leadership, Madam Secretary, that you showed so courageously at the United Nations, and I would urge the President and the administration to look back at how well you did there and let us move forward on this. Several of us, including around this table, on both sides of the aisle, will continue to push it. Thank you again for being here.

Thank you, Mr. Chairman.

Senator MCCONNELL. Madam Secretary, before turning to you, we have the honor this morning of having with us the distinguished chairman of the full Appropriations Committee, Senator Stevens. Do you have any opening observations, Mr. Chairman?

OPENING REMARKS OF SENATOR STEVENS

Senator STEVENS. Thank you, Mr. Chairman. I have just come to welcome the Secretary to our committee for the first time since I have been chairman. As we remarked coming in, we have a longstanding, almost family relationship, and I am delighted that you are here.

I have only one comment. I am sending you a letter, Madam Secretary, about the recent statement of the Canadian Government that they will once again put fines on fishing vessels coming up into the waters off Alaska from Seattle and Portland. We went through that once before and finally got a bill passed that the President signed to repay all of those people who paid fines to the Canadian Government before. It is a government responsibility to maintain the freedom of the seas, and I hope that we are able to do that.

I do not ask any questions now. Maybe Senator Murray will ask questions about it when she gets the opportunity. I am going back to the conference, but I do welcome you.

I want to say, as chairman, I have been very appreciative of the State Department under your administration responding promptly to our requests. We have had just excellent cooperation with the committee since you have become Secretary, and I welcome that. I am sure all the members do. Thank you very much.

Secretary ALBRIGHT. Thank you very much.

Senator MCCONNELL. Thank you very much, Mr. Chairman.

We are going to have a vote in about 10 minutes, but what we are going to try to do here is go on and get started, and if we have to have a break, it will be a very brief one. We will just run over and vote and come right back.

So, Madam Secretary, we look forward to hearing from you.

SUMMARY STATEMENT OF HON. MADELEINE ALBRIGHT

Secretary ALBRIGHT. Thank you very much, Mr. Chairman. I really am delighted to be here this morning on such a fine day in this auspicious spring, a spring in which two teams from your State made it to the final eight at the NCAA basketball tournament, in which Senator Mikulski's Orioles for which I started out are in first place, and in which Senator Leahy can look forward to a new Batman movie. [Laughter.]

And in which the executive branch and Congress are moving rapidly toward agreement on a budget resolution.

I am most heartened by the budget resolution in that it treats international affairs as the priority it is, and I very much appreciate not only your kind words, but also the help of many members of this subcommittee in achieving what we have gotten. I think we are all in this together, and I thank you all very much for your support on this.

Now that the action moves here to appropriations, I hope that this subcommittee and the subcommittee chaired by Senator Gregg will receive large enough allocations to fund our arrears to the United Nations and the multilateral banks, while also meeting the President's request for current year funding for our foreign operations programs.

These programs are designed to protect the interests of our citizens in an age when national borders are porous, markets are global, and many of the threats to our safety and security cannot be dealt with by any one nation acting alone.

Mr. Chairman, the subcommittee has my written statement which, as I am assured by those who wrote it, is brilliant in its entirety. [Laughter.]

Senator MCCONNELL. That will be made a part of the record.

Secretary ALBRIGHT. However, to save more time for questions and to keep us all awake, I will focus my oral remarks on programs or policies that relate directly to this funding request as opposed, for example, to NATO enlargement or our China policy and that I believe we also should focus on things that require our particular attention.

I will begin for programs for maintaining the security and safety of our people. Here I emphasize the importance we attach to the Korean Peninsula Energy Development Organization [KEDO]. As you know, KEDO stems from our framework agreement for freezing and ultimately dismantling North Korea's dangerous nuclear weapons program.

Last February I had the opportunity to visit Korea's demilitarized zone and talk to our Armed Forces there. I also had the chance to meet with officials in Seoul and to reaffirm our strong friendship for the Republic of Korea. I returned from that visit more convinced than ever that KEDO is a national security bargain for the United States. Our contributions are helping to generate support from others that will ultimately dwarf our own. We are asking $30 million for the American share this year and I hope we will have your support on that.

Also in the category of protecting our security is the $230 million we are requesting for the war against drugs. Obviously there are

many battles yet to be won, but I am encouraged by the progress being made in reducing coca production, signing law enforcement cooperation agreements, and disrupting the profits of notorious traffickers such as the Cali cartel.

I am encouraged as well by the joint commitment we made earlier this month with Mexico to work together as allies on every aspect of our shared problem. The State Department will be working hard with others to translate that commitment into sustained progress on the ground, in the air, at sea, and in our neighborhoods.

Mr. Chairman, when we support arms control and antinarcotics initiatives, we advance the long-term interests and safety of our people. The same is true when we help end conflicts and reduce tensions in troubled regions around the world. In the Middle East, we face an extremely difficult and complex situation because Arabs and Israelis alike are doubting their faith in the peace process and in one another. We believe that the way forward begins with the restoration of competence and a sense of shared interests. All parties must accept as a starting point that there is no room for terrorism or violence as a tool of negotiation. There can be no rationalizations or room for debate on that central point.

Looking ahead, Israelis must see that violence or threats of violence will not be used against them as a means of leverage in negotiations. Palestinians must see that Israelis are not taking unilateral actions which foreclose options on issues reserved for permanent negotiations. And both must assume responsibility for improving the negotiating climate.

Arab-Israeli peace remains a high priority for the administration and for the United States. To support our active diplomacy, we must maintain appropriate bilateral assistance to Israel, Jordan, and Egypt while contributing to economic growth and the creation of democratic institutions within the Palestinian authority.

It is also essential to American interests and to the future stability of Europe that we fully implement the Dayton Agreement for peace in Bosnia. Since Dayton was signed, our initial security goals have been achieved and economic reconstruction has begun.

Unfortunately, there remain important areas where progress has been slow due to the failure of many Bosnian leaders to embrace true political and social integration.

Now, President Clinton has approved measures to encourage further and more rapid progress toward the core goals of Dayton. Next week I will be visiting Sarajevo, Brcko, Banja Luka, and other locations in the region to demonstrate America's commitment to a single Bosnian state with two multiethnic entities. I will also be making a more detailed statement in New York tonight regarding the administration's policy toward Bosnia.

The heart of our message is that the international community, including both civilian and military components, must make clear that those who contribute to peace in Bosnia will be supported, while those who obstruct peace should pay a price. For example, our new open cities support project provides assistance to communities and only to communities that have demonstrated a willingness to allow persons from ethnic minorities to return safely to their homes.

One city where it is especially critical that residents work for unity and peace is Brcko. Because of its strategic location and the terrible ethnic cleansing that occurred there, a peaceful, multiethnic Brcko would be a powerful symbol to the rest of Bosnia and a springboard toward success for the entire Dayton process.

Our goal in Brcko, as in Bosnia more generally, is to reconnect what has been disconnected to restore the flow of transportation, communication, commerce, and social interaction among the various ethnic communities.

There are those who resist this process and there are many in Bosnia and elsewhere who are skeptical that it will succeed, but these are the same people who said that the war could not be ended, that Dayton could not be negotiated, and that the United States and Europe, including Russia, could never come together on behalf of a Balkans peace.

The administration does not underestimate the obstacles, but neither do we underestimate the stakes. We are determined to use our leverage and to press ahead with our partners both in and outside Bosnia to support the work of the International War Crimes Tribunal and to help create institutions that improve security, permit more displaced persons and refugees to return home, enhance civil liberties, and allow democratic institutions to take root.

In this effort, we pledge regular consultations with this subcommittee and with others in Congress and seek your support.

Switching continents, Mr. Chairman, today in the newly renamed Democratic Republic of Congo, our goal is to encourage a peaceful transition based on democratic principles. We welcome Mr. Kabila's declared intention to form a broadly based interim government, and we have made it clear that we would like to see a government that is also transparent in its activities so that the people of this long-troubled nation may know that the days of secret looting and secret terror will not return.

We also want to see a government that respects human rights, assures due process, and cooperates with the international community in caring for refugees and investigating reports of atrocities.

Finally, we will look to the new authorities to adopt democratic practices and build democratic institutions, to work actively to prevent that vast country's fragmentation, and to foster stable and peaceful relations with its neighbors.

The Democratic Republic of Congo is a nation rich in both human and natural resources. In the weeks ahead, we will work with officials in that country and elsewhere to improve prospects for a democratic, prosperous, and peaceful future. We will also consult closely with Congress concerning the evolution of our policy.

Mr. Chairman and members of the subcommittee, America's leadership is derived not only from economic and military power, but also from the power of our ideals, and fundamental to our ideals is our commitment to democracy. Accordingly, we are asking your support for programs to strengthen democratic institutions in the world, including central Europe and the New Independent States, [NIS].

Mr. Chairman, the transition from communism to democracy in central Europe is the product of central European courage, energy, and vision. But the United States may be proud of the role the

SEED program, for which we are requesting $492 million this year, continues to play in assisting the process of economic and political reform. You all have mentioned the Marshall plan, but what was once said about the Marshall plan may fairly be said about this program. It has served as—and I quote: "the lubricant in an engine, not the fuel, allowing a machine to run that would otherwise buckle and bind."

A democratic Russia is also an essential partner in our efforts to build a secure Europe. In Helsinki, Presidents Clinton and Yeltsin expressed their commitment to stimulating growth in investment in Russia while citing President Yeltsin's plan to launch Russia on its next phase of reform.

In recognition of progress made and of our stake in strengthening market democracies, we have this year revamped our assistance program to Russia and the other NIS. Of the $900 million we have requested, $528 million will fund a new partnership for freedom.

This initiative will concentrate on the promotion of business, trade, and investment, and the rule of law, and it will include increased professional and academic exchanges.

Mr. Chairman, before wrapping up, I want also to ask your support for a full range of our programs in support of economic and sustainable development. These include our requests for the Export-Import Bank, the Trade and Development Agency, our population programs, the global environment fund, important U.N. programs, such as UNICEF and UNDP, and the multilateral banks. Taken together, these programs make an enormous contribution to America's well-being by promoting U.S. investment and by helping our neighbors' trading partners and friends to build healthier and more prosperous and more stable societies.

I know, Mr. Chairman and members of the subcommittee, that supporting foreign assistance is not the easiest vote for a Senator to make. We are all concerned about priorities at home, but I think as many of you have said, we also know that neither our history, nor our character, nor our self-interest will allow us to withdraw from the center stage of global, political, and economic life.

There is, after all, no more immediate or local an issue than whether our sons and daughters will some day be called upon to do battle in big wars because we failed to prevent or contain the small ones.

There are few more significant economic issues than whether we will find ourselves forced into a new arms race because of setbacks in the former Soviet Union or because nuclear weapons have fallen into the wrong hands.

There are few goals more important to our workers than opening new markets overseas.

There are few matters more urgent for our communities than reducing the flow of drugs across our borders.

And there are few questions more vital to our children than whether we will bequeath to them a world that is relatively stable and respectful of the law or one that is brutal, anarchic, or violent.

I will cease so you can go and vote.

Senator MCCONNELL. I think probably the least disruptive thing to do—and feel free to come back to the back room—would be for

us to recess the hearing, all go vote, and come right back. If you would like to come back here, that would be fine.

Secretary ALBRIGHT. Very good. Then I will give you my final two paragraphs when you come back.

[A brief recess was taken.]

Senator MCCONNELL. The hearing will resume.

Madam Secretary, had you completed your statement? If not, go ahead.

Secretary ALBRIGHT. Well, I had one more paragraph.

Senator MCCONNELL. All right. We will take your last paragraph.

Secretary ALBRIGHT. I think it is germane actually because it does talk about executive/legislative relations.

A half a century ago, a great American generation, led by President Truman and supported by Members of Congress from both parties, rose above the weariness of war's aftermath and the temptation of isolation to secure the future. Working with our allies, they made the investments and built the institutions that would keep the peace, defend freedom, and create economic progress through five decades.

I think it is clear that it is up to us in our time to do what they did in their time, to support an active role for America, protect American interests, keep American commitments, and help where we can those from around the world who share our values.

PREPARED STATEMENT

In that effort, I pledge my own best efforts as Secretary of State and I solicit your support in it. From your opening statement, I would say that we are on the same wavelength.

Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF HON. MADELEINE K. ALBRIGHT

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to testify this morning, for the first time in my new capacity. I hope very much that we will be able to continue the frank relationship we enjoyed while I served as our Permanent Representative to the United Nations. Together, we have an important job to do, and I look forward to working with you not only this year but in the future.

I want to acknowledge at the outset that this Subcommittee and members on it have been leaders in supporting an active and engaged U.S. foreign policy. We have not always agreed on all subjects, but the disagreements have almost always been on tactics not on goals. We all agree that the United States is, and should remain, vigilant in protecting its interests, careful and reliable in its commitments and a forceful advocate for freedom, human rights, open markets and the rule of law.

I am heartened that the agreement on the Budget Resolution worked out by the Administration and Congressional leaders treats international affairs as the priority it is. I know that Senator Lautenberg and others on this Subcommittee were important actors in this process and I want to thank you for your support.

Now, the action moves to appropriations. Consistent with the Budget Resolution, I hope that this Subcommittee and the Subcommittee on Commerce, Justice and State Appropriations will receive allocations sufficient to fund both our regular international programs and to pay our arrearages to the United Nations and the multilateral development banks.

I hope that my testimony this morning will help persuade any who may doubt that such an allocation would serve our nation and our people well.

Mr. Chairman, I am here today to ask your support and that of the Subcommittee for the President's request for funds for the foreign operations programs of the United States.

Put simply, the goal of those programs is to protect the interests of our citizens in an age when national borders are porous, markets are global, and many of the threats to our safety and security cannot be dealt with by any one nation acting alone.

The President's request seeks to ensure that we will have the foreign policy tools we need to sustain principled and purposeful American leadership.

It includes funds for programs that will help us to promote peace and maintain our security; to safeguard our people from the continuing threat posed by weapons of mass destruction; to build prosperity for Americans at home by opening new markets overseas; to promote democratic values and strengthen democratic institutions; to respond to the global threats of international terrorism, crime, drugs and pollution; and to care for those who are in desperate need of humanitarian aid.

Let me begin my discussion here this morning with our programs for maintaining the security and safety of our people.

MAINTAINING SECURITY

The Cold War may be over, but the threat posed by nuclear and other weapons of mass destruction has only been reduced, not ended.

Our efforts to reduce the number and stop the spread of weapons of mass destruction contribute to what former Defense Secretary Perry called "preventive defense." We pursue these initiatives not as favors to others, but because they are a national security bargain for the American people.

With strong U.S. leadership, and bipartisan support from the Congress, much has been accomplished. Achievements range from the removal of nuclear weapons from Belarus, Kazakstan and Ukraine to recent approval by the Senate—with the help of many members of this Subcommittee—of our participation in the Chemical Weapons Convention.

But arms control and nonproliferation are works in progress, and we will need your help and that of the Congress, as a whole, to continue that progress.

The 1994 Agreed Framework between the United States and North Korea froze and established a roadmap for dismantling that country's dangerous nuclear weapons program. With our partners, we created the Korean Peninsula Energy Development Organization (KEDO) to implement key aspects of the agreement. Our earlier commitment helped jump-start KEDO and generated contributions from Japan and South Korea that will ultimately dwarf our own.

KEDO now has 10 members—and we will bring in at least three more this year to share the burden. I appreciate the support this Subcommittee has shown in the past for our participation in KEDO, and ask your support for our proposed $30 million contribution in fiscal year 1998. Those funds will leverage the support of others, while contributing directly to the safety and security of the American people.

I also ask your support for our proposed $36 million voluntary contribution to the International Atomic Energy Agency (IAEA). These funds will help that agency to verify compliance with the Nuclear Non-Proliferation Treaty in more than 820 locations in 61 countries.

We are also continuing efforts to fulfill the President's call for negotiations leading to a worldwide ban on the use, stockpiling, production, and transfer of anti-personnel landmines.

Just last week, ACDA Director John Holum was in Geneva to urge the Conference on Disarmament to begin that negotiation in earnest. He also voiced U.S. support for the complementary process now under way in Ottawa. As Director Holum made clear, we don't under-estimate the challenges at the Conference on Disarmament. However, that venue does provide the best opportunity to negotiate an APL ban that is truly comprehensive and effective. This issue remains a high foreign policy priority for the United States, and I will continue to consult closely with Senator Leahy—who has been an inspiring and determined leader on this issue—and other Members of Congress concerning it.

Finally, I join President Clinton in his call last Friday for early Senate approval of the pending protocol on landmines. By strengthening the restrictions on landmine use, this protocol will help prevent many casualties and is, in the President's words "an essential step toward a total ban."

Mr. Chairman, international narcotics trafficking also endangers Americans. The President, and law enforcement agencies and educators at all levels are committed to doing the job at home. But we cannot hope to safeguard our citizens unless we also fight this menace abroad, where illicit drugs are produced and ill-gotten gains are hidden away.

Under the President's leadership, we have moved aggressively and with results. This past year, our support for eradication and interdiction helped knock coca pro-

duction in Peru to its lowest level in a decade. Cooperation with Paraguay has improved. New law enforcement cooperation agreements with Argentina, Brazil and Bolivia have been signed. And by economically targeting individuals and front companies, we have done much to disrupt the business and decrease the profits of the notorious Cali cartel.

In Mexico, drug seizures and arrests are up. New laws have been enacted to fight money-laundering. Mexico has set a precedent by extraditing its own nationals to the United States to be prosecuted for drug-related crimes. And amidst all the publicity and real problems related to corruption, it is worth remembering that 200 Mexican law enforcement personnel were killed last year in the battle against drug trafficking.

During the meeting of the U.S.-Mexico Binational Commission earlier this month, Presidents Zedillo and Clinton reaffirmed the commitment of our two nations to work together as allies to reduce demand, intercept shipments, arrest traffickers, confiscate profits and professionalize every aspect of law enforcement response. We will be working hard, in close cooperation with representatives from the White House and other agencies, to translate this commitment into further progress in the war against drugs.

We are asking this Subcommittee to support our efforts in Latin America and around the world by approving our request for $230 million to combat international narcotics and crime. In addition to other anti-crime initiatives, these funds support our source country narcotics eradication and alternative development programs, provide material and logistical support for police and military in strategic areas, and finance our comprehensive heroin control strategy.

America is the world's leader in the fight against international terror, which continues to claim victims despite steady improvements in multinational law enforcement and information-sharing. We are persisting—and making some headway—in encouraging our allies to refrain from business as usual with Iran until that nation ends its support for terrorism. And we remain steadfast in our support for United Nations sanctions against Libya and Iraq.

To supplement our diplomatic initiatives, we have requested $19 million for our anti-terrorism programs. These funds will be used primarily to enhance the skills of police and security officials in selected countries so that they may be more effective partners in preventing and punishing terrorist acts.

PROMOTING PEACE

When we support arms control and anti-terrorism efforts in other countries and regions, we advance the long-term interests and safety of Americans. The same is true when we help end conflicts and reduce tensions in regions important to the interests of the United States.

Today, I will cite three cases involving past, present or potential conflicts where our budgetary resources are affected, our interests are engaged and our participation or leadership is required.

In the Middle East, we face an extremely difficult and complex situation in the Arab-Israeli peace process.

Since 1993, the parties have made enormous gains in transforming the political landscape of their historically troubled region and laying the foundation for an enduring peace.

In recent months, however, those gains have been threatened and the people of the region have once again become the victims of confrontation and acts of violence. The reason is that Arabs and Israelis alike are doubting their faith in the peace process and in one another.

We have, in the past, experienced setbacks to peace in the Middle East, but we have persevered. Despite present problems, we will continue to look for a way forward. That way begins with restoration of the confidence, trust and sense of shared interests upon which the peace process rests.

All parties must recognize and fully accept that there is no room for terrorism or violence as a tool of negotiation. There can be no rationalizations or room for debate on that central point.

Looking ahead, Israelis must see that terror and threats of violence will not be used against them as a means of leveraging their position in negotiations. Palestinians must see that Israelis are not taking unilateral actions which foreclose options on issues that are reserved for permanent negotiations. And both must assume responsibility for reversing the deterioration in the negotiating environment. In that regard, we have encouraged friends of peace in the Arab world not to take actions which could make progress towards peace more difficult.

Arab-Israeli peace remains a high priority for the Administration and for the United States. We have an enormous stake in the future of the region, and we remain in almost continual contact with representatives of all sides. To support our diplomacy, we must maintain appropriate bilateral assistance to Israel, Jordan and Egypt, while contributing to economic growth and the creation of democratic institutions within the Palestinian Authority.

It is also essential to American interests and to the future stability of Europe that we finish the job and fully implement the Dayton Agreement for peace in Bosnia.

Fulfillment of these Accords would produce a stable, undivided Bosnia that would cease to be a source of instability in southern Europe.

It would also make possible over time the full integration of the Balkans into European institutions; contribute to regional prosperity; bolster democracy; prevent the area from becoming a base for transnational crime; create a further bar to meddling by Iran; and create a precedent-setting model for resolving ethnic differences on the basis of justice and respect for human rights.

Since Dayton was signed, our initial security goals have been achieved and economic reconstruction has begun.

Unfortunately, there remain important areas where progress has been slow due to the failure of Bosnian leaders, especially in Bosnian Serb entity, the Republika Srpska, to embrace political and social integration.

Today, and in days to come, we will be re-dedicating ourselves to the goal of full implementation of the Dayton Accords and to a single Bosnian state with two multi-ethnic entities. Next week, I will be visiting Sarajevo, Brcko, Banja Luka and other locations in the region. I will also be making a more detailed statement in New York tonight regarding the Administration's policy towards Bosnia.

The heart of our message is that the international community, including both civilian and military components, must re-energize its commitment to implement Dayton.

For example, while SFOR will remain principally focused on enforcing the military aspects of the Dayton Agreement, it will build on its past accomplishments by actively supporting crucial civil implementation tasks, within its mandate and capabilities. These include helping to create a secure environment for managed refugee returns and the installation of elected officials in targeted areas, and specific economic reconstruction projects which could include inter-entity telecommunications and restoring civil aviation.

Full implementation must be our goal in all sectors, and the parties cannot pick and choose those elements they prefer at the expense of others. If they are not complying on key implementation tasks, it will not be business as usual for their politicians or their military leaders. For example, if the parties do not comply with their arms control obligations, SFOR has the option to restrict military movements and training.

On the civilian side, as well, we will move ahead with fresh energy to help those in Bosnia striving to build a true national community.

For example, our Open Cities Support Project provides assistance to communities, and only to communities, that have demonstrated a willingness to allow persons from ethnic minorities to return safely to their homes.

To date, we have identified four municipalities in different parts of Bosnia to participate at a cost of $3.6 million. We have an additional $5 million available to help repair buildings, provide agricultural support and business credit and to train workers in eligible communities.

One city where it is especially critical that residents work for unity and peace is Brcko. Because of its strategic location and the terrible ethnic cleansing that occurred there, a peaceful, multi-ethnic Brcko would be a powerful symbol to the rest of Bosnia.

Our goal in Brcko, as in Bosnia more generally, is to reconnect what has been disconnected, to restore the flow of transportation, communication, commerce and social interaction among the various ethnic communities.

There are those who resist this process; and there are many in Bosnia and elsewhere who are skeptical that it will succeed. These are the same people who said that the war could not be ended; that Dayton could not be negotiated; and that the United States and Europe, including Russia, could never come together on behalf of a Balkans peace.

The Administration does not under-estimate the obstacles, but neither do we under-estimate the stakes. We are determined to press ahead with our partners both in and outside Bosnia to support the work of the International War Crimes Tribunal in every way we can, and to help create institutions that improve security, permit more displaced persons and refugees to return home, enhance civil liberties,

and allow the institutions of a unitary, multi-ethnic and democratic state to take root.

In this effort, we pledge regular consultations with this Subcommittee and with others in Congress, and seek your support.

Mr. Chairman, of the many outbreaks of violence around the world in recent years, the interrelated conflicts in Central Africa have been the most deadly.

Today, in the Democratic Republic of Congo, formerly Zaire, our goal is to encourage a peaceful and stable transition to a new era based on democratic representation and popular responsibility.

We note that the victorious Alliance leader, Laurent Kabila, has said he intends to form an interim government that includes representatives from various components of Congolese society.

We welcome that intention and have expressed our willingness to work with others to provide appropriate help to a transitional government that demonstrates a commitment to broad-based political participation, democratic practices, and human rights.

We have made it clear that what we would like to see is a transitional government that, in addition to being broadly-representative, is also transparent in its activities, so that the Congolese people know that the days of secret looting and secret terror will not return.

We also want to see a government that respects the rights of its people, assures due process to those charged with crimes, and cooperates fully with the international community in caring for refugees and investigating reports of atrocities.

Finally, we will look to the new authorities to adopt democratic practices and build democratic institutions, to work actively to prevent Congo's fragmentation, and to foster stable and peaceful relations with its neighbors.

The Congo is a nation rich in both human and natural resources. In the weeks ahead, we will work with officials in that country and elsewhere to improve prospects for a democratic, prosperous and peaceful future. We will also consult closely with the Congress concerning the evolution of our policy.

The United States supports international peacekeeping activities that serve our interests through payment of our assessments to United Nations peacekeeping operations and through our voluntary peacekeeping account, for which we are seeking $90 million in fiscal year 1998. Operations expected to be funded by this account include, among others, peacekeeping and observer activities in the Great Lakes region of Africa, the Multinational Force and Observers in the Sinai, the Israel-Lebanon Monitoring Group and peacekeeping and preventive diplomacy missions of the OSCE.

As we work with others to resolve problems such as civil conflict and proliferation, we need strong partnerships with other leading nations. These are the bonds that hold together not only our foreign policy, but the entire international system.

By acting together, we are able to elevate standards of international behavior, spur economic and social progress, and strengthen the rule of law. We also leverage resources far beyond our own.

Today, for example, many of the same countries that are working to implement peace in Bosnia are also striving to build lasting stability through NATO's Partnership for Peace. This year we have requested $70 million in military assistance for Partner countries. We are also requesting $20 million for Central European Defense Loans (CEDL), to help recipient countries build defensively-oriented, civilian-controlled militaries with strong ties to the United States.

While preserving NATO's traditional purposes and strengths, we are also adapting it to meet new missions and take in new members. At the July summit in Madrid, NATO will invite a number of Central European states to begin negotiations to join the alliance. As President Clinton has repeatedly made clear, this is part of a larger strategy, developed with our allies, to build a future for Europe in which every democracy is our partner and every partner is a builder of peace. Also contributing to this goal is the historic "founding act" between NATO and Russia that was reached last week, and that establishes the basis for long term cooperation on security matters. In addition, a new Euro-Atlantic Council will provide the framework for consultations involving NATO and Europe's other democratic states.

In this context, Mr. Chairman, I might add that I appreciate the counsel I have received from members of the Senate's NATO Observer Group and from other Senators with an interest in the evolution of Europe's economic and security institutions. This is a process of enormous importance and can only benefit from vigorous and wide-ranging examination of the issues.

Meanwhile, the economic, political and military evolution of nations in Asia will also have a profound effect on American security and foreign policy.

Today, we are working with allies and friends to build an Asia-Pacific community based on shared interests and a common commitment to peace.

Over the last few years, we have reinvigorated our Asian alliances while maintaining our forward deployment of 100,000 American troops in the Western Pacific. We are encouraging new efforts to build security and resolve disputes peacefully through bodies such as the ASEAN Regional Forum.

Our core alliances in Asia are as strong, and our cooperation as broad, as they have ever been. Our relationship with our closest Asian ally, Japan, is underpinned by our shared commitment to open and democratic societies. We consult regularly on issues from peace in Asia to development in Africa. We appreciate Japan's generous financial support for the Middle East peace process and for our Common Agenda of environmental initiatives around the world.

We are working closely with the Republic of Korea, another key ally, to maintain stability on the Korean peninsula and to explore possibilities for permanent reconciliation. Our cooperation is growing in numerous other areas as well, as Seoul, anchor of the world's 11th-largest economy, takes on a larger regional and global role.

We are also deeply engaged in managing our complex relationship with China, as it emerges as a key Asian and global power.

The evolution of our relations with China will depend primarily on how China defines its own national interests during the remainder of this century and into the next. Through our strategic dialogue, we are encouraging the Chinese to accept what we believe is true—that China will be able to find greater security, prosperity and well-being inside a rule-based international system than outside. Accordingly, the President has decided to renew China's most-favored-nation trading status, equivalent to normal trading relations, for the coming year.

Currently, China is constructively engaged with the international community in some areas; in some, it is not. We have been able to work together well with respect to the North Korea nuclear issue and banning nuclear tests. We have also made progress on a range of specific commercial concerns and laid the basis for cooperation on responding to global threats of terrorism, crime, drugs and pollution.

We do, however, still have important differences with China, especially on trade, arms-related transfers and human rights, including Tibet. We do not hesitate to raise these differences privately with China's leaders, or to express our beliefs publicly concerning the need for all countries to respect international standards. We will continue to voice strong concern about the need for China to meet its commitments concerning Hong Kong, a message that I will deliver, in person, at the time of the former colony's reversion to Chinese authority on July 1. And, while we will adhere to our "one China" policy, we will also maintain robust unofficial ties with Taiwan.

PROMOTING DEMOCRACY

Mr. Chairman, America's global leadership is derived not only from our economic and military power, but from the power of our ideals. And fundamental to American ideals is our commitment to democracy.

Today, in Burma, as the Chairman has often and eloquently reminded us, a legitimate democratic movement with demonstrated popular support has been brutally repressed. That movement has urged the international community to limit foreign investment. What is more, Burma's government protects and profits from the world's largest heroin trafficking enterprise.

Last month, in response to deepening repression in Burma, President Clinton decided to impose investment sanctions under a law approved last year by Congress. In combination with the earlier actions we and other nations have taken, together with shareholder and consumer pressure, we believe this step will deal a further blow to investor confidence in Burma. It has sent a message to the military regime that it will not attract the capital investment it needs unless it begins a genuine dialogue with its own people.

We also bolster democracy through our economic support and development assistance programs in selected countries around the world. For example, we are requesting $202 million in economic support funds for democratic development in countries such as Haiti, Angola, Cambodia and for regional programs that promote respect for civil liberties and the rule of law.

We are also continuing major programs for strengthening democratic transitions in Central Europe through the Support for East Europe Democracy (SEED) program and in the New Independent States (NIS).

The transition from Communism to democracy is the product of Central European courage, energy and vision. But the United States may be proud of the role the SEED program continues to play in assisting the process of economic and political

reform. What was once said about the Marshall Plan may fairly be said about this program, it has served as "the lubricant in an engine—not the fuel—allowing a machine to run that would otherwise buckle and bind."

Through SEED, for which we are requesting $492 million this year, we have been able to serve as technical adviser on the ways and means of building democratic institutions and processes, developing financial sectors that attract investment and coping with energy and environmental problems.

Clearly, progress has not been even either over time or among countries in the region. But the overall direction has been steady in the direction of less centralization, increased reliance on private enterprise, more civil liberties and greater development of the rule of law.

Central and eastern Europe remain as important to American interests today as when the original SEED act was passed. The nations here are proving that democracy and economic prosperity can be built on the ruins of failed communist systems—a valuable example for countries further to the east. Central Europe is a growing market for U.S. goods and services, and a gateway to the vast potential markets in Russia and Ukraine. Finally, a peaceful, democratic Central Europe gives the U.S. and the Atlantic alliance greater assurance of security at a relatively low cost.

A democratic Russia is also an essential partner in our efforts to build a secure Europe. Russia's transition has been arduous and uncertain. More difficult times lie ahead. But open markets and democratic institutions have taken hold. If Russia is to become a full and productive partner in a Europe at peace, that progress must continue.

The United States has a profound interest in encouraging Russia to continue its democratic and economic reforms, to respect fully the sovereignty of its neighbors, and to join us in addressing critical regional and global issues.

In Helsinki, Presidents Clinton and Yeltsin issued a joint statement outlining their commitment to stimulating growth and investment in Russia, advancing Russia's integration into international organizations and citing President Yeltsin's plan to launch Russia on its next phase of reform.

In recognition of the progress that has been made, and of the magnitude of our stake in the strengthening of market democracies in the region, we have this year revamped our assistance program to Russia and the other NIS. Of the $900 million we have requested, $528 million will fund a new Partnership for Freedom.

This initiative will concentrate on activities to promote business, trade and investment and those that would more fully establish the rule of law. It will support opportunities for U.S. business and help support partnerships with private U.S. organizations. And it will increase professional and academic exchanges.

In the aftermath of the Soviet Union's disintegration, the NIS had to build their government institutions from the ground up. In most cases, media and basic market institutions, such as banks, capital markets and regulatory institutions remain at early stages of development.

In several countries, economic reform has advanced faster than democratic reform. We are concerned, for example, by the undermining of parliamentary independence in Belarus, by continued repression in Turkmenistan and by the disputed nature of elections held last fall in Armenia.

We are concerned, as well, that in some sectors of the NIS, weak institutions of government have led to a vacuum of effective authority that has opened the way to a rapid increase in criminal activity. This is hampering fledgling democratic institutions, creating social instability and discouraging foreign investment.

We have responded by substantially increasing the proportion of our assistance that is designed to strengthen law enforcement and judicial institutions and promote the rule of law. Since 1995, for example, we have provided law enforcement training to nearly 10,000 officials in Central Europe and the NIS. We have developed regional criminal justice training programs for more than 1,000 law enforcement officers and prosecutors at the International Law Enforcement Academy in Budapest. And we have greatly increased our formal cooperation with Central European and NIS governments through agreements that allow us to share information and coordinate investigatory, prosecutorial and crime preventive activities.

Throughout this region and, indeed, the world, the United States represents the potential of democracy. Wherever we are visibly involved and engaged, we give hope to people who believe in freedom and who want democratic institutions to succeed. By building partnerships with other freedom-loving peoples, we sustain the growth of open markets and democracy that has enhanced our own security and prosperity, and which has been the signature element of our age. If, however, we were to abandon or walk away from our partners in these countries, we would heighten the pos-

sibility that their societies would retreat into repression or dissolve into the disorder within which terrorists and criminals thrive.

Certainly, assistance to the strategically-located and energy-rich democracies of Central Asia and the Caucasus is strongly in our national interest. The purpose of our aid is to help small businesses gain a greater foothold and to assist nascent democratic organizations, such as the independent media, public interest groups and educational institutions establish active, effective roles.

In this connection, I note that the Administration continues strongly to oppose section 907 of the Freedom Support Act, which undermines U.S. influence and policy flexibility in the Caucasus region and Azerbaijan.

The Administration continues to support assistance for Ukraine as part of our long term strategic partnership with that country. Last week's first full meeting of the U.S.-Ukraine Binational Commission underscored the value we place on a stable, democratic Ukraine that is working cooperatively with us on a range of issues. During those meetings, we were able to express our support for the process of economic and political reform, while also expressing concern about the problem of corruption that has been chilling outside investment in Ukraine.

PROMOTING PROSPERITY

Mr. Chairman, peace and security are paramount goals of our international programs, but promoting economic prosperity is another top priority.

The Clinton Administration has had extraordinary success in helping our economy grow at home by opening markets abroad. Our exports have grown by 34 percent since 1993, generating 1.6 million new jobs. Since the North American Free Trade Agreement entered into force three years ago, U.S. exports to Mexico have risen by more than one-third and overall trade has more than doubled. We have laid the groundwork for free and open trade in our hemisphere by 2005 and in the Asia-Pacific region by 2020. And we have put our full weight behind better enforcement of intellectual property standards, and fuller consideration of core labor rights, at the World Trade Organization.

Looking ahead, we all know that competition for the world's markets is fierce. Often, our firms go head-to-head with foreign competitors who receive active help from their own governments.

Our goal is to see that American companies, workers and farmers have a level playing field on which to compete.

As long as I am Secretary of State, our diplomacy will strive for a global economic system that is increasingly open and fair. Our embassies will provide all appropriate help to American firms. Our negotiators will seek trade agreements that help create new American jobs. And I will personally make the point to other governments that if their countries want to sell in our backyard, they had better allow America to do business in theirs.

Fortunately, our diplomats are doing their jobs. One of the pleasures of my own job is hearing about compliments from American corporations like this one. After executing a contract to build a power generating plant in Yemen, officials from CAE Development of Lexington, Kentucky wrote that "Every Department of State employee contacted was top notch and eager to help * * * we could not have obtained this contract without their help."

But our diplomats and our businesspeople need your commitment as well, and your support for our requests for the Export-Import Bank and the Trade and Development Agency.

The Overseas Private Investment Corporation, I am pleased to say, is now self-sustaining. Its commitments have grown by a factor of five over the last five years, and it has shown profits repeatedly, reaching $209 million in 1996.

PROMOTING SUSTAINABLE DEVELOPMENT

Mr. Chairman, many of America's fastest-growing markets are in developing countries, where the transition to an open economic system is underway, but incomplete. Often, these countries are held back by high rates of population growth, lack of access to health care and education, a scarcity of natural resources or conflict.

When democratic institutions in a developing country are weak, that country will be less likely to grow peacefully, less inclined to confront international terrorists and criminals, and less able to do its part to protect the environment.

That is why our sustainable development programs are a sound investment in American security and well-being.

This year, we have given them a new focus on one of the most basic problems that stifles development and sparks conflict—food security. Programs to improve the

dependability of crops and distribution of food in Africa can help make sure hunger is no longer a constant threat to the lives of people and the stability of societies.

Our financial support and pressure for reform have helped the United Nations Development Program to become the central coordinating and funding mechanism for UN development assistance. Every dollar we contribute leverages $8–10 from other nations in support of Bosnian reconstruction, Rwandan judicial reform, and Cambodian de-mining—to name just a few projects. I urge this Subcommittee to support the President's full request of $100 million for UNDP.

We have maintained our request for funding for UNICEF at $100 million for fiscal year 1998. Like UNDP, UNICEF plays an important role in countries suffering from, or recovering from, the devastation caused by civil or international conflict. UNICEF helps protect children—a society's most vulnerable members and its hope for the future—from the Balkans to Liberia.

We have requested $795 million for population and health programs. By stabilizing population growth rates, developing nations can devote more of their scarce resources to meet the basic needs of their citizens. Moreover, our voluntary family planning programs serve our broader interests by advancing the status of women, reducing the flow of refugees, protecting the environment, and promoting economic growth.

We are developing forward-looking programs to protect the global environment and promote sound management of natural resources with our request of $341.5 million. Of this amount, AID programs totaling $290 million are used for projects such as helping to reclaim land for agriculture in Mali, cut greenhouse gas emissions in the Philippines and acquire American "green technology" in Nepal.

Our $100 million request for the Global Environment Fund (GEF) provides loans for developing country projects to preserve biodiversity, inhibit global warming, protect oceans, and mitigate depletion of the ozone layer. A key U.S. priority in the GEF is to increase support for private sector efforts on behalf of sustainable development, including new tools such as project guarantees and equity investments in promising environmental technology firms.

As Treasury Secretary Rubin testified earlier this week, we have also requested an increase to restore full funding and begin to pay our debts to the multilateral development banks and the IDA, where our support for reform has achieved results. For example, the World Bank has increased accountability and transparency while cutting its administrative budget by 10 percent, and the African Development Bank has tightened lending rules, cut staff by 20 percent and appointed external auditors.

The Budget Resolution provides you with the flexibility to respond favorably to our request, and we hope you will take advantage of the opportunity to maintain U.S. leadership in these institutions.

PROVIDING HUMANITARIAN ASSISTANCE

The President's request of $650 million for Migration and Refugee Assistance would enable the United States to continue contributing to the relief of those victimized by human or natural disaster. We have also requested that our international disaster assistance and Office of Transition Initiatives programs be funded at the same levels as last year.

CONCLUSION

Mr. Chairman, I know that supporting foreign assistance is not the easiest vote for a Member of Congress to make. Americans, all of us, are deeply concerned about problems here at home; about the budget, about the quality of our schools, about crime.

No one understands better than the President that we cannot hope to lead abroad unless we are first strong at home. That is precisely why he has placed his primary emphasis on building a strong and growing domestic economy.

But the Administration also knows that neither our history, nor our character, nor our self-interest will allow us to withdraw from the center stage of global political and economic life. In today's world, domestic policy and foreign policy are no longer separable things.

There is, after all, no more immediate or local an issue than whether our sons and daughters will someday be called upon to do battle in big wars because we failed to prevent or contain small ones.

There are few more significant economic issues than whether we will find ourselves forced into a new arms race because of setbacks in the former Soviet Union or because nuclear weapons have fallen into the wrong hands.

There are few goals more important to our workers than opening new markets for American goods overseas.

There are few matters more urgent for our communities than reducing the flow of drugs across our borders.

And there are few questions more vital for our children than whether we will bequeath to them a world that is relatively stable and respectful of the law, or one that is brutal, anarchic or violent.

A half century ago, a great American generation, led by President Truman, and supported by Members of Congress from both parties, rose above the weariness of war's aftermath, and the temptation of isolation, to secure the future. Working with our allies, they made the investments, and built the institutions, that would keep the peace, defend freedom and create economic progress through five decades.

Members of the Subcommittee, it is up to us in our time to do what they did in their time. To support an active role for America on the world stage. To protect American interests. To keep American commitments. And to help where we can those from around the world who share our values.

In that effort, I pledge my own best efforts as Secretary of State. And I earnestly solicit your support.

Thank you very much. And now, I would be happy to respond to any questions you might have.

REDUCTION IN AID TO ISRAEL AND EGYPT

Senator MCCONNELL. Thank you, Madam Secretary.

Given the attendance at the hearing today of members, we are going to have 5-minute rounds, and I will lead off by just referring to this morning's paper in which Bob Novak and Rowland Evans suggest the administration is considering a reduction in aid to Israel and aid to Egypt in order to provide Jordan with roughly $100 million. I was curious, Madam Secretary, whether that is something you are pursuing.

ASSISTANCE FOR JORDAN AND MIDDLE EAST

Secretary ALBRIGHT. Mr. Chairman, we have for some time now been seeking ways to provide substantial additional assistance for Jordan and other friends of peace in the Middle East. The President has asked us to do that. King Hussein has taken genuine risks for peace and he deserves our support.

The President has had discussions with Prime Minister Netanyahu who supports the establishment of a Middle East peace and stability fund for this purpose. We are still examining with Israel and Egypt the details of how to accomplish this, and when our discussions reach a conclusion, we will consult with you more closely. But we do very much believe that Jordan and King Hussein, who have played such a crucial role, do in fact need some assistance in this area.

Senator MCCONNELL. We will look forward to discussing that with you further.

I would like to shift to the NATO issue, upon which you spent some time in your statement. I think it is accurate to say that I was a supporter of expansion of NATO even before it was Clinton administration policy, so I am very much in sympathy with the direction that the administration is finally taking.

You are familiar with the arguments that are being advanced against NATO expansion, much of it related to the potential cost to the United States. So, in the area of infrastructure the suggestion has been made that the defense capabilities of applicants are simply inadequate and that we would probably have to fund a significant proportion of the increase in these capabilities.

We have been told that our costs; that is, the American costs associated with infrastructure could be roughly $150 million to $200 million annually and drawn from the defense account. Is that your understanding of where that money is to come from?

NATO EXPANSION

Secretary ALBRIGHT. Yes, sir.

Let me just say, first of all, I appreciate very much what you said in terms of support for the policy because I think this is one of the major initiatives of our time and one that we should be discussing and one that we truly do believe will complete for central and Eastern Europe what was done for Western Europe 50 years ago.

We are making it quite clear that NATO enlargement is not cost free and that, as with many aspects of American security, it is not free. We estimate that it will cost the United States somewhere between $1.5 billion and $2 billion over a 10-year period, which does come down to around $200 million a year, and it would not come out of our budget, but the defense budget.

Senator MCCONNELL. Is it your understanding that the modernization of forces costs were to be borne by the new members coming in?

Secretary ALBRIGHT. Yes; and let me just also make that clear, Mr. Chairman. First of all, one of the considerations that is going to be taken into account in inviting new members is the extent to which their national budgets do reflect a commitment to modernizing their forces and having an appropriate expenditure for defense.

Second, we are also not going to be the country bearing the lion's share of the cost for NATO expansion. Other NATO members, the European members, we expect will be picking up the lion's share. So, the new members will pay for their modernization. Other NATO members will pick up their share and our cost is as I stated.

Senator MCCONNELL. Is it further the assumption that most of these armies are bigger than they should be, that the reductions in forces in these countries should produce the money that they need for modernization? Is that another assumption?

Secretary ALBRIGHT. That is one part of the assumption. I think that they clearly have to restructure their forces and some savings will be produced.

We are concerned, as I am sure you are, that they develop a balance between what they are going to be spending on defense and modernization versus what they need for their economic advancement. But we are looking with them at an appropriate percentage of their budget and urging them to either get up to that point or come down to it. But we do think that some of their restructuring of their forces should produce some savings for them.

Senator MCCONNELL. It is not clear that it will, though, is it? The chairman and I recently were in Hungary and we were talking to the Defense Minister. He said they had already reduced their force by one-third, and it was not producing the savings that they had anticipated. So, this may or may not provide the money for modernization. Is that a correct assumption?

Secretary ALBRIGHT. That is true, but let me just say again NATO enlargement is not a scholarship program. They are going to have to pay their way and also be responsible members of the

foremost alliance of our time. So, one of the considerations here is their ability to perform within the NATO alliance and to modernize their forces and to pay their way.

Senator MCCONNELL. I think it is important that we not let that be used as a reason, however, not to expand NATO. Is it safe to assume that the militaries of the countries currently in NATO are not all exactly equal in capability?

Secretary ALBRIGHT. I think that is safe to assume, but they play their role. I think that it is a privilege to be a part of NATO and these countries know that, and we believe that the countries that would be under consideration would be those that could in fact play their role on a calibrated basis as we all do in NATO.

Senator MCCONNELL. I see my red light is on, but I am going to fudge here for 1 minute because Senator Leahy really is entitled to go second as ranking member, assuming he gets here fairly soon.

While we are on NATO, we all have followed with a good deal of interest the agreement, if that is the proper terminology, that has been concluded conceptually between Russia and NATO. Are there any codicils, letters of intent, or other side agreements with reference to that conceptual agreement that exist and that need to be commented upon?

Secretary ALBRIGHT. We are calling this the Founding Act, and it is very straightforward. What you see is what you get. What it does, Mr. Chairman, is basically codifies a lot of existing NATO policy and states principles such as that we have no intention, reason, or plan to station nuclear forces within the new countries, which is a NATO doctrinal point. It creates a joint council which is the mechanism whereby the cooperation will take place. It restates generalized principles about no subordination of NATO to other organizations, no second class citizenship. It is a straightforward document which does not have any side letters or codicils.

Senator MCCONNELL. What has been the reaction of the former Soviet republics and the Baltic countries to this agreement?

SOVIET/BALTIC REACTION TO NATO ENLARGEMENT

Secretary ALBRIGHT. I think the reaction to the agreement has been good. It is no secret that their reaction to NATO enlargement is not good. They are making no secret of the fact that they do not favor NATO enlargement. We know that and we have operated on that basis.

Also, when I spoke with both President Yeltsin and Foreign Minister Primakov, I made quite clear that our going forward with NATO enlargement was not dependent upon them signing this founding act. We had been prepared to go on to Madrid—that is the conference where the invitations will be made to the new members—whether there was a NATO/Russia document or not. We now do not have to do that because they in fact are prepared to sign such a document on May 27 in Paris.

I think their reaction to the document is positive. They see it, as we do, as a way for the Russians to be part of a European system.

Senator MCCONNELL. I meant the reaction of the former Soviet republics to the Russia/NATO agreement.

Secretary ALBRIGHT. I am sorry. I think there we have not heard anything specifically against the NATO/Russia document. I think

that others would like to have similar agreements with either us or NATO. Ukraine, for instance. We are pursuing a Ukraine/NATO document at the same time. We are developing a relationship with the Baltics that I think shows our desire to include them increasingly in all European activities and in a Baltic plan.

Senator MCCONNELL. What about as candidates for admission to NATO themselves?

Secretary ALBRIGHT. Well, we have said all along that the first shall not be last, that NATO is open to all democracies and market economies, and have made very clear that there are no members that are automatically excluded. That includes the former Soviet republics.

Senator MCCONNELL. I may want to come back to NATO.

I am going to turn to Senator Lautenberg.

Senator LAUTENBERG. Thank you very much, Mr. Chairman. I will be fairly brief.

I am delighted to see you, Madam Secretary, as usual and continue to be impressed with your energy and your ability and would encourage you onward and upward, to keep going.

I am working on a subject of interest to all of us here and that is the budget, so I am sorry that I was not here earlier to hear your full remarks.

You know a subject of significant interest to me is what is happening with those accused of war crimes in the former Yugoslavia, particularly where we have an ability to reach to these people. I know that you met with the Croatian Foreign Minister Granic last week. I appreciated the tough message that you delivered about Croatia's need to cooperate with the War Crimes Tribunal.

Now, following your meeting, a State Department spokesman, Nick Burns, stated that there are individuals who are on Croatian soil who are indicted and have not been turned over and that you raised specific names of people who need to be turned over to The Hague for the work of the crimes tribunal. Burns reiterated those points at a later time.

Did you deliver specific names of war criminals? And I ask you that because Burns has spoken about the many occasions in the plural. So, were you able to identify any better who they were, where we were looking to pick them up? Their availability apparently is fairly obvious to lots of people and nothing is happening. I wonder if you might be able to tell me whether——

Secretary ALBRIGHT. Yes; first of all, Senator, I really would like to thank you personally for all the tremendous work you have done on the budget, and I think that we have all recognized here this morning the pleasure that we are having with the 150 account being prioritized. I think that makes a big difference, and I am very grateful to you for what you have done.

Senator LAUTENBERG. Senator McConnell as well in this regard I must say.

WAR CRIMES TRIBUNAL

Secretary ALBRIGHT. On your question, first of all, let me say that this is an issue that we and I specifically take very seriously. I delivered a very tough message to the Croatian Foreign Minister generally, not just on the war crimes, but the need for them to co-

operate better in Eastern Slavonia and to be generally more cooperative in supporting the Dayton accords.

What I said was that they needed to cooperate in greater degree with the War Crimes Tribunal and a name that I used as an example of the need for further cooperation was Kordic, and they know the other names. I was using more as examples of the kinds of things they needed to do to cooperate.

I did say to them that we were pleased that they had finally transferred Mr. Aleksovski and that this was the kind of cooperation that was required. It had taken them too long to do that but I made it very clear that they needed to do more.

He and his delegation committed to apprehend any indicted persons on Croatian territory and to use his Government's influence with the Bosnian Croats because Kordic is not in Croatia itself.

I think that what we need to do—and as I said, I am delivering a speech on this tonight—is to be much more assertive in terms of supporting the War Crimes Tribunal and that is our intention.

Senator LAUTENBERG. As a matter of fact, if we complete our work on the budget, I will hear your speech directly tonight in New York.

You know that my view has been that any engagements with multilaterals and bilaterals that are part of an aid program or a development program with Croatia ought to be carefully reviewed before we consent with our representatives. I am trying to figure out why the State Department gave the go-ahead for the United States to vote in favor of the $100 million enterprise and the financial sector adjustment loan for Croatia at the World Bank on May 13. It was just days before your meeting in Croatia with the Croatians.

Secretary ALBRIGHT. Let me explain that a little bit. First of all, we had in fact held back on a previous vote in order to get them to try to use that leverage on the Aleksovski turnover. They in fact then did that and we felt it was a good idea to show that if they cooperated, there was a sign that we approved. I think we have other ways of maintaining leverage. We will continue to do that.

I am going to go, Senator, to the region as soon as I finish these meetings in Europe at the end of next week. I will again deliver this message, but I think that it is wise to do sticks and carrots a little bit here and that is our opportunity to do it.

Senator LAUTENBERG. So, is it the stick's turn next?

Secretary ALBRIGHT. Well, if we do not get something for the carrot, there will be a stick; yes.

Senator LAUTENBERG. I would urge you to make sure that the law is appropriately laid down.

I would ask one other thing, Mr. Chairman. You are planning, I see by the papers, to be in Banja Luka. Is the subject of war criminals going to be on the agenda when you are there?

Secretary ALBRIGHT. The subject of war criminals will be on my lips wherever I go. It is something that I feel very strongly about. I think that those of us that have followed this issue as carefully as you all have know that in order to have ultimate reconciliation and justice, it is important for the war criminals to be surrendered and for there to be the fullest support for the work of the War

Crimes Tribunal. I have spent a lot of time with Chief Prosecutor Luis Arbor in this attempt.

Senator LAUTENBERG. I urge you to keep the pressure on, Madam Secretary.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Lautenberg.

Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Secretary of State Albright, I join my colleagues in welcoming you here and compliment you on your extraordinary work in a short tenure. You come with a great background and we look forward to working with you.

In the limited time available to me, I will focus on problems in the Mideast. You and I have talked about these before and I gave you a little heads-up before the session started after the recess. I want to talk to you about the Palestinians and I want to talk to you about Egypt.

The terrorist attack in Israel which killed three Israelis and wounded dozens more on March 21 was preceded by activity by Yasser Arafat on March 9 holding a well-publicized meeting with Hamas leaders and shortly, thereafter, released Maqadmeh from prison, and Maqadmeh then made a speech on the day of the bombing in Tel Aviv saying: "Nothing can stop Israel except holy warriors carrying explosives on their bodies to destroy the enemies of God."

Prime Minister Netanyahu then said that Arafat had given a green light to carrying on the terrorist activities.

About the same time, there was a disclosure by El Ed, the Deputy Education Minister, who said that Arafat had prior knowledge of the 1993 plot to bomb New York City's World Trade Center. I have asked the Attorney General to follow up on that because if that is true, we could extradite Arafat to the United States under our laws.

The question that I have is whether Arafat gave that green light. You have not yet responded to the letter and I am not saying you should have. It is not an easy question, but if it is determined that Arafat did give a green light, as you know, we have the provisions of the amendment which Senator Shelby and I introduced which would cut off United States aid to the Palestinians, the $500 million, if they do not change their charter, which I think they have not done. But that is not the more pressing issue. The more pressing issue is whether Arafat gave the green light for terrorism. But if that proves to be the case, should we not cut off United States aid to the Palestinians?

TERRORISM

Secretary ALBRIGHT. Senator, you have asked me this question and it is a very serious question and I will do my best to answer it. But let me put it a little bit into context.

I think we have to remember the remarkable achievements that were made in the Middle East peace process when we were all on the lawn at the White House, and it had a lot to do with the development of a new set of relationships between Arafat and Prime Minister Rabin and us. I think we all celebrated what we thought

was the beginning of a new peace era. All of that was built on the necessity for there to be bonds of confidence developed among the leaders.

Those bonds have now been very seriously stretched and tattered in some respects, and there is a great deal of frustration I think on all sides about the lack of progress in the peace process and the resumption of activities, terrorist bombings. There is absolutely no place for terrorism in the Middle East or anywhere. We have spoken out very loudly against it and see that there have been those who have said there is a moral equivalence between bombs and bulldozers. We do not accept that and believe that terrorism is totally unacceptable and we have made that clear.

We have and had told Arafat privately at the time that he had to do everything he could to stop terrorist acts. We have no evidence that there was a green light. But clearly he——

Senator SPECTER. Madam Secretary, are you satisfied that there was not a green light given by Arafat?

Secretary ALBRIGHT. To the best of my knowledge, I cannot show that there was a green light. What there was not was a red light that made it very clear that terrorist acts were unacceptable.

Senator SPECTER. Well, Madam Secretary, if there was neither green nor red, it seems to me that is not acceptable. I think we have to expect a red light from Arafat. I think that is his commitment, and short of that, how can we fail to cut off the aid to the Palestinians?

Secretary ALBRIGHT. It is very hard to sort out all the facts. I think we have to keep in mind what it is we are trying to accomplish here, and that is ultimately some kind of a resumption of negotiations between the Palestinians whose leader is Arafat and the Israelis in order to move the process forward and we need to keep looking forward.

We are all very frustrated at the moment. We have seen a breakdown in a process that we all applauded, and I think we have to be very careful in how we react at this stage to make sure that we do not worsen the situation, but try to get the peace process back on track.

Senator SPECTER. Well, Madam Secretary, I agree with you about the importance of the peace process, but it seems to me we just cannot compromise on the terrorist issue. I was very much concerned—and this is not your bailiwick—when Marzook was released from detention where he had been held for months, years, and taken back on a military aircraft going to Jordan. I just think we cannot wink at terrorism. And I know you do not wink at terrorism. It is a tough judgment, but my own view is that if there is not a red light, we ought not to give the Palestinians the aid.

Let me ask you one final question. I ask the chairman if I might raise an issue as to Egypt. Egypt has a commitment with Israel not to have boycotts, and there is not a warm peace there.

Now, on March 31 of this year, the Arab League foreign ministers meeting in Cairo adopted a resolution which calls for an Arab boycott. President Mubarak has been a very good friend, very instrumental. We give $2.1 billion to Egypt along with $3 billion to Israel as a result of Camp David, and I have always thought it is money well spent.

But if Egypt is not living up to its commitments on the boycott issue—and that is just one of them. I will put some papers in the record for further amplification—should we consider withholding or reducing the $1.2 billion which we give in foreign aid to Egypt?

[The letters follow:]

LETTER FROM SENATOR ARLEN SPECTER

U.S. SENATE,
Washington, DC, March 24, 1997.

Hon. MADELEINE ALBRIGHT,
Secretary of State,
Washington, DC.

DEAR SECRETARY ALBRIGHT: According to the weekend press reports, Israeli Prime Minister Benjamin Netanyahu has stated that Palestinian Chairman Yasir Arafat has indirectly given a green light to the terrorists resulting in the suicide bomb which killed and wounded many Israelis last Friday.

According to the news reports, Chairman Arafat and the Palestinian authority released Ibrahim Maqadmeh. Prime Minister Netanyahu further stated that Chairman Arafat and the Palestinian authority have failed to detain known terrorists and to confiscate weaponry.

In my judgment, it is very important for the State Department to make a factual determination as to whether Chairman Arafat and the Palestinian authority did give a green light indirectly to the terrorists and whether there was a failure to detain known terrorists and to confiscate weaponry.

I would appreciate your advice, as promptly as possible, on your Department's conclusion as to whether Chairman Arafat and the Palestinian authority gave an indirect green light to the terrorists.

As you know, an amendment offered by Senator Shelby and myself to the Middle East Peace Facilitation Act of 1995 conditions the $500 million in U.S. aid to the Palestinian authority on presidential certification that the Palestinian authority is complying with all of its commitments under its peace accords with Israel, including its commitment to prevent acts of terrorism and undertake "legal measures against terrorists, including the arrest and prosecution of individuals suspected of perpetrating acts of violence and terror".

The Senate Appropriations Subcommittee on Foreign Operations, on which I sit, will soon be considering this issue for fiscal year 1998 so I would appreciate your prompt response.

In addition, I would appreciate your advising me as to whether there is any U.S. aid in the pipeline which has not yet been turned over to the Palestinian authority. If so, I request that such payments be withheld until the determination as to whether the Palestinian authority is complying with the Specter-Shelby amendment.

Sincerely,

ARLEN SPECTER,
U.S. Senator.

LETTER FROM SENATOR ARLEN SPECTER

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, DC, May 13, 1997.

The PRESIDENT,
The White House,
Washington, DC.

DEAR MR. PRESIDENT: I am writing to you in response to recent events in the Middle East.

On March 21, 1997, a bomb exploded in a Tel Aviv cafe killing 3 Israelis and wounding 40. The militant Islamic group Hamas claimed responsibility for this attack. According to the press reports following the attack, Israeli Prime Minister Benjamin Netanyahu has stated that Chairman Yassir Arafat indirectly gave a green light to terrorists resulting in this attack.

According to the Washington Post (March 24, 1997), this attack followed months of warnings from your Administration to Yassir Arafat that he was being too lenient with Islamic extremists. It has been reported that in recent months Arafat has released 120 out of 200 arrested Hamas/Islamic Jihad activists that Israel specifically

requested be kept in jail, including Ibrahim Maqadmeh, who is regarded as the head of a military wing of Hamas. In addition, Prime Minister Netanyahu has stated that Chairman Arafat and the Palestinian authority have failed to detain known terrorists and to confiscate weaponry.

In my judgment, it is very important that the United States Government make a factual determination as to whether Chairman Arafat and the Palestinian authority did give a green light indirectly to the terrorists and whether there was a failure to detain known terrorists and to confiscate weaponry. On March 24, 1997, I wrote to Secretary of State Madeline Albright and requested that she advise me on the State Department's conclusions on these issues. I have not yet received a response to my letter.

Given the importance and urgency of this issue, I would appreciate it if you would ask your national security staff to review the evidence and advise me, as promptly as possible, on your conclusion as to whether Chairman Arafat and the Palestinian authority gave an indirect green light to the terrorists.

As you know, an amendment offered by Senator Shelby and myself to the fiscal year 1995 Foreign Operations Appropriations Bill conditions the $500 million in U.S. aid to the Palestinian authority on presidential certification that the Palestinian authority is complying with all of its commitments under its peace accords with Israel, including its commitment to prevent acts of terrorism and undertake "legal measures against terrorists, including the arrest and prosecution of individuals suspected of perpetrating acts of violence and terror".

The Senate Appropriations Subcommittee on Foreign Operations, on which I sit, will soon be considering this issue for fiscal year 1998 so I would appreciate your prompt response.

In addition, I would appreciate your advising me as to whether there is any U.S. aid in the pipeline which has not yet been turned over to the Palestinian authority. If so, I request that such payments be withheld until the determination as to whether the Palestinian authority is complying with the Specter-Shelby amendment.

On a related matter, I would appreciate your review of our large foreign aid package to Egypt in light of Egypt's recent actions in obstruction of the Arab-Israeli peace process.

On March 31, 1997, the Arab League foreign ministers meeting in Cairo adopted a resolution which recommended: stopping the normalization steps which have been taken with Israel * * * and halting all dealing with it [Israel], including closing offices and missions * * * and continuing to maintain the primary Arab boycott and reactivating it against Israel * * * .

Egypt's support for this resolution appears to violate Article 3 of the Egyptian-Israeli Peace Treaty of March, 1979 which stipulates that: Each party * * * undertakes to refrain from organizing, instigating, inciting, assisting, or participating in acts or threats of belligerency, hostility, subversion or violence against the other Party * * * . The Parties agree that the normal relationship established between them will include * * * termination of economic boycotts and discriminatory barriers to the free movement of people and goods * * * .

While it is my understanding that Egypt is exempt from participating in this economic boycott, its efforts to get other nations to participate in the boycott seem to violate both the spirit and the letter of the peace treaty.

Unfortunately, the Arab League resolution is only the last in a series of provocative Egyptian actions against Israel. As you will recall, when fighting broke out between Israelis and Palestinians after Israel opened an archaeological tunnel in Jerusalem this past September, you invited President Mubarak, Prime Minister Netanyahu, Chairman Arafat and King Hussein to Washington in an effort to solve the crisis. President Mubarak was the only one of these leaders to boycott your Washington summit.

Also, in recent years Egypt's Government-backed newspapers, including Al-Ahram and Al-Goumhuriwa, have published many vicious anti-Israel cartoons which are often nothing short of anti-Semitic. In the cartoons that I have seen, Israelis are frequently portrayed as blood-thirsty demons and Nazis. In many of these cartoons, Jews are depicted as dark, bearded, hook-nosed men clad in black—an image which is itself reminiscent of the Nazi era.

The United States gives Egypt over $2.1 billion in foreign aid each year. Our country undertook this serious commitment to Egypt after Egypt signed the peace accords with Israel. If Egypt's actions now serve to undermine these accords, then the level of aid must be reevaluated. As with every other country, Egypt's aid package should reflect the extent to which Egypt's actions further U.S. policy in the region.

Thank you for your attention to these important matters.

Sincerely,

ARLEN SPECTER,
U.S. Senator.

PEACE PROCESS

Secretary ALBRIGHT. Let me say that I think we need to remember what you have said as part of your comment and question, that Egypt has played a very important role in the overall peace process. When President Clinton met with President Mubarak when President Mubarak was here, we made very clear the importance to them of playing a constructive role in the whole peace process.

They continue to play a useful role and I think that we would make a mistake if we had unilateral cuts here at this time in dealing with Egypt.

If I might, Senator, it also goes back to your first question. As I said, I think we are in a pretty tough patch. We have been in tough patches before. We need to get through it. We are basically optimistic because that is our nature, but where I would be really concerned and would lead me to pessimism is if we were to undue all the work that has been done in the previous years of bringing the parties together.

After that meeting in Cairo, I called many Arab leaders and asked them not to move the process backward. It is very hard to unravel things, and, therefore, I would hope, even on our part here, that as the United States we continue to press both parties to get the peace process back on track, not take actions that would make it more difficult for us to continue to have our catalytic, honest broker role and to be vigilant but always understanding that we need to move forward and that by taking unilateral action in response to a specific action, we in effect make it more difficult for ourselves to play an active role, which we intend to continue to do.

Senator SPECTER. Thank you very much, Madam Secretary.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator Specter.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

Senator Harkin had wanted to be here. His brother is quite ill and so was unable to be. I have some questions he had wanted to ask, and I would like to just submit those for the record.

Senator MCCONNELL. That will be done.

Senator LEAHY. I mention them because they were things that he is very, very concerned about and if it were not for the illness, he would be here.

Madam Secretary, I know you talked about NATO enlargement, and I have not made up my mind on that question. I am watching it very carefully and am privileged to be part of the Senate observer group on this. I think you have made great progress with the Russians on it. My concerns have been numerous: the cost to the American taxpayers, and I know that has been discussed with Senator McConnell.

The implications the NATO/Russian charter has for the Start II Treaty is another one. I am concerned about whether Start II is going to be a casualty of this agreement. Are we expanding NATO

at the cost of undercutting progress in reducing a really dangerous threat, 20,000 Russian nuclear warheads? Do see any chance that Russia will ratify Start II this year?

RATIFYING START II

Secretary ALBRIGHT. Senator, this is very much a part of the discussions that President Clinton and President Yeltsin had and that I had had prior to that in Moscow, and we have made very clear to the Russians the importance of their ratifying Start II and then moving on to Start III.

While there clearly are complications within the Duma, President Yeltsin had committed himself, as had Foreign Minister Primakov to actively pursuing the ratification of Start II. So, we will press that and press them also, once that is done, to move on to Start III.

I agree with you. These were very important arms control treaties. They are important to us. We will keep pressing the case.

But what I believe has been so interesting in this phase is how we are moving forward in new relationships that are built on these kind of longstanding arms control agreements that allow us to move into new areas to provide better security.

And to go into your original question, we did talk about the cost of NATO enlargement, but I keep remembering that it costs more to fight and have a war than to think about how to preserve the peace. Even at the cost of $200 million a year, I think it is a good deal for the American people.

Senator LEAHY. I understand that. My concern is it becomes less of a good deal if we lose major nuclear arms control agreements because of it. It is one of the things that concerns some of us who still have questions on NATO expansion. I have always been a strong supporter of NATO. I think it is extremely important.

I said to you before my concern that NATO would have become irrelevant had we not bolstered it in Bosnia. Had we not made that a significant NATO matter, we could have ended up with an irrelevant meeting group that periodically would meet in Brussels and feel good about the world but be otherwise irrelevant, as compared to a situation where you could have a relevant and significant NATO, which I think is important. I think a military alliance of that nature run by democratic nations is in our best interest, especially in that part of the world.

Speaking of Bosnia, I was pleased to see you are going back to Bosnia. You and I traveled there with the President about a year and a half ago on the trip from hell. [Laughter.]

But actually I found it very interesting, and I think it is important for you to go. If we are going to withdraw our troops, we have got a lot of work ahead of us.

I saw an article in last Sunday's New York Times. "It would be a mistake to say there is peace in Bosnia," said a top NATO commander. "We have only the absence of war. We gave the civilian officials the time and space to carry out the Dayton agreement, but they failed. Nothing has been accomplished. The moment we pack up and leave next year, the war could well start over again." It went on to say that many civilian administrators, while acknowledging their failures, say the refusal by NATO leaders to arrest

people indicted on charges of war crimes and protect refugees who want to return, has left them without the power to make the parties respect the peace agreement.

I am sure that you have thought about the concerns of the Bosnian, Serbs, and Croats, who do not want to live together. You have thought about what happens if we leave, NATO pulls out, and Karadzic is still in power.

What do you think it is going to look like a year from now? I am not talking about just the date of pullout. What kind of progress are we going to have a year from now?

Secretary ALBRIGHT. Just one point back on the historic question. Just the way we do not sign on and ratify treaties that we do not think are in our national interests, we believe that the Russians will see a ratified Start in their national interests because if they do not do that, they are in a worse strategic position than they would be otherwise.

Senator LEAHY. I agree.

Secretary ALBRIGHT. So, I think that they should do it. The truth is that the Duma might have found objections to Start II whether we were enlarging NATO or not, but I think the issue here is that it is in their national interest.

On the question of Bosnia, you have heard me say this before, but I think it does bear repeating. There are those who are always talking about the deadline of the withdrawal of SFOR without focusing enough on all the work that can and should be done in the intervening period. As you know, I was a professor, and this really reminds me of the student who comes in the first day of the semester and sees that there is a paper due on the final day and that student says, I would like an extension, please. [Laughter.]

Senator LEAHY. That never happened to you as a professor, Dr. Albright.

Secretary ALBRIGHT. And I would have said to that student, do not worry about that. Let us get some work done. So, that is what this is about and that is what my speech is about.

Clearly the military has performed brilliantly in Bosnia. The civilian aspect of this has lagged, and what we need to do now is to reinvigorate the civilian part of the Dayton agreement and get full civilian/military cooperation in this phase.

There is a great deal that can be done. The chairman, in his opening statement, asked about what kind of programs there were. Was there conditionality? How were we dealing with this issue? What I will be talking about tonight is basically a way to use our assistance to bring about our goals and that is a multiethnic state, so that assistance would go to, for instance, one initiative, open cities, where we would pick certain cities, towns and support their projects that in fact help to bring the various ethnic groups together. We obviously favor the return of refugees, not only to majority areas, but to minority where they are in the minority and that is where these open cities are.

On the war criminals issues, I have made very clear that we understand the cancerous effect that continues when there are war criminals and the difficulty of having true reconciliation. We are pledging our full, aggressive support to the War Crimes Tribunal.

Senator MCCONNELL. Thanks, Senator Leahy.

Senator Bennett.

Senator BENNETT. Thanks, Mr. Chairman, and welcome, Madam Secretary.

I would like to talk to you about the Iranian buildup in the gulf. I talked to others from your Department about this before, and I do not know whether they told you about it or not, but we will go through some of the same ground.

Since the last hearing there has been a publication called Worldwide Maritime Challenges, 1997, put out by the Office of Naval Intelligence. I would like to turn to page 22 of that and here is a copy of it so that you can read along. It says, "Discoveries after the gulf war clearly indicate that Iraq maintained an aggressive WMD procurement program." For those in the audience, WMD means weapons of mass destruction, nuclear, chemical, and biological weapons. Now, that is fine. That is history.

Now, it goes on. "A similar situation exists today in Iran"—I underline the word "today"—"with a steady flow of materials and technologies from China to Iran. This exchange is one of the most active WMD programs in the Third World, and is taking place"—again the present tense, "is taking place"—"in a region of great strategic interest to the United States."

Do you agree with that assessment by the Office of Naval Intelligence?

WEAPONS OF MASS DESTRUCTION

Secretary ALBRIGHT. Well, let me say that we do share your deep concern about what is going on in this area. We have expressed our concerns to China and we will continue to do so.

We also are continuously monitoring, through all means available to us, all advanced weapons transfers whether from China to Iran and Iraq, or whether from China or any other nation. We are watching the situation very, very carefully. We are concerned. There is no question about it.

I do not know whether I would agree specifically with the way that this is worded, but I can assure you that this is of major concern to us.

Senator BENNETT. Are there any new developments regarding Chinese weapons transfers to Iran that you can share with us?

Secretary ALBRIGHT. Well, let me go through this with you a little bit. We have been concerned about China's sales of chemical weapons, and yesterday we imposed sanctions on seven Chinese entities for their export of chemical goods and equipment to Iran which we believe could be used in Iran's chemical weapons program.

The sanctions are against specific individuals and companies and not against the Government of China and we have no evidence that the Chinese Government was involved in these exports.

The sanctions prohibit the U.S. Government from procuring goods from the sanctioned entities and also prohibit the importation into the United States of any products produced by the sanctioned entities.

The Chinese Government has stated publicly its commitment to the Chemical Weapons Convention, and we hope that this action on our part will serve to encourage the Chinese Government to im-

prove its export controls so that these kinds of entities are prevented in the future from assisting Iran's chemical weapons program. This is to be published in the Federal Register today.

Senator BENNETT. Thank you. I find that very encouraging and I appreciate your sharing that with the committee.

If I could shift now to advanced conventional weapons, I would like to do with you the same thing I did with Mr. Bader when he was here and just elevate the awareness, if I might.

This is a picture of the U.S.S. *Stark,* the American escort vessel that was struck by a cruise missile 10 years ago this month, and 37 American sailors died.

Now, here is a picture of Chinese missile boats that are capable of carrying missiles equivalent or better than the Exocet missile that struck the *Stark.* You see there are five such missile boats on the back of this Chinese cargo ship. Each one of those has four missile launchers on it, and they are capable of launching the C–802 missile which is described by Chinese missile salesmen as being available for use against escort vessels. And that is exactly what the *Stark* was, an escort vessel.

Now, if the Office of Naval Intelligence is right and the Iranians are now receiving land-based versions of the C–802—we know they have 60 C–802's in sea-based version. Here is the land-based version of the C–802—they would then be capable of attacking American naval vessels, escort vessels, from both the sea and the land.

Now, it is against American law, namely, the Gore-McCain Act, to deliver cruise missiles to Iran. What is the administration's position on Gore-McCain and Chinese cruise missile sales? I asked this question of Mr. Bader and he has not yet responded.

One of the questions I asked him was, Have you asked the Navy for its opinion as to whether or not the presence of these missiles in the area is destabilizing? So, I would repeat to you, have you asked the Navy if they think the presence of these missiles are destabilizing, and if you have any comment on the overall situation.

CONVENTIONAL WEAPONS

Secretary ALBRIGHT. Thank you very much, Senator.

We do in fact again share your deep concern about China's transfers of sophisticated conventional weapons, particularly this C–802 antiship cruise missile. As I expressed to you in a response to a letter on April 17 that you sent to me, we have expressed our concerns to China and we will continue to do that.

We also continuously monitor through all the means available to us all advanced conventional weapons transfers to Iran and Iraq, as I said, whether from China or any other nation, and we carefully examine every report and take appropriate action when the information warrants.

As you know, the Gore-McCain Act provides for the imposition of sanctions when a foreign person or country transfers goods or technology so as to contribute knowingly and materially to the efforts by Iran and Iraq to acquire destabilizing numbers and types of certain advanced conventional weapons.

I take very seriously our need to prevent Iran and Iraq from becoming any more of a threat to regional stability than they already pose, and you can be certain that we will—and I personally will—

continue to monitor any further development on this issue. We remain vigilant and will continue to review this with the appropriate agencies, including the Departments of Defense and the Navy whether these transfers have met the threshold specified in the Gore-McCain Act.

If I might, Senator, take advantage of both the questions that you have asked to give a little bit of a broader context. There clearly is a very serious problem in our society or in the international system today about the transfer of weapons. We are in a situation where there are a number of countries that have sophisticated weapons systems that are selling them to other countries and there is much more of a movement of these kinds of weapons than previously because of the greater availability.

We see it as a problem and we are doing everything we can to control such movements. We have developed a variety of international regimes to try, No. 1, to develop a system to monitor them, and then No. 2, to develop a system of action once that has been discovered. It is not perfect. It is far from perfect. I think these are the major challenges we have as we enter the 21st century.

It is a very different world and the United States has to be out there up front creating these new missile controls or conventional regimes, but it is a problem. And I am not here to tell you that we have a perfect system. What we do have is a functioning international system where we are the leaders and we have to make sure that the others abide by it. I just want to tell you that we are on the same side on this. We have to do everything we can but it is very hard, and I am here to tell you it is very hard.

Senator BENNETT. Thank you.

If I could quickly, Mr. Chairman, in view of the Secretary's response about sanctions brought against individuals on the chemical transfer—and I am, as I say, delighted to hear that. Are you aware of the allegation that polytechnologies is the entity that brokered the Chinese missile deal and are you looking at the possibility of sanctions there? You can answer that for the record if you do not have that.

Secretary ALBRIGHT. I will have to answer that for the record, sir.

Senator BENNETT. And I have some other questions for the record, but I thank the chair.

Senator MCCONNELL. Thank you, Senator Bennett.

Senator Specter asked a couple of questions about the Palestinian authorities. As you may know, Madam Secretary, there is a current specific problem relating to an American citizen—a Mr. Kuttab I think is his name—who has been tossed in prison by the Palestinian authority. His crime was to broadcast over an American-financed television network proceedings of the Palestinian Legislature. So, as far as I know, unless something has happened this morning, he is in jail for this crime. I wonder if you are familiar with this case, and if you are, what if anything we are doing to get this American citizen out.

AMERICAN CITIZEN JAILED

Secretary ALBRIGHT. Yes, sir; we have been dealing with it this morning. We obviously think it is unjustified. The Consul General there has been to visit the journalist in question and we have demarched the Palestinians on this and we will continue to do so. We consider this a serious issue and will stay on top of it.

What is troublesome I think is generally a sense that there is not enough of an attempt to have a rule of law. This is a problem, but on the specific case we are using all our diplomatic channels to getting this person released.

Senator MCCONNELL. I wish you well.

Turning to Burma, a subject you and I have discussed off and on for years, first let me congratulate you for the step that the administration took recently in implementing the provisions of a law that I actually voted against because I thought it was too weak—that was the Cohen-Feinstein measure. The administration has responded to that and implemented a variety of different sanctions including the bar on new investment.

I might tell you, though, Madam Secretary, I am now hearing the people who fought against sanctions earlier saying give sanctions a chance, meaning I gather that they think they can live with what has been done so far and it is not going to pinch too much and their concern that we may go further, we meaning either the Congress or the administration or both of us working together.

So, my question really is this. Where do we go from here? Are you going to lead an active effort to encourage the ASEAN countries and other countries to follow our lead? What is the next step? How are we going to try to influence the restoration of democracy in Burma?

BURMA SANCTIONS

Secretary ALBRIGHT. Mr. Chairman, we have indeed discussed the subject often and at length, and I am very pleased that we were in fact able to get these sanctions imposed. They went into effect at 12:01 a.m. yesterday. We want to make sure that they are properly carried out.

Let me, if I might, just quite openly share with you a concern. I read today that Aung San Suu Kyi is under even greater pressure, that they are about to hold a congress or a convention of her party, that a number of people have been arrested, 50 I think, and others are being watched, and that there is every indication that the SLORC is reacting to the sanctions as well by putting additional pressure on her. It is clear to me that they have no intention of responding to her efforts in a dialog.

I think what we need to do is discuss with you and with other sources about how to proceed on this because she in fact, obviously, believes that the international pressure helps. But at some stage, she is under increasing threats, and I think we have to watch this carefully and I will.

As far as the other nations are concerned, we have not——

Senator MCCONNELL. If I may interject, as you and I both know, she would like for us to go further than we have gone.

Secretary ALBRIGHT. I think she would. Having this discussion right here is not the best idea, but I do think that we need to talk about this because they are brutal. The SLORC's are genuinely immoral, brutal leaders who do not seem to care. So, I think we need to look at how these sanctions are going to be carried out and the next steps.

As far as the ASEAN countries are concerned, I have written to the various leaders. We would very much like to slow down the possibility of Burma coming into the ASEAN. Their approach to this, quite frankly, is different from ours. They believe that they need to engage with Burma. We have obviously taken a completely different step.

But I would welcome our continuing dialog on this. I am not sure that taking further steps at this stage would improve the situation, but here we have only had 24 hours. This is the reaction that we are seeing.

But the only thing I can assure you of—and I have been true to my word—is I will stay on this case with you.

Senator MCCONNELL. Well, I do not want to put words in your mouth, but do I correctly hear you saying that it is not your current intention to encourage the ASEAN countries to follow us in the steps that we have taken?

Secretary ALBRIGHT. No; I mean, we have been in touch in a variety of ways with the other ASEAN countries and we have tried very hard to get them to follow our steps. They do not seem to be interested in it because they have a different approach.

But this subject will be very much on our minds as we talk to them, and I will relook at whether we should take some further action in terms of encouraging them further. We have tried, Senator.

Senator MCCONNELL. I want to stay in that part of the world and turn to Cambodia. There is a growing fear among international observers that the Easter Sunday grenade attack is an early warning of a slide toward civil war in that country. At the very least, the escalating problems are going to delay or potentially delay national elections which are scheduled for late 1998.

It is increasingly clear that unless steps are taken soon, the democratic progress Cambodia has made could well be destroyed by intimidation, terror, and political killings, all of which that country is all too familiar with.

My first question is, What specifically is the United States Government doing to bolster the democratic movement in Cambodia?

VIOLENCE IN CAMBODIA

Secretary ALBRIGHT. First of all, again, Senator, I agree with your assessment of the situation. We have done what we can in terms of trying to help the Cambodian democratic forces. We are concerned by these acts of violence and we have condemned the attack and warned Cambodia's leaders that political violence would jeopardize international support.

Mr. Chairman, I am planning to go to Cambodia on my way to Hong Kong, also to Vietnam, and I will make very clear that it is important for them to proceed down the democratic path and will be happy to report to you on our return.

Senator MCCONNELL. Let me go a little further. You may or may not be ready to respond or actually know yourself the answers to the following questions, but there have been accusations made that the second prime minister Hun Sen and the Cambodia People's Party were responsible for that particular terrorist attack.

Do you know or your people know if there has been any concrete evidence to back the assertions that Hun Sen or any of his officials were directly responsible for that attack.

Secretary ALBRIGHT. I will have to look that up, Senator. We will get back to you.

Senator MCCONNELL. I wish you would. I am going to be interested in the status of the investigation into that matter.

We just talked about the ASEAN meeting in July in reference to Burma. What is the administration's position on Cambodia's inclusion in that organization?

INCLUDING CAMBODIA IN ASEAN

Secretary ALBRIGHT. Well, again I think that our general feeling had been that there would not be a problem about them coming in, though I gather that what ASEAN wants is to bring them in as a group. But I think we need to assess exactly where they are as a result of the statements that we have just exchanged about what is going on there now.

I do think that we should all remember what a remarkable step forward the Cambodian elections were. I had been to Cambodia shortly after those elections, and was proud of the great job that the United Nations did in Cambodia where I think over 90 percent of the people voted. Nevertheless, it is a fragile democracy. We need to do whatever we can to support the democratic forces, and if inclusion in ASEAN would assist them at this stage, I think that it bears support. But I think we have to see what the effect of these most recent problems are and also to respond to your question as to who and how the violence is sponsored.

Senator MCCONNELL. Finally, on Cambodia the President certified that Cambodia had cooperated fully with the United States to meet international counternarcotics performance standards. However, the Far Eastern Economic Review ran a detailed cover story just recently questioning whether Cambodia was the new narcostate in Asia. Specific evidence was presented tying senior government officials to heroin traffickers.

Any observations about that?

Secretary ALBRIGHT. I think, Mr. Chairman, we are very careful in the way that we do the certifications. If there is something different, we will look at it again, but I feel fairly confident in the way that we certify.

Senator MCCONNELL. Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman.

I share your concern about Cambodia. I mention the donors' meeting in July, to consider World Bank funding for Cambodia. I worry that we are going to see them return to civil war and the $3 billion we spent there down the drain and the terrible killings that are going to take place.

I would be interested—it does not necessarily have to be today, but I would be interested in knowing what the United States posi-

tion is going to be at the donors' meeting in July because I think this is probably one of the last real chances to send a very good message, a strong, unambiguous message to Cambodia.

Secretary ALBRIGHT. I do not have a position right now. I will get back to you.

Senator LEAHY. I understand. I just throw it out to follow along the lines of what the chairman was saying because I think it is a serious matter. In fact, I look forward to talking with you when you get back from Cambodia, Vietnam, and Hong Kong, all areas I have a great deal of interest in. We used the Leahy war victims fund in both countries. Both countries have gone through an awful lot. I suspect a lot more stability in Vietnam now than in Cambodia, but your observations I think will be important to all of us.

Just a couple of other points I want to make. In February your very active help on the international family planning vote was critical. I suspect we will see more votes on that. I would encourage you to keep engaged in it.

I cannot understand those who want to keep cutting family planning funds. It has reduced unwanted pregnancies. We showed in one country tens of thousands of abortions were avoided because of family planning.

I am going to keep in touch with your office. If you ever hear anything more about Ngawang Choephel, the Tibetan arrested by the Chinese—he was a former Fulbright scholar at Middlebury College in Vermont. He is in a Chinese prison for making a documentary film about traditional Tibetan music and dance. I raised his case with President Jiang Zemin and others last fall in China. They sentenced him to 18 years. It is ridiculous. I pointed out that it was on the 50th anniversary of the Fulbright Program which began with a scholarship to China, and they sentenced a Fulbright scholar to 18 years. I would urge our representatives to continue to raise it at the highest levels.

Last—and this will be a question—we passed a law last year that withheld antinarcotics aid to any unit of the security forces of a foreign country whose members have been implicated in gross violation of human rights unless the government has taken steps to bring those people to justice. The administration has worked to carry out the letter but the spirit of the law, and I applaud you for that.

I wonder why we should not have the same law on all aid we give and not just antinarcotics aid, but if you've got a security forces unit of a foreign country implicated in gross violation of human rights and the government is not taking steps to bring the individuals to justice, why not hold all aid to the police unit, or army unit? Would you give thought to that?

Secretary ALBRIGHT. I will. I have instructed all our posts to monitor compliance with your amendment very closely, including by seeking out information about suspected human rights violations, and we will not be passive. We have put in place also protections against the misuse of our funds.

Senators, you both have asked about Cambodia and some other new democracies. What I really see is that the first wave of democratization is one of euphoria and we somehow feel that many countries have kind of gotten over the hump and we think to ourselves,

OK, the job is done. What I think we are seeing more and more is that this is a very complex process as countries emerge from civil wars or from totalitarian repression or any number of very difficult periods, and that while the United States cannot do everything for everybody and it is essential that the parties, whatever the case is, do things for themselves, we have to be aware of the very important role we can play in getting countries over more than the initial hump and the extent to which our funds serve as a magnet for the attraction of other international funds.

That is why I am so grateful to you for everything that has happened in terms of trying to get—not preserving our money but for once that we have finally taken a step forward. I think that American power is vital and we need to know exactly how to use it. In this year of the anniversary of the Marshall plan, we have a lot to learn about what role America can play in putting democracies on their feet and how long a process it is. We and the American people are beneficiaries when there are stable countries that are good markets and do not support narcotrafficking, a whole series of issues. So, I am very grateful to you.

But what I think our questions really are—and you have addressed them—is we get a country to a certain level and we think that they have achieved something and like Cambodia there still continue to be threats.

Senator MCCONNELL. One final question here before we wrap it up. I want to go back to Korea. You touched on Korea in your opening statement.

I have accepted the conventional wisdom that food assistance should not be held hostage to a change of direction in the North Korean regime. But, it is interesting to note that every time the food assistance is offered, nothing happens. It is my view—and I suspect it is your view, and I am going to ask you to comment on it—that there is no real hope of progress there on the peninsula until the North and South speak to each other. It will be very, very difficult to impose a settlement from outside.

I wonder where we go from here because nothing we have done to date—not that the things we have done to date are necessarily a mistake—but nothing we have done to date has produced bilateral discussions or, for that matter, four-party discussions. Where are we and where do we go from here?

Secretary ALBRIGHT. Well, first of all, on the four-party talks, interestingly enough I think that there has been progress, not definitive, but there has been. As you know, the talks were proposed in April 1996 and we offered a joint United States-Republic of Korea [ROK] briefing to the DPRK and that was held March 5 this year.

Then on April 16, in response to the joint briefing, the DPRK agreed in principle to the four-party talks, but then stopped short of agreeing to the practical steps, such as dates for the first meeting, and need to realize the talks.

We, with the ROK, have agreed to continue contacts with the goal of beginning the four-party talks as soon as possible. Obviously the reason for those is to replace the armistice agreement with a permanent agreement. We are doing our best to get those back on track.

We also are doing everything we can to encourage North/South dialog in itself. I was in Seoul earlier this year. It was a major subject of discussion, and we are going to keep pressing. But as you know, the situation is difficult in the DPRK and the Republic of Korea at this stage is also going through an electoral process, but it is something that is very much on our minds. We are very concerned about the stability of the Korean peninsula and consider it one of our priority items.

Senator MCCONNELL. Well, thank you very much, Madam Secretary, for being here today. I congratulate you again on your good work within the administration with regard to the 150 account request, and Senator Leahy and I are going to do the best we can to see to it that when the smoke clears up here, the money is still there. [Laughter.]

Thank you very much.

Secretary ALBRIGHT. We are very grateful to you. Thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

Senator MCCONNELL. There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question. There have been accusations made that the Second Prime Minister Hun Sen and the Cambodian People's Party were responsible for the Easter Sunday grenade attack. I am curious as to whether you or your people know if there has been any concrete evidence to back the assertions that Hun Sen or any of his officials were directly responsible for the attack.

Answer. The State Department called in the Cambodian Ambassador on March 31. We condemned the attack and urged the Cambodian Government to take steps now to prevent further political violence and bring to justice those responsible. Similar demarches were delivered in Phnom Penh to Foreign Minister Ung Huot and to the Co-ministers of the Interior. Deputy Secretary of State Strobe Talbott met with Mr. Sam Rainsy and his wife on April 9. Mr. Talbott expressed relief that Sam Rainsy had escaped without serious injury and outrage that others had not. We have called on Cambodia to conduct a speedy credible investigation of the incident and to identify and punish the perpetrators.

We do not have concrete evidence indicating who was responsible for the attack. The FBI investigation of the incident is still pending.

QUESTIONS SUBMITTED BY SENATOR LEAHY

CAMBODIA-WORLD BANK MEETING

Question. I believe that the donors' meeting in July will consider the World Bank funding for Cambodia. I worry that we are going to see them going right back into civil war and the $3 billion we spent there down the drain and the terrible killings that are going to take place.

I would be interested in knowing what the U.S. position is going to be at the donors' meeting in July because I think this is probably one of the last clear chances to send a very good message, a strong unambiguous message to Cambodia.

Answer. At the Consultative Group meeting on Cambodia hosted by the World Bank in Paris, the United States expressed serious concern about lack of progress on election preparations, violence, threats and continued human rights abuses. We noted that effective assistance programs could not go forward in the face of political polarization and fears of a return to violence.

In an informal political meeting on June 30, the U.S. reiterated our core concerns about Cambodia's ability to protect human rights, maintain political stability, conduct free and fair elections in 1998, and foster economic growth. The U.S. urged all Cambodians to settle their differences peacefully and reject violence and intimidation. We condemned the March 30 grenade attack on a peaceful political demonstration. The U.S. emphasized our policy that senior Khmer Rouge leaders should not be brought into the Cambodian government and that all those suspected of committing crimes against humanity from 1975–79 should be brought to justice.

Other bilateral and multilateral donors expressed similar concerns, calling for political stability and emphasizing the importance of free and fair elections in 1998.

Despite this clear message from the international donor community, Cambodia was again plunged into violence during the weekend of July 5. We have condemned the use of force to overturn the results of the 1993 elections and called on all parties to resolve their differences peacefully. We have unequivocally condemned the execution of FUNCINPEC officials and the intimidation of journalists, human rights workers and others in the wake of the fighting. The U.S. is actively involved with ASEAN and other signatories of the Paris Accords in an attempt to find a solution to the crisis.

The U.S. has suspended assistance to Cambodia for 30 days (beginning July 9). During this period our programs will be limited to those activities that provide humanitarian assistance or support democracy. All programs that provide direct support to the Cambodian government are suspended.

QUESTIONS SUBMITTED BY SENATOR BENNETT

EXPROPRIATION SANCTIONS

Question. Will you initiate sanctions against U.S. treaty partners who expropriate the property of U.S. citizens without appropriate compensation, and do you have adequate resources to ensure compliance with our treaty partners' obligations in this area?

Answer. The United States has an active and vigorous policy of protecting U.S. citizens' property abroad from unlawful expropriation. Under international law, a state may lawfully expropriate the property of a foreign national only if it does so for a public purpose, in a non-discriminatory manner, affords due process, consistent with its other commitments, and provides prompt, adequate, and effective compensation for the property. The Department of State will continue to press other countries to provide U.S. citizens with treatment that is consistent with established principles of customary international law and obligations under international agreements.

Specifically, the Department's expropriation policy has four primary elements: (1) active negotiation of Bilateral Investment Treaties and other international agreements to help protect the interests of U.S. investors; (2) provision of general consular assistance to U.S. businesses and property owners abroad; (3) active diplomacy emphasizing to foreign governments the importance of resolving expropriation claims involving U.S. nationals; and (4) formal settlement of claims via government-to-government agreements where all other avenues of redress have failed. The steps taken by the Department in any particular claim or investment dispute depend upon the circumstances and our judgment as to what would be the most effective course of action to help resolve the dispute. In addition, Section 527 of the 1994–1995 Foreign Relations Authorization Acts provides that certain types of bilateral assistance shall not be provided to a government that has expropriated the property of a U.S. national in violation of international law. Section 527 also requires the United States to vote against loans by multilateral development banks and international financial institutions to those governments unless such assistance serves the basic human needs of the citizens of that country.

The State Department and our diplomatic and consular posts closely monitor U.S. citizen claims of expropriation and U.S. investor disputes, bringing concerns to the attention of foreign governments on a regular basis. As part of that effort, the Department annually compiles the report required under Section 527(d). We believe that the Department has sufficient resources to continue to pursue the longstanding policy of protecting U.S. citizens abroad.

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

WOMEN IN FOREIGN POLICY

Vital voices: women in democracy

Question. Madame Secretary, you have gone on record as saying that the advancement of women is in the interest of U.S. foreign policy. That makes good sense to me, not only from a humanitarian viewpoint, but also because women play a key role in building a civil society.

I've heard about 150 women leaders of formerly communist European countries, who are coming to Vienna in July to learn how women in the West are dealing with business, law, and politics. This sounds like a good idea to me, and it will have a big, long-term payoff in terms of building democracy.

I understand our Embassy in Vienna is putting this event together. Can you tell us more about it?

Answer. This conference, which Ambassador Swanee Hunt has organized, will convene women leaders from governmental and private sectors of central and eastern Europe, the United States and the European Union. Three hundred participants (approximately 75 from the U.S.) will explore ways to strengthen the role of women in developing open, democratic societies. First Lady Hillary Rodham Clinton will give the keynote speech to start the conference. It will run July 9–11 in Vienna, Austria.

—Sponsored by the U.S. and European Union governments, with extensive private sector participation, the conference serves important U.S. foreign policy goals.

—The "Vital Voices Conference" supports President Clinton's and Secretary Albright's commitment to expand the circle of democracy by incorporating themes related to women into the mainstream of American foreign policy.

—U.S. participation in this conference is one of partnership, an expression of our alliance of common values with the women of central and eastern Europe.

—The U.S. acknowledges that much progress has been made to date in these countries and that transition is difficult. However, true democracy, which gives women access to the levers of economic and political power, is worth striving for.

—Civil society, with women as equal participants, needs to take root at all levels of society.

The conference's objectives are:

—to define the common challenges women face in the emerging democracies and to explore concrete policy initiatives to meet those challenges;

—to energize and equip women leaders to assert their influence in their home countries;

—to establish wider East-West networks of women leaders in support of democracy-building efforts in central and eastern Europe; and

—to increase public understanding about the economic, political, and social contributions women make to a democratic society.

There are three tracks of workshops—Law and Leadership, Politics and Persuasion, and Business and Beyond. Presentations by high level public figures will underscore the priority of empowering women as a foreign policy goal.

The "Vital Voices" Conference puts into action many of the ideas that came out of the UN Fourth World Conference on Women in Beijing.

By bringing women under thirty to the conference, we are acknowledging the important role the next generation will play in these democratic societies.

U.S. participants are strongly encouraged to explore ways to maintain their connections with European participants after the conference. "Vital Voices" is an event in the process of the advancement of women and will generate much follow-up activity.

The State Department will work with U.S. participants and U.S. Embassies in central and eastern Europe on follow-up to the conference.

QUESTIONS SUBMITTED BY SENATOR HARKIN

CHILD LABOR

Question. What kind of plans do you and the Administration have to raise this issue of abusive and exploitative child labor? Do you bring it up in bi-lateral and multi-lateral talks or do you leave it to the Ambassadorial or lower diplomatic levels?

Answer. We have been and will continue to be very active in both multilateral and bilateral meetings—and at every level.

On the multilateral level, we have urged the World Trade Organization (WTO) to establish a working group to study the link between labor standards and trade. Last December, at the WTO's Ministerial conference in Singapore, we gained an explicitly political statement reaffirming WTO members' commitment to observe internationally recognized core labor standards. Since there is no ILO Convention specifically prohibiting child labor, we have taken the lead in the International Labor Organization (ILO) to create one. The new Convention, which we are currently working on, will prohibit exploitative child labor, and we expect it will be adopted in 1999, after a two year-discussion. Our early and substantive contributions to this drafting process should yield a Convention that we can recommend to the Senate for advice and consent to ratification. We are also key participants in the ILO's Working Party on the Social Dimensions of the Liberalization of Trade, a policy level group that is designing strategies for ensuring that adherence to core labor standards, including those applying to child labor, accompanies a country's increasing access to international trade. We also provide our views, encouragement, and support to work being done on child labor by UNICEF and in the OECD.

In addition to these multilateral forums, U.S. Ambassadors in countries where the problem of child labor has been egregious have been closely engaged. Our Ambassadors, particularly in Pakistan, Nepal, and Bangladesh, have communicated both official U.S. Government concern and noted, for local manufacturers and exporters, the adverse reaction of American consumers to purchasing goods made by child labor. Our Ambassadors' efforts have resulted in programs to turn the problem around and have raised public, business, and governmental awareness of the issue.

Work at the ground level is also important. Our labor attaches and other mission officers are in contact on a daily basis with host country trade unions, NGO's, journalists, and other public opinion formers. They are helping raise the awareness and supporting the activism of host country citizens—who are equally concerned at the waste of their children's future and want to see their countries substitute a generation of educated adults for one of illiterates.

Question. Given your active role in bringing foreign policy to the American people, I would like to know if you plan to use the bully pulpit to inform American consumers that goods they purchase may have been made with abusive and exploitative child labor, such as hand-knotted carpets and wearing apparel? Do you believe that labeling goods made without abusive and exploitative child labor will help American consumers make informed decisions?

Answer. Senator, you may rest assured that I will engage the American public on this issue. And I would like to take this opportunity to recognize your steadfast leadership and continuing efforts to highlight and solve the problem of child labor. Your appearance at the child labor labeling and codes of conduct workshop that the Department of Labor sponsored at the International Labor Conference on June 13 helped focus international attention on this promising new approach. My colleagues and I in the State Department appreciate the attention you have given this matter. We look forward to continuing to work closely with you and other Members of Congress in fashioning better responses to this problem.

Effective voluntary programs to label goods made without child labor can be one way to empower consumers, and let them make informed choices when they buy a soccer ball for their youngsters or other articles for their family's use. Those consumer choices can encourage manufacturers to pay adults to work and enable children to attend school—if they want their products to be attractive to the American consumer.

With White House encouragement, American businesses, trade unions, consumer groups, and NGOs have put together the Apparel Industry Partnership. As part of this "No Sweat" initiative, that group is now grappling with the issues surrounding labeling of goods and monitoring of labor conditions by U.S. businesses. I see this effort, which is non-governmental and purely voluntary, as an excellent example of the importance of Americans being informed and involved on U.S. foreign policy. U.S. consumer pressure has helped encourage our businesses to engage on child labor and bring home the point that the right of workers to fair treatment must be respected.

Engaging consumers and NGOs in raising awareness about child labor and encouraging its elimination is important. We believe that any parent would rather see children receive an education, to expand their opportunities in life ahead, than to toil now. These are values which we hold in the United States and, as consumer and NGO groups are demonstrating abroad, they also are values that have universal appeal.

Question. Does child labor make a difference in our relations with other countries? When a country has a large child worker population, does the administration take that into account when negotiating trade agreements, granting access to our market, granting foreign aid, and in working with international organizations, such as the ILO and UNICEF, on projects in the region? Do you believe that a rider on foreign aid funds linking progress on eradicating child labor to the release of funds would be helpful? How would you feel about that? Do you think we have the moral and economic strength to raise this issue with meaningful effect?

Answer. In accordance with existing provisions of law, the U.S. Government takes basic worker rights factors into account when extending or denying preferential trade benefits under the Generalized System of Preferences (GSP), the Andean Trade Preference Act, and the Caribbean Basin Economic Recovery Act. Several countries have had GSP benefits suspended for lack of progress on basic worker rights. The Overseas Private Investment Corporation (OPIC) similarly takes basic worker rights into account and has suspended coverage in several countries on worker rights grounds.

A key element in our approach to eliminating child labor is to work cooperatively with countries around the world that are interested in resolving their child labor problems. As you know, strong Congressional support has made possible U.S. Government participation in the ILO's International Program on the Elimination of Child Labor (IPEC). The U.S. Government contributed to IPEC in each of the last three fiscal years—a total of $5.1 million. We strongly support maintaining these contributions in fiscal year 1998 and fiscal year 1999 authorizations. These funds enabled us to support IPEC projects in Bangladesh, the Philippines, Brazil, Thailand, and Pakistan and to consider further IPEC projects in several other countries. We also support the efforts in this area of UNICEF, whose work complements that of the ILO. UNICEF, along with the ILO, played a critical role in launching "Rugmark" in India and Nepal and in signing an agreement with the Bangladesh Garment Manufacturers and Exporters Association to phase out child labor from the garment industry in that country.

We believe consumer/industry partnerships, along the model of the "No Sweat" initiative, have enormous promise in harnessing the power of the market in behalf of worker rights. Such initiatives have the advantage of focusing tightly on worker rights abuses in specific countries and industries, can empower activist NGOs that promote worker rights abroad, and are flexible enough to increase or decrease public pressure in accordance with a targeted industry's demonstrated willingness to reform. On the other hand, measures that seek to punish countries where child labor persists run the risk of targeting the innocent along with the guilty, inflicting pain on disadvantaged groups along with those who exploit both children and adult workers.

Question. Do you think it would be helpful in raising the issue of child labor in bilateral talks if you had more statutory authority behind the issue of child labor? For instance, do you believe report language calling on the Secretary of State to raise the issue of abusive and exploitative child labor would aid you in raising this issue? Or do you feel you already have enough power or authority to raise this issue effectively? Do you believe the laws in other countries pertaining to child labor have been effective? Do you believe a law banning the importation of goods made with child labor would be effective? Do you believe such a law would be bad for U.S. interests?

Answer. We welcome the participation of Congress, as well as of the American public, in devising solutions to foreign policy issues that trouble us in common. The persistence of exploitative child labor is one such issue. However, regardless of whether or not Congress reiterates again its abhorrence, this Administration will continue to press for the speedy elimination of child labor wherever it is found. As with all human rights issues, we will not be content to evaluate a country's performance based solely on a superficial reading of its laws. Laws are important in setting a standard. Unfortunately, such standards are not always enforced. The bottom line is, and must remain, a country's actual performance.

It is difficult for me to address the matter of changing U.S. law in the abstract. While I suspect we could quickly reach agreement on basic principles, finding the specific means of implementing those principles—without, at the same time, inflicting harm on others—is more difficult. Additional statutory requirements could raise questions with respect to existing U.S. international obligations and policy in other areas. I look forward to working with concerned Members of Congress, along with representatives from the business community, labor, academia, and other non-governmental organizations on this issue.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

Question. One of the reasons for NATO's success is that it is a true partnership with allies who share our values and interests. There are no second class members. And every member is expected to pay his way.

There have been disagreements over what the cost of NATO enlargement will be.

In your discussions with potential new members do they recognize that they will have to pay their own way? They will have to upgrade their own infrastructure, modernize and restructure their own forces and supply them with the necessary equipment.

Do our current and future NATO allies fully understand that the United States will not bear the full cost of NATO enlargement?

Answer. We are confident that both current and new members will bear their fair share of the costs. The Madrid declaration, signed by all 16 NATO allies at the recent summit, acknowledges that enlargement will entail resource implications but also expresses confidence that the costs will be manageable and that the resources necessary to meet those costs will be provided.

As noted in the Madrid Summit declaration, NATO will undertake its own costs analysis now that the countries to be invited are known and will report its results to NATO ministers at the December North Atlantic Council meeting. We expect NATO's report will confirm the essential elements of the U.S. government analysis.

Question. Last week, NATO and Russia reached an agreement on Russia's role in NATO. As you have said, Russia will have a voice but not a veto in NATO.

Would you discuss this agreement and how it will strengthen NATO?

Answer. The NATO-Russia Founding Act provides the basis for an enduring and robust partnership between the Alliance and Russia. Under the terms of the Act, NATO and Russia will consult and coordinate regularly and, where possible and appropriate, act jointly—as they are doing in Bosnia now. The Act has five principal sections:

The preamble notes that NATO and Russia do not consider one another adversaries and cites the sweeping transformations in NATO and Russia that make possible this new relationship.

Section I describes the principles governing the relationship, e.g., restatement of the norms of international conduct in the UN Charter and OSCE Helsinki Final Act and explicit commitments, such as respecting the sovereignty, independence and territorial integrity of states and settling disputes peacefully.

Section II creates a new forum, called the NATO-Russia Permanent Joint Council, for NATO-Russia meetings and describes how this Council will function.

Section III describes a host of issues that NATO and Russia will discuss, including conflict prevention, peacekeeping, prevention of weapons proliferation, and exchange of information on security policies and defense forces.

Section IV describes the military dimensions of the relationship. In this section, NATO reiterates aspects of its current defense policy and strategy; references its March 14 statement concerning how the Alliance will carry out its collective defense and other missions; recognizes that NATO will require adequate infrastructure on new members' territories commensurate with NATO's collective defense and other missions, and commits NATO and Russia to work for prompt adaptation of the CFE Treaty.

Section IV also provides mechanisms to foster closer military-to-military cooperation between NATO and Russian militaries, including creating military liaison missions in respective NATO and Russian military headquarters.

Under this agreement, NATO retains its full prerogatives. While Russia will work closely with NATO, it will not work within NATO. The Act makes clear that Russia has a voice, not a veto in NATO, and that the Alliance retains the right to act independently when it so chooses.

CYPRUS

Question. Last year, we all expected great progress to be made in ending the occupation on Cyprus. But the crisis broke out over the island of Imia—and the U.S. had to intervene to prevent an actual war in the Aegean.

There is general agreement among all parties that Cyprus should become a federation that is not occupied by any foreign force. But still, an agreement eludes us.

We have another opportunity today. Thanks to your efforts since your visit to Cyprus last summer, there has been some progress in reducing military overflights of Cyprus.

In addition, the prospect of possible European Union membership may lead to greater moderation.

What can we do to take advantage of these generally positive conditions to reach a peaceful settlement to the issue of Cyprus? What can we do to jump start the negotiations?

Answer. We agree that there are positive factors at play which could contribute to the achievement of a Cyprus settlement. Prospective EU accession for Cyprus is a particularly promising incentive for an agreement. The recent naming of Ambassador Richard Holbrooke as the Special Presidential Emissary for Cyprus manifests our strong commitment to promoting intercommunal reconciliation. Ambassador Holbrooke will be undertaking U.S. efforts toward this end and will support the UN Secretary General's mandate to facilitate negotiations between the Cypriot parties.

The first direct talks between the two Cypriot leaders since 1994 will open in Amenia, New York on July 9, under UN auspices. The session will enjoy unprecedented international representation, including that of the United States. Nonetheless, the essential requirement for success will be no different in 1997 than in previous years: the desire of the parties themselves for an agreement. As July 9 nears, we are urging flexibility by the parties so we can achieve real progress toward a settlement that will be acceptable to all involved. Acting Special Cyprus Coordinator Carey Cavanaugh will represent the United States in Amenia. Ambassador Holbrooke is meeting with both Cypriot leaders while they are in New York.

ISRAEL/U.S. ECONOMIC, SCIENCE AND TECHNOLOGY COOPERATION

Question. What can we do to strengthen economic links and scientific and technological research and development between the U.S. and Israel.

Answer. The U.S. and Israel have a long and enduring history of economic links and science and technology cooperation, and we are strongly committed to expanding these ties. The United States-Israel Free Trade Area Agreement (FTAA) was signed in 1985 and eliminated all duties by January 1, 1995. The agreement eliminated many trade barriers between the United States and Israel, substantially liberalizing and thus encouraging trade between the United States and Israel. A follow-on agricultural trade accord, signed in 1996, is providing steady improvement in market access for agricultural products as well.

Exports to and imports from Israel have more than tripled since 1985 as a result of these agreements. The U.S. is Israel's largest single trading partner and Israel is the U.S.'s twentieth most important export market. U.S. market penetration in Israel (over 20 percent of Israel's imports) is the fifth highest of our major markets in the world. Only Canada and the UK have more companies traded on Wall Street.

In addition, since the mid-1980's the U.S. and Israel have engaged in periodic economic consultations under the auspices of the Joint Economic Development Group (JEDG). This group has a mandate to examine and discuss Israeli economic policy at a high level, and played a key role in shaping the successful 1984 economic stabilization program for Israel.

On the science and technology front, the U.S. and Israel for many years have had and will continue to have a very strong cooperative relationship in research and development, reflecting the President's commitment to sustain and enhance Israel's hi-tech edge. Three binational foundations—the Binational Science Foundation (BSF), the Binational Industrial Research and Development Foundation (BIRD), and the Binational Agricultural Research and Development Foundation (BARD)—which each have an endowment of $100–110 million, have been funding cooperative projects between Israeli and U.S. scientists for the last 15–25 years. Projects supported by BIRD—which funds the development and commercialization of joint hi-tech industrial projects—have provided measurable economic benefit to both countries through increased sales, market access and job creation for participating companies. The U.S.-Israel S&T Commission also focuses on the private sector by funding support for joint S&T business ventures.

A number of U.S. technical agencies, including EPA, NOAA, the Bureau of Reclamation, U.S. Geological Survey, HHS and NASA, also have cooperative agreements with counterpart agencies in Israel to address issues of common interest. Recently initiated cooperative activities include the National Cancer Institute's efforts working with Israel and its neighbors to establish the Middle East Cancer Consortium.

INTERNATIONAL DRUG INTERDICTION

Question. Baltimore has the second highest per capita use of heroin in the country—second only to San Francisco. Ending this epidemic must be a priority of all sectors of our government—and a priority in our foreign policy. The Administration is requesting $230 million for its international narcotics and crime programs. Could you describe how these funds would be used and how the State Department coordi-

nates its efforts with the FBI and other federal agencies to combat international crime and drugs?

Answer. The illegal drug trade and growing transnational criminal enterprises around the world are among the most serious threats to the United States in the post-Cold War era. In response, President Clinton has placed combating international narcotics and organized crime high on our national security and foreign policy agendas. Within the State Department, the Bureau for International Narcotics and Law Enforcement Affairs (INL)—established nearly four years ago—has broad responsibility for federal law enforcement policy and program coordination in the foreign arena.

The President has directed the Administration to act aggressively to neutralize and, where possible, eliminate international drug and criminal activities at the source. For drug syndicates and other criminal organizations, this means making it impossible for them to ship their products, launder money, or carry out any other international financial transactions. For the drug producing and transit countries, it means eliminating illegal drug crops entirely or reducing them to levels consistent with legitimate global medical requirements. Programs in Latin America are heavily focussed at coca crop reduction in the Andes. Political considerations preclude direct engagement with Burma and Afghanistan, the world's largest producers of opium poppies. However, bilateral crop eradication efforts are underway in Pakistan, and we work through a variety of international and regional fora, especially the U.N. Drug Control Program, to tackle the heroin problem elsewhere in Asia.

The State Department and U.S. Embassies are working with all federal law enforcement agencies to assure that a variety of criminal justice assistance programs (training, technical assistance and non-lethal equipment) complements overall U.S. Government foreign policy interests. The INL-chaired Law Enforcement Inter-Agency Working Group (LEIWG) is the mechanism by which all agencies' interests are considered. U.S. embassy law enforcement teams ensure that the programs offered adequately address the needs of host governments. In fiscal year 1997, INL funded $20 million in crime programs to the federal law enforcement agencies to conduct coordinated country and regional programs. The breakdown is approximately as follows (in thousands): to the Department of Justice $12,500, OPDAT/ICITAP $7,500, FBI $4,000, DEA $1,000) and to the Department of the Treasury $7,100 (Treasury $2,000, ATF $1,500, FLETC $1,000, INS $1,400, IRS $700, USSS $400, USCS $100); in addition, $400 is provided to the U.S. Coast Guard. The programs focus on criminal justice sector enhancements and confront the threats posed by drugs and crime. Particular focus is on alien smuggling, firearms trafficking, stolen vehicles, financial crimes and money laundering, organized crime and racketeering, and community police programs. Much of the criminal justice focus is on regional levels and through the International Law Enforcement Academy (ILEA) in Budapest; additional such academies are being established in Latin America and in Asia.

INL would expect to provide federal law enforcement agencies with approximately the same proportion of funding in fiscal year 1998. Additional detail on INL programs and cooperation with U.S. law enforcement agencies is contained in State's Congressional Presentation Document.

QUESTIONS SUBMITTED BY SENATOR MURRAY

CHINA

Question. I was recently in China. And one of my observations from the trip continues to disturb me. And that was the message America projects by our presence in that country. Our facilities are totally inadequate—it's my understanding that we occupy space that was abandoned by the Pakistani's.

In my mind, our relationship with China is among our most important. We need to project an image in that country consistent with the image of the United States. I also think our China facilities are discouraging some of our best foreign service officers—particularly those with young families—from seeking to serve in China.

What is the State Department going to do to address this clear deficiency?

Answer. We agree that our facilities in China are in many ways substandard and we are taking steps to rectify the problem. During fiscal years 1994–96 the Department provided about $95.5 million in direct support of facility requirements there. We are completing a proposal to construct a cleared American Annex and refurbish the Chancery in Beijing. Numerous projects related to fire and workplace safety, including asbestos removal, have been undertaken in the building. Some of our residential units in Beijing will be upgraded at a cost of $30,000 each, and land has been purchased for construction of a housing compound. Other projects in China in-

clude refurbishing the Consulate Office buildings and upgrading the communications systems in Shenyang and Hong Kong. We are striving to establish a family-friendly infrastructure in China that will allow our officers to pursue their professional interests without undue personal sacrifice to themselves or family members.

Question. I also came away from China with the impression that we do not have enough personnel fluent in Mandarin. Do we also have a language deficiency in China?

Answer. A 1996 review of our worldwide language requirements indicated that, of the 77 occupied positions which had been designated as requiring full professional competence in Chinese, 62 were filled by individuals at or above the required level of competence. Of the 15 incumbents who fell short of the mark, most were close to the desired proficiency, and all had achieved minimal professional competence. The fact that 80 percent of the incumbents had fully satisfied our language requirements makes our performance in Chinese consistent with the worldwide average for all officers assigned to language designated positions.

In citing the above statistics, however, I do not intend to imply that the Department is satisfied with the level and distribution of Chinese language expertise in the Foreign Service Officer corps. We readily acknowledge that we face problems in filling our positions, and that we are especially concerned by the lack of Chinese language expertise in our senior ranks. Living and health conditions in the People's Republic of China further complicate the situation, especially with respect to more senior officers. As officers progress through their careers, medical conditions and family concerns are more likely to preclude service in China, even though the officer is language qualified and would otherwise be willing to serve. Improving living conditions for our personnel will alleviate this situation to a certain extent, but the unique challenges of life in China will continue to be a problem as we seek to fill positions there.

Question. What does the State Department plan to do to address this language deficiency? I am wondering if the State Department's recruitment process is adequately meeting your needs for Chinese language speakers?

Answer. We are working to build a cadre of Chinese speakers at the lower to middle ranks who will continue to use their language skills as they rise to senior positions. Our goal is to increase the number of Chinese speakers at the junior levels to increase the chances of repeat tours and to guarantee there will be a larger base of qualified senior officers to fill key leadership roles in our mission. Our career counselors are on the lookout for bright, flexible and linguistically gifted officers who can make a contribution to our efforts in China. Such prospects may be specially urged to consider vacancies at Chinese-speaking posts. We have also recognized that our existing Language Incentive program, which was established to encourage officers to acquire, use and reuse skills in critical languages such as Chinese, has not been fully effective. We are undertaking a review of the program to make it more effective in terms of cost and results.

Our recruiting materials note that officer candidates with a demonstrated proficiency in foreign languages are awarded "bonus points" which give them an advantage with respect to their position on the hiring register. We are also examining ways to better utilize the linguistic skills of entering officers by more carefully matching these skills with their first or second assignment. As business opportunities increase in China, we face increasing competition from the private sector in recruiting qualified linguists. Almost all of our most recent entering classes of Foreign Service Officer candidates have included at least one Mandarin speaker, and several classes have had two or three. Even when these individuals require additional language training, experience has shown their prior knowledge is a significant advantage both to themselves and to the Department.

Question. I am also concerned that a number of key Asia posts at the State Department and the Administration remain unfilled. When can we expect to see a nominee for the Assistant Secretary for Asia post? And when might we expect to see the Administration move to fill vacant ambassadorial posts in Korea and Tokyo. These are all key posts and they need to be filled as soon as possible.

Answer. We share your concern that these key positions be filled. The White House has announced the President's intent to nominate Stanley Roth for the position of Assistant Secretary for East Asian Affairs. Once appropriate clearances are completed, the selectees for the Tokyo and Seoul posts will also be announced and nominated by the White House. I hope we can work together to ensure these candidates receive swift and favorable consideration by the Senate so they are able to begin their official duties.

PACIFIC SALMON

Question. I understand that the government-to-government talks on the Pacific Salmon Treaty broke down with Canada earlier this week. Where does this leave things? Where do we go from here?

Answer. At this point the U.S. has publicly stressed our commitment, despite lack of an agreement, to restrained and responsible fisheries in 1997. We hope Canada will exercise similar restraint, although recent Canadian pronouncements on its planned Canadian fishing activity indicate the intention to fish heavily on the Fraser River stocks. Canadian Foreign Minister Axworthy has proposed binding arbitration. We are considering our response, but have made clear to Canada that this option has previously been rejected. We have also made clear to Canada that we continue to believe the stakeholder talks offer the most likely avenue for progress on these difficult issues.

Question. I am concerned about the Canadians once again escalating this issue with dramatic actions such as the transit fees of 1994. Are we prepared to respond to these type of actions? If so, how?

Answer. We are exploring our options for responding, should Canada take aggressive action. A number of options are under consideration. Foreign Minister Axworthy has stressed this week that Pacific salmon problems should not be linked to other issues. We hope that this attitude will prevail within the Canadian Government.

Question. I am interested in ways we can continue at the government-to-government level the progress made by the stakeholders process. Does the State Department know what the next step might be?

Answer. The stakeholders developed creative and far-reaching proposals. We hope that the two nations can find a way to re-invigorate the stakeholders process or at least to build on the contributions made by the stakeholders. The earliest the stakeholder groups could reconvene, however, would be in September after the summer fishing season. Meanwhile we are remaining in contact with both the stakeholders and the Pacific Salmon Commission as we discuss how to proceed.

CONCLUSION OF HEARINGS

Senator McCONNELL. That concludes our hearings, the subcommittee will stand in recess subject to the call of the Chair.

[Whereupon, at 12:28 p.m., Thursday, May 22 the subcommittee was recessed, to reconvene subject to the call of the Chair.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1998

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The subcommittee was unable to hold hearings on nondepartmental witnesses, the statements and letters of those submitting written testimony are as follows.]

[The statements and letters follow:]

PREPARED STATEMENT OF AMOCO CORPORATION

Amoco Corporation is pleased to submit this statement for the record to highlight the strategic importance of the Caspian Sea region, specifically Azerbaijan, for U.S. commercial and national security reasons.

Amoco Corporation ranks as one of the largest U.S. industrial companies based on total assets. Domestically, we are a leading producer of crude oil and natural gas and the nation's leading gasoline retail marketer. The corporation, which is based in Chicago, oversees and coordinates worldwide operations of its business groups.

Its core business segments are Exploration and Production, Petroleum Products, and Chemicals. A subsidiary, Amoco Eurasia Petroleum Company, together with its affiliates, is active in the Newly Independent States (NIS), specifically, Azerbaijan, Kazakstan and Russia, with its most significant investments in Azerbaijan.

Because of the importance of the Caspian Region to the economic and political interests of the United States, Amoco requests that Congress lift restrictions on aid to Azerbaijan, currently imposed by Section 907 of the Freedom Support Act.

Mr. Chairman, we urge you to consider the facts below in your fiscal year 1998 Appropriations deliberations, and in any changes or amendments to the Freedom Support Act or related legislation which may impact (1) the viability of U.S. firms competing in the region, (2) the ability to export the vast oil resources out of the Caspian region, (3) peace and stability in the region, (4) resolution of the Nagorno-Karabakh conflict; or (5) the political and economic independence of Azerbaijan.

Over the last twenty years it has become clear that the United States has a national interest in developing diversified sources of energy outside of the volatile Persian Gulf region. We believe that investment opportunities in Azerbaijan and the Caspian Region will allow the United States such an opportunity for diversification. Development of the Caspian reserves will also bring substantial and desperately needed economic growth to the states in the Caucasus and promote the transition to democratic, market-based economies. Azerbaijan is aspiring to market-based principles and is the only state in the Caspian region without a Russian military presence.

Since the breakup of the former Soviet Union and the turmoil that followed with the war between Armenia and Azerbaijan, Russia and Iran continue to inflict political and economic pressure on the Caspian region. The resulting instability requires increased involvement by the United States Government to encourage and support U.S. companies proceeding with critically needed investments.

Unfortunately, America's ability to act is impeded by Section 907 of the Freedom Support Act, which denies humanitarian aid to Azerbaijan and prevents participation in the region by government agencies such as OPIC and the ExIm Bank. Section 907 also hurts the U.S. ability to act as an honest broker in the OSCE process for peace in the region. Restrictions also hinder Azerbaijan's evolution into a full free market economy by curbing essential U.S. technical and financial assistance. Section 907 puts U.S. businesses at a distinct competitive disadvantage and contradicts the strategic interests of the United States. Foreign competition is high for Caspian resources and foreign governments are supporting their national companies to the hilt. Aggressive U.S. Government support of American investments in the region would greatly enhance U.S. industry's competitive position. But without changes in current U.S. policies toward Azerbaijan, American economic interest will ultimately lose to foreign competition.

Strengthened U.S. Government support for American investment in the Caspian area, including Azerbaijan, would also contribute to stabilizing the potentially volatile political environment of the region. This would further encourage U.S. investments and provide an opportunity to increase U.S. exports of technology, equipment and services. An increase in exports will translate to an increase in jobs for Americans.

Amoco's first contract in Azerbaijan was finalized and approved in late 1994, under which the Azerbaijan International Operating Company (AIOC) operates and develops the Azeri—Chirag Fields and deep water portion of Gunashli Field in the Caspian Sea. Amoco is one of ten oil companies that make up the multi-national consortium working with the State Oil Company of Azerbaijan (SOCAR) on this project. Amoco is the leading United States participant with a 17.01 percent interest in the production sharing contract, and total American share amounts to 40 percent. The full field development will require approximately $8 billion investment to produce the projected 4 billion barrels of oil reserves. Peak production of the fields is expected to be greater than 700,000 barrels a day which is equivalent to 10 percent of today's U.S. imports.

Since the signing of the first contract, Azerbaijan has taken an aggressive approach to attracting foreign investment and initially was very receptive to U.S. business. Four additional contracts have been signed on exploration prospects. One of these contracts involved the Ashrafi and Dan Ulduzu structures in the Azerbaijan Sector of the Caspian Sea with Amoco at 30 percent ownership and Unocal at 25.5 percent ownership, giving American business a 55.5 percent total share. However, participation by non-U.S. companies has increased significantly in other contracts to approximately 80 percent. This drop in the American share is due to an increase in competition from British, Japanese, Italian, Norwegian and French companies who enjoy the aggressive support of their governments. Despite Azerbaijan's clear preference for American participation, U.S. business interests have been hurt due

to the Azerbaijani's perception that the United States has been unfair in singling out Azerbaijan as the only country precluded by Congressional mandate from receiving direct humanitarian assistance (Section 907 of the Freedom Support Act).

Export of Caspian Sea resources is a key issue with many countries in the region vying for control over, or participation in, the pipelines to be built. Enormous investments will be needed to bring these resources to world markets. Achieving export solutions that ensure American access to the resources and enhance regional stability and prosperity will be a great challenge. Azerbaijan, as one of the greatest resource countries, will play a central role in this process. Constructive American policies toward Azerbaijan, and the whole Caspian region, are essential to achieving success.

Mr. Chairman and members of the Subcommittee: Amoco hopes that, upon consideration of the facts brought forth above, you will agree that Section 907 of the Freedom Support Act serves neither American national interests nor the interests of peace and prosperity in Central Asia. We hope you will agree that it is time to repeal section 907.

PREPARED STATEMENT OF PENNZOIL COMPANY

Pennzoil Company ("Pennzoil") is an integrated oil and gas company, headquartered in Houston, Texas. Its core business segments are engaged in the exploration and production of oil and gas, the refining/processing and marketing of motor oil and other refined products and in quick lube operations, both domestically and abroad. The oil and gas subsidiary, in addition to its domestic activity, is actively engaged in several petroleum ventures in the Former Soviet Union/Newly Independent States (FSU/NIS). The comments submitted in connection with the appropriations deliberations reflect our substantial investments in oil/gas production sharing arrangements in the Caspian Sea region, particularly in the Republic of Azerbaijan and the Azerbaijani sector of the Caspian Sea offshore Baku.

In particular, we would like to urge the committee, in the context of the upcoming appropriations deliberations, to thoughtfully consider any amendments/requests for changes in the Freedom Support Act or related legislation, particularly as these measures affect Azerbaijan or United States-Azerbaijani bilateral arrangements/relations to determine the potential impact of such actions on the republic's sovereignty, its territorial integrity and ability to govern, the related implications for settlement of the Nagorno-Karabakh conflict (consistent with international norms) and the promotion of regional peace and stability, as well as the impacts of such amendments on existing and prospective U.S. investments in the region and the effects on regional energy and infrastructure development to move those supplies to market.

Pennzoil Company has been involved in energy projects in Azerbaijan since the early 1990s, first in connection with the Gas Utilization Project (GUP) and more recently with the signing of production sharing agreements (PSAs) aimed at developing the Azeri-Chirag-Guneshli (ACG) structures and the Karabakh prospect. The Caspian region is thought to contain as much as 200 billion barrels of recoverable reserves, ranking it comparable to the largest middle east producers. The timely development of these Caspian energy supplies will concurrently support the continued independence and economic development of the various Caspian republics and significantly contribute to world-wide non-OPEC energy supplies. The economic and infrastructure improvements coincident with the development of these resources will bring benefits to the entire region and can be used to further the goals of regional peace and stability. In fact, in addition to the vast energy potential of the region, Baku's strategic importance is becoming increasingly evident as a key transit point in the emerging Eurasian Transit Corridor (ETC) that will ultimately link central Asia with the west.

From a U.S. foreign policy perspective, the success of these ventures with American participation will serve multiple objectives, including the fostering of improved ties to the new republics, the diversification of (non-OPEC) energy sources, the reduced reliance on oil imports from the Persian Gulf and the identification of regional gas supplies as an alternative to Iranian sources.

American energy companies, including Pennzoil, Amoco, Unocal and Exxon currently comprise some 40 percent of the international AIOC consortium engaged in the development of the ACG block. This consortium expects to expend between $8–10 billion (U.S.) over the life of the project. In addition, American firms are also participating in various other (multi-billion dollar) exploration/development ventures in Azerbaijan (e.g., Karabakh, Ashrafi-Dan Ulduzu) and American suppliers and service companies stand ready to assist these and other development efforts. Notwith-

standing these substantial investments in Caspian oil development ventures, the restrictions placed on the provision of direct U.S. bilateral aid to Azerbaijan by Section 907 of the Freedom Support Act (adopted by Congress in 1992 over the objections of the Bush Administration and opposed by the Clinton Administration) have adversely affected U.S. activity in the region. From a strictly commercial standpoint, having the United States as the only western entity applying sanctions/restrictions on aid to Azerbaijan has clearly had a dampening effect on American companies' ability to compete against other foreign investors, whose host government policies are more conducive to bilateral relations with Baku. And on a diplomatic level, the 907 restrictions have adversely affected the U.S. government's ability to serve as an honest broker to advance the peace talks between Armenia and Azerbaijan. In addition, the restrictions have precluded the United States from providing technical and financial advisory assistance to Azerbaijan, competencies which would facilitate Baku's ability to transform their economy and enter the international marketplace. Democracy building assistance has also been restricted by the 907 provisions.

Beyond the 907 issue, however, Pennzoil and other similarly situated American companies operating or desiring to operate in Azerbaijan have also been hamstrung by persistent efforts to complicate or undermine the peace and investment opportunities by introducing legislation aimed at redirecting U.S. policy to advantage specific regional players. Our experience and observations of these misguided efforts, regardless of their intentions appears only to produce a net result of driving regional players further apart, making subsequent efforts at peace even more elusive and difficult. We respectfully suggest that efforts such as the Porter amendment to last year's (fiscal year 1997) appropriations bill (which had the laudable objective of providing humanitarian assistance to needy individuals in the enclave of Nagorno-Karabakh, but overstepped by attempting to carve out a special status for the region) and the recently-adopted Pallone amendment to H.R. 1486 (a non-binding resolution calling for the Administration to promote a specific Caspian pipeline route running from Azerbaijan to Turkey via Armenia) are two such examples of "remedies" that need to be avoided in order to preserve the viability of the patient.

Mr. Chairman, Pennzoil remains foresquare behind governmental efforts (whether legislative or administrative) aimed at promoting peace and stability in the Caucasus and supporting the independence and economic prosperity of the various republics contained therein. We urge the Congress and the Administration to take all available actions to promote improved ties between the United States and Azerbaijan and Armenia and to support efforts to promote regional peace and a sustainable solution to the Nagorno-Karabakh conflict. At the same time, however, we would urge our government to promote and protect strategic American investments in the region and to work with the private sector and qualified NGOs to advance bona fide commercial and diplomatic objectives and positive regional relationships. We would further recommend that as a significant first step, Congress repeal the onerous restrictions imposed by Section 907 of the FSA, a recognized impediment to our ability to affect positive change in the region in an unbiased and even-handed manner.

PREPARED STATEMENT OF FATHER JULIO GIULIETTI, S.J., DIRECTOR, GEORGETOWN UNIVERSITY'S CENTER FOR INTERCULTURAL EDUCATION AND DEVELOPMENT [CIED], AND FATHER BILL GEORGE, S.J.

Mr. Chairman and Members of the Subcommittee: We are Father Julio Giulietti, SJ., Director of Georgetown University's Center for Intercultural Education and Development (CIED), and Father Bill George, S.J. We appreciate the opportunity to testify before this Subcommittee on the following topics: (1) The Cooperative Association of States for Scholarships (CASS); and, (2) The East Central European Scholarship Program (ECESP).

Thank you and your Subcommittee for your generous support for the cost-sharing program, the Cooperative Association of States for Scholarships (CASS). We would also like to thank you for your encouragement to the East Central European Scholarship Program (ECESP) which provides scholarships for Poland, Hungary, the Czech Republic and Slovakia.

We are grateful to the Subcommittee for its support of $13.75 million for Central America and the Caribbean and $2.75 million for East Central Europe. We request of the Subcommittee that you recommend the same amount of funding for fiscal year 1998.

(1) COOPERATIVE ASSOCIATION OF STATES FOR SCHOLARSHIPS (CASS)

Under a Cooperative Agreement with USAID, Georgetown University administers CASS. The University's mission in fulfilling the will of Congress is to provide peace scholarships to capable, economically disadvantaged students from Central America and the Caribbean who attend United States community-based institutions for academic education and technical training.

CASS has been designed to contribute to the formation of more effective work force resources and to foster the leadership and technical skills required to meet social, economic, and democratic needs in Central America and the Caribbean. CASS works closely with in-country experts, support network members, United States PVOs, USAID Missions and USAID Washington to determine which fields of study can best support strategic objectives and contribute to the economies of participating countries.

United States community-based institutions then develop or adapt programs to provide students with the technical skills and experience that are in demand in the region. Needs analysis and follow-up studies of alumni are conducted periodically to modify course offerings based on current and projected economic realities in the region.

"Experience America" is an essential phase of the program. Its three major components—academic training, experiential opportunities, and personal and professional development—reinforce self-reliance, self-responsibility, and commitment. Living with American families and studying at community-based institutions, peace scholars develop an understanding of U.S. culture and values, and our democratic processes. These students in turn have a positive impact on their host communities, heightening cultural awareness, geographical knowledge, and political and personal insights about the Americas. The result is the formation of lasting social, economic, and cultural links between the United States and future leaders of Central America and the Caribbean.

In 1991, 179 CASS participants arrived to begin two-year programs of study. Eighty-five percent of these students successfully completed their program and returned to their home countries in 1993. The uncertain situation in Haiti had a direct impact on our success with scholars from that nation. CASS' successful completion rate in 1993 for non-Haitian CASS students is 92 percent.

In 1992, 311 CASS participants arrived in the U.S. to begin two-year programs of study. Ninety-one percent of these students (284) successfully completed their program and returned to their home countries in 1994. This is a 6 percent improvement over the previous year.

In 1993, 325 CASS participants came to the U.S. for two years of technical training. Eighty-seven percent of these students (285) graduated and returned to their home countries in 1995.

In 1994, 305 CASS participants arrived in the U.S. for two-year training programs. 91.8 percent successfully completed their program of study and returned home in 1996. It was the most successful of the seven CASS cycles since 1989.

Today, 511 CASS participants in Cycles 95 and 96 are enrolled at 22 community-based institutions in 15 states. An additional 3 participants are earning bachelor degrees under a cost-sharing program with participating colleges in the State of Florida.

In 1997, 323 students will participate in CASS programs. 224 participants will begin two years of study at 14 community-based institutions in the U.S. In addition, 30 more CASS participants from Haiti will come to the U.S. for six-month programs in the fields of health and education administration. Another 18 participants from Central America and the Dominican Republic already arrived in the U.S. in January for a special six-month program for strengthening of math and science teachers. An additional 51 NPSP participants will be selected as a part of Cycle 97 for a total of 323 CASS and NPSP participants to be trained for Cycle 97.

In Nicaragua, CASS designed the Nicaragua Peace Scholarship Program (NPSP). NPSP is an innovative program designed to teach young adults who, because of social and/or economic circumstances, could not complete secondary school educations during the past decade of civil strife in Nicaragua. A small number of veterans from both sides of the conflict are included in the target population. Training is focused to equip Nicaraguan youth with technical and democratic leadership skills so that they may increase their opportunities to be productive in their communities upon return. Today a total of 96 NPSP participants are in the U.S. studying English as a Second Language, courses leading to the GED, and technical courses in public health, X-ray technology, solid waste management, food science, industrial manufacturing management, and electronic communication technology. They are placed at four community-based institutions in four states.

Prior to U.S. studies, a three-month Academic Upgrading program is conducted in Nicaragua emphasizing not only basic math and Spanish skills, but personal development, self-esteem enhancement, leadership practice and practice to participate in a culture of peace rather than a culture of war. Two hundred twenty-five NPSP graduates returned home between 1992 and 1996. Fifty Cycle 96 NPSP participants initiated their 18-month technical training in January 1997 and 46 Cycle 95 participants will complete studies and return home in June 1997.

It is noteworthy that in 1996, CASS and NPSP trained 64 participants in programs at Historically Black Colleges and Universities (HBCUs), namely Harris-Stowe State College in St. Louis, Kentucky State University in Frankfort, and St. Philip's College in San Antonio. This is an increase of 25 percent over 1995.

Federal funds for CASS are being supplemented by states and private sector contributions, increasing the total number of students served. After an intensive effort in the first two years of CASS to identify a model for cost-sharing funds to maximize the federal dollars allocated to the program, we learned that no one policy or plan for state or regional support of the program will evolve. Each participating CASS state has its own funding formula for higher education which simply means no one legislative approach can be applied to all states. Colleges in our network are effective partners in providing significant cost-sharing resources for CASS. We require all participating colleges to contribute 25 percent of the total costs of the program. Colleges are exceeding this goal. From 1990 through September 1996, we have received $21.4 million (40 percent) cost-sharing from our colleges in the form of tuition waivers, indirect cost waivers, and the funding of other program components. The program has also received over $430,000 of in-kind support from private donors in the countries in which CASS operates.

This year's follow-up survey of alumni activities solidly demonstrates the success of the CASS program through sustainable employment levels, continuance of education in-country and community service. Data collected over the last three years shows that between 91 percent and 92 percent of all CASS alumni in the 8 participating Central American and Caribbean countries are employed in their countries. This figure is in stark contrast to the massive unemployment in the region. One in ten CASS graduates owns his or her own business. Of the 225 NPSP alumni, 94 percent are occupied as mid-level technicians and managers and/or studying in a national economy where 56 percent of the working population are unemployed.

CASS has pioneered training opportunities for economically disadvantaged disabled persons and is achieving impressive results. In 1990, CASS began a pilot program to offer computer business applications training to hearing impaired students from Central America and the Caribbean. Seventy-six percent of the CASS deaf alumni are employed in their countries. Twenty-six percent of the deaf alumni continue their studies; 73 percent are involved in community service activities.

Since 1990, CASS has negotiated 19 credit transfer agreements for CASS alumni with universities in Central America and the Dominican Republic. This year, 23 percent of CASS alumni reported they are currently continuing their studies, most working full-time and studying concurrently. This is up 10 percent from last year.

Finally, 65 percent of all CASS alumni responded that in addition to their work and/or studies, they continue to actively participate in community leadership and service activities. This is up seven percent (7 percent) from last year.

GEORGETOWN CASS DISTANCE EDUCATION

The Cooperative Association of States for Scholars (CASS) delivered an innovative international distance education business program via the Internet in 1996. Designed in 1995, the results of this creative application of Internet technologies to education and training has been a catalyst for providing continuing professional and personal development opportunities to large numbers of people who because of their employment, economic, or geographic location in Central America do not have access to traditional classes. The program is called "Tecnicas en Soluciones Empresariales" (TSE).

The TSE program is offered to companies and organizations in Central America who are employers of CASS graduates. Participants do not have to leave the workplace to go to a classroom or university; instead, they access class lectures and group discussions from their computers at work. In 1996, the TSE course in business solution techniques targeted mid-level managers and technicians to solve chronic problems in real time. In 1997, the target was expanded to include their supervisors. These new work groups, incorporating supervisors, more effectively implement quality management strategies in the work place.

Georgetown University administers TSE in Guatemala, Nicaragua, El Salvador and Panama. In 1996, forty-four companies and 88 students received 9-month train-

ing in Guatemala, Panama, and Nicaragua. In 1997, TSE will have 150 participants, expanded to El Salvador and has lengthened the training period to twelve months. The new 12-month TSE program comprises three modules. Employers have input into the training and a clearly defined responsibility to work with students to ensure that training is applicable to their jobs. In addition to theory, students are required to select topics for study and solution from among chronic job-related issues that impact their performance as employees and supervisors as well as the achievement of company goals. Each project team is responsible for defining and researching the selected project, recommending the solution and leading it's implementation.

Instruction is delivered through the Internet, written books and publications. It is supported by local instruction teams. Students access class lectures and assignments from the Internet and use ListServes for group discussions among participants in the four countries. E-mail is the primary vehicle of communication between TSE teams and participants.

Administered by Georgetown University and funded by the U.S. Agency for International Development, CASS is now among the first to combine training and Internet technologies, having devoted eleven years to the invention and successful conduct of traditionally-managed technical and leadership training for thousands of disadvantaged Central American and Caribbean young adults.

(2) THE EAST CENTRAL EUROPEAN SCHOLARSHIP PROGRAM (ECESP)

Founded in response to the rapid political, social and economic changes in post-communist Visegrad countries, the East Central European Scholarship Program (ECESP) became the first educational/training program to be funded and implemented under a 1989 initiative of the United States Congress to support democratization and privatization in the Czech Republic, Hungary, Poland and Slovakia.

The goal of the program is to educate a core group of public administrators and experts in regional/rural development, marketing, trade, finance, banking and health care administration, who are dedicated to accelerating the processes of democratization and privatization in their native countries. Over the past years, these experts have included: administrators of central institutions (high ranking civil servants from the Ministry of Finance, Privatization, Agriculture, Health, Environment, and Labor/Social Services, and from State Property Agencies); members of provincial and local self governments (governors, councilmen and councilwomen, as well as mayors and vice-mayors); administrators of key state and private sector financial institutions; managers and administrators of non-government and non-profit institutions, including institutions of higher education; educators involved in educational reform and planning, curriculum evaluation, teacher training, minority and disability education; and faculty from universities, colleges, and professional schools working to introduce new courses into the curriculum of their schools. In an effort to meet the ever-changing needs of the four participating countries, ECESP introduced in 1995 a health care policy and administration program designed to aid the processes of privatizing and reforming the health care sector. In 1996, ECESP initiated a short term training program for the National Bank of Poland with the aim of building a stronger and more transparent banking industry in Poland. The program cooperates with the U.S. Federal Reserve and the Office of the Comptroller of Currency.

ECESP hopes that as a result of its education and training, the four participating countries will reap the benefits of a more open and structured policy-making process, an increased number of civic-minded citizens, a better educated and skilled body of government officials, and a pattern of cooperation between civil society and government in solving key social, political and economic problems.

Since its founding in 1990, ECESP has sponsored 543 Czech, Hungarian, Polish and Slovak participants. An additional 110 participants are scheduled for training in 1997.

On behalf of our President, the Reverend Leo J. O'Donovan, S.J., we thank you for your support and leadership in the development of these innovative programs.

PARTICIPATING INSTITUTIONS BY STATE COOPERATIVE ASSOCIATION OF STATES FOR SCHOLARSHIPS (CASS) INCLUDING NICARAGUA PEACE

Scholarship Program (NPSP)

California: Kings River Community College, Modesto Junior College.

Florida: Florida Community College at Jacksonville; Santa Fe Community College St. Petersburg; and Junior College.

Iowa: Iowa Western Community College; Kirkwood Community College; and Scott Community College.

Kansas: Coffeyville Community College and Hesston College.
Kentucky: Kentucky State University (HBCU).[1]
Massachusetts: Berkshire Community College.
Missouri: Harris-Stowe State College (HBCU);[1] and St. Louis Community College.
New York: Broome Community College.
Ohio: Hocking Technical College.
Oregon: Mt. Hood Community College.
Pennsylvania: Mount Aloysius College.
South Carolina: University of South Carolina at Sumter.
Texas: Alamo Community College and District with St. Philip's College (HBCU).[1]
Utah: Utah Valley State College.
Wisconsin: Fox Valley Technical College; Northcentral Technical College; and University of Wisconsin Center-Marinette County.
Washington: Edmonds Community College.

East Central European Scholarship Program (ECESP)

Kentucky: University of Kentucky and Eastern Kentucky University.
Wisconsin: University of Wisconsin (La Crosse) and University of Wisconsin (River Falls).
New York: Rensselaer Polytechnic Institute and State University of New York (Syracuse).
Washington DC: George Washington University and Georgetown University.

PREPARED STATEMENT OF CLAUDINE SCHNEIDER ON BEHALF OF THE U.S. COMMITTEE FOR UNDP

Thank you for the opportunity to submit this testimony. My name is Claudine Schneider and I am a former Republican member of Congress from the Second District of Rhode Island, which I represented for ten years, from 1980–1990. I submit these comments today as a founding member of the U.S. Committee for UNDP—the United Nations Development Program. But I also speak as an American citizen who is concerned about the direction of U.S. development assistance and about U.S. standing in the international community.

With this testimony, I would like to explain to the Senate Appropriations Committee's Subcommittee on Foreign Operations why UNDP is uniquely positioned to serve both the world's poor and American interests in a way that no other organization or agency can, and how agreeing to the President's request level of $100 million for UNDP will not only go to help the world's poor, but will translate into real returns for the United States in terms of investment and trade. It will also save money that might otherwise be spent dealing with crises that can be prevented.

I would like to start by pointing out that while a contribution of $100 million to UNDP from the United States represents less than 10 percent of UNDP's total budget, that same $100 million has resulted in purchases of American goods and services by the UNDP equivalent to twice that amount. In simple financial terms, UNDP represents a very good investment for the United States.

It is also important to note that UNDP is an independent agency of the United Nations, which—since its inception in 1966—has always been headed by an American. Traditionally, the United States has been the largest of all the donors supporting UNDP. While this has changed recently, and the United States slipped to seventh place last year, we still have tremendous influence in UNDP and in the UN. Support for the $100 million request will help to insure continued American leadership of UNDP, and will support the critical role UNDP is expected to play in a reformed United Nations. This testimony will explain how.

First, UNDP's mandate is to support sustainable human development globally. This means helping countries—especially the poorest countries—help themselves. UNDP does this by working with countries to build indigenous capacities, enabling them to achieve important development goals. These goals include: reducing the scourge of poverty, creating jobs, regenerating and protecting the environment, empowering women, instituting the rule of law, establishing systems of accountable governance, and other democratic practices. Within the UN system, UNDP is leading the effort to eradicate poverty throughout the developing world, in particular by channeling 90 percent of its resources to countries with a per capita income of less than $750 a year. UNDP's role at the country level emphasizes the design and implementation of national strategies based upon sustainable economic growth, working at the country level to address the root causes of poverty, and making extensive

[1] (HBCU) Historically Black College/University.

use of other UN agencies and international and local NGOs to carry out these strategies.

UNDP brings this multi-sectoral approach to a system where the UNDP representative serves simultaneously as UN Resident Coordinator. Through the support of UNDP, the UN Resident Coordinator works tirelessly to bring the various UN funds, programs and specialized agencies together around the table, making it possible to design a coordinated response to a country's development needs, while building on the strengths of these agencies in fields like health, child survival, food production, food security, and employment generation. This is consistent with efforts currently underway by the new UN Secretary-General to rationalize and consolidate the development operations which the United Nations undertakes at the country level, thereby avoiding duplication and inefficiency. UNDP can be seen as the "glue" which holds the system together. Hence an investment by the United States in UNDP should be seen not simply as an investment in UNDP per se, but rather as an investment which can reap benefits in terms of a more effective and efficient United Nations presence in all the countries which UNDP serves.

Second, the vast majority of developing countries, including the countries of the former Soviet Union, have embraced democratic institutions and free market principles, and UNDP is at the forefront of the drive to help these countries deal with the transition from a command to a market economy. UNDP has provided technical assistance to some 70 developing countries to hold free and fair elections. This has been followed by UNDP support to establish and strengthen executive, legislative, judicial, and electoral institutions; in short, "the deepening of democracy." UNDP gives special attention to establishing the "rule of law", which as we know is a "sine qua non" for increasing foreign direct investment—including U.S. investment—in those countries.

From the Baltics to Southeast Asia, in countries as diverse as Latvia and Viet Nam, for example, UNDP is helping to strengthen democratic institutions and promote democracy, while creating jobs and employment opportunities. For example, UNDP is strengthening the National Assembly, the Supreme Court, and the Ministry of Justice in Viet Nam, rendering them more effective and transparent, while sustaining the economic reform process. Also, UNDP has been at the forefront of helping countries to "reinvent government" by streamlining often bloated bureaucracies and introducing modern management practices, thereby reducing the possibilities for corruption and facilitating private investment. All these things are vital to U.S. strategic and economic interests.

Third, UNDP plays an active, coordinating role in countries such as Guatemala, Cambodia, and Rwanda, countries which are only now emerging from years—and in some cases decades—of civil strife. While other UN agencies like the UN Refugee Program and the World Food Program provide the necessary humanitarian and emergency relief to these countries, UNDP takes the lead in building viable and sustainable societies and moving them along the road to self-reliance.

What truly distinguishes UNDP from the other agencies in the UN system is that UNDP was created to approach development problems from a broad-based, multi-sectoral, coordinated perspective; hence, UNDP is not a "single theme" agency. It is uniquely placed, through its worldwide network of 136 offices, to bring greater coherence to the UN system at the country level. Striking examples of this role can be found in Central America and the Middle East, where UNDP has coordinated a broad-based, UN and bilateral effort, moving beyond peacemaking and humanitarian relief to development which is economically, financially and environmentally sustainable.

Finally, it is important to recognize that the United States and UNDP have common objectives on issues such as democratization, promotion of free market economies, the advancement of "good governance" and of an environmentally sustainable world. Hence, for a fairly modest investment, the U.S. can find in UNDP a trusted and valued partner which serves to advance American values and interests abroad. All of this has recently been confirmed by a GAO report on UNDP which was released on May 1st of this year, which I commend to the attention of all the members of the committee. "In sum," reads that report: "UNDP is a cost-effective tool in our development arsenal. Full funding of UNDP by the United States is the best way of stretching our development dollar to promote U.S. interests."

PREPARED STATEMENT OF THE INTERNATIONAL EDUCATION AND TRAINING COALITION

INTRODUCTION

The International Education and Training Coalition represents over 50 organizations with interests in areas such as child development, basic education, literacy, higher education, vocational education and work force training. The members of the Coalition include non-profit organizations, commercial organizations, universities, and associations with thousands of members throughout the United States.

The organizations of the Coalition share a common mission: to enhance and strengthen human capacity within the developing world the fundamental building block of United States and global prosperity and peace. The Coalition believes that the United States should remain a leader in international education and training. Furthermore, the Coalition believes that these activities should command a higher profile and more resources within the U.S. bilateral development agenda than in recent years.

Human Capacity Development is a continuum of life-long learning. Education provides the foundation in literacy, numeracy, and problem solving skills. Education also transmits culture and establishes a sense of civic responsibility, equipping people to play stronger roles within their communities. Training provides specific skills needed for an individual or institution to do a job and respond to constantly changing economic environments.

It is a well documented fact that an educated and trained populace is an essential prerequisite for sustained economic growth, political stability and improved quality of life. Strengthening human capacity through education and training enhances the achievement of every goal of U.S. development assistance. Increased human capacity creates new export markets, reduces poverty, promotes democratic government, protects the environment, reduces population growth rates, and improves child and family health.

The ultimate purpose of human capacity development is to establish conditions which permit individual well being and growth. Knowledge and skills empower people to participate directly in decisions which affect their lives and improve their prospects.

While education influences all sectors of development, it also represents a separate, unique sector that requires specialized programs and skilled personnel. Understanding education as simply supportive of other development objectives risks devaluing its importance as an independent objective. The United States has a unique educational system that reflects our democratic values, and U.S. educational institutions play a crucial role in development assistance. Educational institutions of nations throughout the world seek to work with their U.S. counterparts to gain from our technical expertise and copy our successful education model.

The U.S. Agency for International Development (AID) is in the process of consulting with Congress and the public, as required by the Government Performance and Results Act, about a strategic plan for the agency. AID is considering adding "building human capacity through education and training" as one of the top strategic goals of development assistance. The Coalition believes the current position of only basic education as a sub-objective under the "economic growth" goal has contributed to the inadequate attention and resources dedicated to education and training. The Coalition supports the addition of an international education and training goal as a way to help ensure the continuation of U.S. leadership and capacity in this area that is vital to successful development.

SUSTAINABLE DEVELOPMENT: EVIDENCE OF SUCCESS

Despite progress over the last four decades in the provision of education around the world, immense need persists. The average literacy level in the least developed countries is a mere 46.5 per cent. The numbers are declining not improving: enrollments of children in grades 1–3 in these countries is only 34 per cent. Meanwhile, 80 million new people in need of education are added to the globe each year, 95 per cent of them in the developing world.

Studies on factors contributing to economic growth have consistently concluded that education and training are essential both to create and sustain economic growth. A recent United Nations Development Program (UNDP) report states that "economic growth is not sustainable without human development," and that "a determined effort to expand human capabilities—through improved education, health, and nutrition—can help transform the prospects for economic growth" especially in the poorest nations.

That same UNDP report concluded that "high employment economies have generally invested heavily in the development of human capabilities—particularly edu-

cation, health and skills. They have also constantly upgraded technical skills to enable workers to adapt to rapidly changing international conditions." In Ireland for example, education has been widely credited as a major factor in its dramatic economic growth over the past several decades. In 1961, when the Irish government began an aggressive education reform effort, its Gross Domestic Product (GDP) was less than 60 per cent of the European Union average; in 1997, it has reached 100.7 per cent. At the same time, high school enrollment has risen from 20 per cent to 80 per cent and college and university attendance has risen from 7 per cent to 46 per cent.

The often cited "East Asian economic miracle" was also fueled by significant investments in education by national governments. A World Bank Report concluded that one of the critical factors of the economic growth in the countries of this region was human resource development and that growth in this region resulted from strong public policies that "were augmented with high household investments in education." U.S. assistance to countries such as Thailand and Korea, particularly in the areas of education and training, aided the successful transformation of those nations into valuable trading partners of the United States. Congress has repeatedly emphasized the need for U.S. foreign aid programs to be structured to create self-sufficiency in the recipient countries so that they will eventually be able to "graduate" from international assistance. Korea is an excellent example of the crucial role education plays in creating the conditions necessary for self-sufficiency. From the 1960's successive Korean governments invested heavily in education, and by 1985 adult literacy had reached almost 92 per cent. As a result of this tremendous investment in the education of its people, in just one generation Korea left the ranks of countries qualifying for World Bank loans.

Thailand is another country where investments in education and training helped produce a vital and successful economy. A study of the role played by international assistance in Thailand's economic success concluded that "when one asks Thais in business, government, or academia what they think has been the most important contribution of the U.S. aid program to the country's development, the answer is virtually always the same: training."

As the experiences of Korea and Thailand illustrate, nations that establish strong educational systems develop the human capital necessary both to improve domestic conditions and collaborate with other nations in solving global development problems. A comprehensive educational system that includes primary, secondary, and higher education creates the conditions necessary for developing indigenous experts in areas from economics to agriculture experts who increase the self-sufficiency of their own nations and are able to cooperate with the United States to solve global problems such as environmental degradation, emerging diseases, and food security.

Education and training are also essential components of equitable development. Investments in human capital, particularly in education, contribute to the equitable distribution of wealth and broad participation in the governance of a country by providing opportunity to individuals otherwise barred from participation by the shackles of illiteracy and innumeracy. Focusing assistance on education and training programs has proven an effective tool for improving the lives of the world's poorest individuals. A recent study in Malawi of rates of return on investment in education showed that increasing public spending on primary education had "a tremendous impact on alleviating poverty as well as on decreasing inequality."

U.S. investments in education and training are highly cost effective, because, unlike many other development investments, recipient countries regularly match education funds 10 to 1 by providing funding for schools and paying teacher salaries. Furthermore, the long-term return on investments in basic education average over 20 per cent in the developing world double the return from capital investment projects. New theories on economic growth developed in the 1990's determined that, because educated people use capital more effectively and spread those benefits more readily to coworkers, raising the level of education in a society causes a rise in the efficiency of all factors of production.

The returns on investments in education are especially obvious in the case of girls' and women's education. The female literacy rate for developing countries is three-fourths that of males. Evidence has shown that even minor increases in the level of education of girls and women have wide ranging positive effects on areas from economic growth to child survival in addition to improving the status and incomes of women. A study conducted in 13 African countries shows that a 10 per cent increase in female literacy leads to a 10 per cent decline in child mortality. Another study showed that four years of schooling boosts farmers' annual productivity by an average of nine per cent.

U.S. COMPARATIVE ADVANTAGE

The United States currently enjoys a comparative advantage in education. Our education system with its emphasis on interactive learning, democratic principles, and decentralized management is respected as a model throughout the developing world. U.S. institutions of higher education are considered premier sources for research and technical expertise in a broad range of development areas. U.S. expertise in training has helped us to build partnerships with emerging leaders in developing and transitional countries. United States leadership in international education and training promotes our foreign policy goals and brings economic benefits to communities throughout the United States. Education is our fifth largest earner of foreign exchange in the service sector, and the Commerce Department estimates that foreign students spend nearly $8 billion dollars a year in the United States producing over 150,000 jobs.

The U.S. is a leader in innovative approaches to addressing development challenges in the fields of literacy and basic education for children. Areas of U.S. expertise include improving classroom level quality; curriculum development; alleviating resource inequities, especially for girls and the poor; mobilization of community and parent involvement in schools; decentralization of decision-making and accountability; and application of cost-effective information technology. In Guatemala where the government estimated in 1990 that fewer than one quarter of its female population had completed grade 3, an innovative AID-funded project has increased girls' enrollment in grades 3 to 6 to an average of 37 per cent per class.

U.S. institutions of higher education work with developing countries to address long-term problems related to agriculture, health, population, and the environment. They also build innovative partnerships among government, academic and business institutions. A community college in Phoenix utilized a sister city relationship with Chengdu, China and partnered with Motorola to provide training on modern business practices to managers of state-owned enterprises. This has helped generate a number of potentially lucrative investment opportunities for Phoenix businesses in Asia

Participant training programs funded through AID have helped to democratize societies and open up new markets to U.S. goods. For example a Romanian who learned about community organizing through a training program is engaged in a grass roots effort to reform election laws in his country. After a Lithuanian newspaper editor came to the U.S. on a training program, he has substantially increased reporting about the U.S. in his paper and purchased over $700,000 in printing equipment from a U.S. company.

U.S. LEADERSHIP AND CAPACITY

Despite the tremendous benefits that accrue from America's leadership in education, U.S. leadership and technical capacity has been eroding. AID's resources for international education and training have been dramatically reduced by over 30 per cent since the early 1990's. Although the Coalition recognizes that overall foreign aid spending was cut back significantly during this same period of time, the cuts sustained by education and training programs have been disproportionate to cuts sustained in other areas. In addition to program reductions, technical education staff within AID have also been laid off disproportionately. Over the past several years, AID has not signaled the critical importance of human capacity development to its overseas missions. As a result, few overseas missions embrace education and training as priority objectives and the United States' ability to maintain its role providing critical and unique leadership in education and skills training is in jeopardy.

The United States has pledged its support to the OECD's Development Assistance Committee's goals on education for the 21st century. They call for achieving universal primary education in all countries by 2015 and the elimination of gender disparity in primary and secondary education in all countries by 2005. Other donors, including Japan, have made education a centerpiece of their development assistance. Without U.S. leadership in this area, however, these ambitious goals will not be met. Given President Clinton's strong commitment to education as a policy priority, it is appropriate that the U.S. should maintain its leadership position in articulating the role of education for global development.

As the examples here illustrate, building human capacity through education and training is vital to U.S. development and broader foreign policy objectives. Efforts to create new export markets, reduce poverty, promote democratic government, protect the environment, reduce population growth rates, and improve child and family health, are all enhanced by raising the educational level of citizens in developing societies. Moreover, investments in education and training, particularly girls' education, are extremely cost-effective and produce enormous benefits for developing

countries and the United States. In the past, Congress has encouraged AID to maintain at least a modest level of support for education and training programs. There has never been a more critical time for Congress to emphasize international education and training programs, and their continuing role as a top priority of U.S. development assistance.

The members of the International Education and Training Coalition thank you for your thoughtful consideration of these concerns. We ask the committee to encourage AID to increase funding in these areas, and to continue to call on AID to identify education and training as a priority in U.S. development assistance.

STATEMENT OF ALEXANDER F. WATSON, VICE PRESIDENT AND EXECUTIVE DIRECTOR, LATIN AMERICAN AND CARIBBEAN PROGRAMS OF THE NATURE CONSERVANCY

The Nature Conservancy appreciates this opportunity to submit testimony for the record concerning our views on foreign assistance appropriations for fiscal year 1998. Our principal request is that the Subcommittee strongly support continued funding for biological diversity protection programs at the U.S. Agency for International Development.

SUMMARY

Madeleine Albright, in some of her first statements as Secretary of State, strongly endorsed former Secretary Christopher's environmental initiative to "integrate environmental issues into the mainstream of our foreign policy." In testimony before the House Foreign Operations Subcommittee on February 12, she called for funding AID's environmental efforts at $290 million in fiscal year 1998 and also for funding of the Global Environment Fund (GEF) at the full $100 million pledge level. The Nature Conservancy commends this environmental activism and believes that a U.S. leadership role remains critical in defending the international environment in general and biodiversity in particular.

The Nature Conservancy is one of the world's foremost conservation organizations. Supported by our 900,000 individual U.S. members and 1,300 corporate sponsors, we manage the world's largest system of privately-held nature preserves. Less well known is the fact that the Conservancy is also working in 24 other countries in Latin America, the Caribbean, and the Asia and Pacific region. Since the beginning of our international program in 1981, we have worked with local partners in these countries to protect more than 74 million acres of biologically significant land in the Western Hemisphere alone.

AID has been a critical partner in this effort through its funding of the Parks in Peril (PIP) program, the Biodiversity Support Program and its Biodiversity Conservation Network. These programs receive a small share of the foreign aid budget, but deliver cost-effective, innovative solutions and measurable results through partnerships with the private sector. They also leverage private resources and funding from the multilateral development banks.

For example, PiP—a program that has been extremely effective in addressing the decline of biodiversity in this hemisphere while promoting private enterprise and democracy—has received $23 million from AID since its beginnings in 1989. TNC has matched this contribution with $5 million. In addition, local in-country partners and governments have contributed more than $10. 1 million.

Biological diversity does not respect national boundaries. One-half of the bird species in the United States rely on winter migration to Central America, the Caribbean, or South America. If they decline there, typically because of loss of habitat, then we feel it here. Species extinction and loss of biological diversity in developing countries has rapidly accelerated in recent years. Each year an area of tropical habitat the size of New York State is seriously degraded or destroyed. Scientists estimate that, at current rates of deforestation, tropical forests are likely to shrink to less than 10 percent of their original size over the next fifty years. According to noted biologist and author E. O. Wilson, present and future generations will lose one-fifth of all living species by the year 2020, most of them in the tropics.

It is in our national interest to fight against this sharp decline. This ought to be a key foreign policy goal for the United States. TNC, AID, and our allies at home and abroad are achieving real progress by cooperating with private organizations in other countries and with their governments. Later, in the body of this testimony, we give chapter and verse to document the progress being achieved.

For now, we simply wish to emphasize that the leverage and credibility provided by U.S. Government involvement at a policy level, and the financial support of AID, are crucial to TNC's prospects for continued success. We recognize that the Subcommittee is operating under extremely tight budgetary constraints, as has become

inevitable in recent years. However, AID's biodiversity programs are a very small portion of the foreign aid budget. They are doing big things in terms of leveraging private funds and support, promoting democracy in the developing world, and protecting globally critical areas which, once lost, can never be retrieved. The Nature Conservancy urges the Subcommittee to support the Parks in Peril Program, the Biodiversity Support Program and the Biodiversity Conservation Network, as well as the rest of AID's biodiversity programs in the fiscal year 1998 appropriations process. We also strongly endorse U.S. Government support for the Global Environment Facility (GEF), which includes biodiversity among its four planet-wide concerns. Thank you for the opportunity to share our views with you.

THE IMPORTANCE OF INTERNATIONAL BIODIVERSITY PROTECTION

People in developing countries rely on natural resources for a multitude of benefits: off-shore reefs support healthy fish populations for fisheries; parks and natural areas attract tourism from around the world; and forest cover keeps soil from eroding into waterways that provide drinking water, irrigation, and transportation to millions of people. Indigenous communities struggling to maintain their traditional cultures rely on tropical rain forests for hunting and gathering grounds, and use local plants for a wide range of medicinal purposes.

The world as a whole benefits from the biodiversity found in developing countries. Mounting evidence shows that tropical forests are essential for the regulation of climate and atmosphere. Biodiversity is critical for the pharmaceutical industry, agriculture and a wide variety of other industrial processes. According to the World Resources Institute, 4.5 percent of the U.S. Gross Domestic Product is due to economic benefits from wild species. Genetic diversity used in plant breeding accounted for about one-half of all the gains in agricultural yields in the U.S. between 1930 and 1980. All major U.S. crops now depend on infusions of new genes from other countries. When U.S. corn was struck by blight some years ago, scientists responded by breeding for resistance using "heritage" strains from the wild. Our agriculture needs to have continued access to renewal from natural biodiversity, for direct immediate benefits and as a hedge against disaster.

One quarter to one third of all the prescriptions drugs in the U.S. contain compounds derived from wild species. According to research published in the April 1997 edition of "Scientific American", 120 prescription drugs currently come from about 95 species of plants; of these, 39 grow in tropical forests. The plant species that have been used by indigenous peoples to treat their own maladies are vital in the development of new pharmaceutical products. Botanists believe that more than 35,000 plant species (mostly drawn from tropical forests) provide traditional medicines to local peoples, hence are good candidates for future pharmaceutical research. There is no way to know what new cures we may be losing with each species that goes extinct or what the health care costs can be of remedies never developed.

Moreover, the destruction of natural ecosystems in the developing world is now widely viewed as a major threat to social and economic stability. The degradation of resources and desertification leads to poverty, hunger, disease and civil unrest. Massive shifts in population density may occur when affected peoples migrate from areas that once were productive but now cannot support them. The linkages between natural resource depletion and national security are just now beginning to be understood.

USAID'S COMMITMENT TO BIODIVERSITY PROTECTION

The Foreign Assistance Act states that the protection of tropical forests and biological diversity is a goal of U.S. foreign policy. AID is active in implementing this goal, and its biodiversity conservation program has expanded in recent years in response to growing concerns about the environmental and human consequences of the degradation and loss of natural resources in developing countries.

AID has launched biodiversity conservation activities in more than 60 countries. These programs focus on developing sustainable economic uses of biological resources; building local capacity for the management of biologically diverse areas, including parks, protected areas and buffer zones; supporting innovative programs for non-governmental organizations in conservation and resource use; encouraging participation of stakeholders, including women, indigenous peoples, and local communities at every stage of decision making; and facilitating the setting of conservation priorities at the local, national and regional level.

TNC strongly believes that the U.S. Government should continue to devote significant resources to the protection of biodiversity. Administrator Brian Atwood has indicated that AID will look to partnerships with NGO's in order to achieve AID's goals in the most cost-effective manner possible. Some of AID's most successful and

innovative biodiversity programs, conducted in partnership with NGO's—Parks in Peril, the Biodiversity Support Program and the Biodiversity Conservation Network—are highlighted below.

PARKS IN PERIL

During recent decades, many nations of Latin America and the Caribbean have taken important steps to conserve their natural resources by establishing protected area systems to safeguard critical watersheds, coastal and marine ecosystems, wildlife, scenic attractions, and other areas of significance. Unfortunately, these nations often had not budgeted sufficient funds to hire personnel to manage these areas and truly protect them from threats. Although their boundaries had been legally decreed, many of these areas had not been surveyed and remained unmanaged and unprotected—in effect, they were "paper parks."

To address this serious problem, in 1990 AID began supporting one of the most successful environmental programs in the history of the Agency—Parks in Peril. PiP is a public-private partnership that seeks to protect the most threatened national parks and reserves in this hemisphere. Parks in Peril was designed to secure minimum critical management for a series of sites, transforming them from mere "paper parks" to functional protected areas.

Parks in Peril is administered for the Agency by The Nature Conservancy and its Latin American and Caribbean partners. The program provides short-term grants to local non-governmental organizations so that they may assist local government organizations in the establishment of a permanent management presence in each protected area. Parks in Peril is based on building a collaborative partnership among national, international, public and private organizations. The program has been widely supported by other governmental and non-governmental constituencies in the U.S., Latin America, and the Caribbean and many consider it to be one of the most important collective actions taken to assure the preservation of biological diversity and the conservation of tropical forests in our hemisphere.

Parks in Peril is designed to achieve four important objectives:

(1) To build on-site protection and management infrastructure for the hemisphere's most imperiled ecosystems of outstanding ecological significance.

Since merely declaring an area "protected" does not guarantee its protection, the PiP program takes as its starting point areas that already have some legal basis for protection and builds on that foundation to make protection real and lasting. Parks in Peril attempts to strengthen the local institutional capacity (both governmental and non-governmental) to build infrastructure and implement on-the-ground protection and management of these sites.

(2) To integrate these protected areas with the human societies inhabiting their surrounding regions.

To succeed, any protected area must become an integral part of the local economy and culture. Protected areas must be valued by people. This will only happen when they receive tangible economic benefits from them. PiP provides support for compatible resource-use opportunities by promoting local and indigenous communities' direct participation in resource management decisions and activities on the sites and in adjacent buffer zones.

(3) To create long-term funding and policy mechanisms to sustain the local management of the Parks in Peril sites.

The PiP approach is fundamentally different from one-time grants for park protection, because it seeks to develop continuous funding mechanisms to ensure the viability of parks over the long term. The program also assists local NGO's to develop diversified local, national, and international funding mechanisms such as debt-for-nature swaps and promote policy revisions that support protected areas. The AID commitment to PiP has already proven to be catalytic in promoting other hi-and multi-lateral investments in the conservation of these sites.

(4) To use the Parks in Peril site-based activities to influence conservation in other sites in the region's most imperiled ecosystems.

The PiP program seeks to leverage the knowledge gained over the past six years through a series of publications, case studies and learning products, and the selection of a limited number of PiP sites as "learning centers". These learning centers will serve both as training grounds for those interested in successful park-based conservation, as well as testing grounds for new techniques and approaches.

A major tenet of the PiP program is that each park will ultimately graduate (or be "consolidated", to use the technical term) from receiving direct assistance out of the centralized AID program. In order to achieve "consolidation," a site must meet specific criteria in the following categories: the establishment of minimum protection activities to deter immediate threats; long-term management planning; long-term fi-

nancing; and the development of a supportive local constituency. Therefore, while AID will not divest itself from PiP projects without ensuring they are ready to be self-sufficient, the goal from the outset is to eliminate the need for such an assistance program. To date, 10 sites, totaling 7.919 million acres, have been successfully "consolidated" from the program. These parks are in Belize, Bolivia, Colombia, Costa Rica, Dominica, the Dominican Republic, Panama, Paraguay, and Peru. Initial approval has been given by AID to shift focus toward new sites, totaling more than 7 million acres; these are located in Brazil, the Dominican Republic, Honduras, Jamaica, Mexico, and Paraguay. Other sites are also being considered.

The Parks in Peril Program also has benefits that extend beyond biodiversity conservation. Latin America has historically lacked strong intermediary institutions by which ordinary citizens could, between elections, communicate their wishes and concerns to their governments. This lack was one reason for the repeated fragility of democracy in the region. The assistance that AID and TNC give to NGO's in the region helps them gain a stronger voice and empowers them to play an increased role in influencing their national policies. Thousands of people are becoming engaged in influencing the environmental issues that affect their daily lives, such as clean water and healthy forests. The development of such organized, non-partisan representation is making a significant contribution to consolidating democracy in these countries.

Since PiP's inception, AID has obligated a total of $23 million on the program. While this is a major commitment of dollars, on an annual basis it makes up only about .04 percent of the entire foreign aid budget. This relatively small investment by the U.S. government has stimulated a total match of over $15 million by private organizations (in the U.S., Latin America, and the Caribbean) and host-country governments.

The Senate, in its fiscal year 1997 report on the Foreign Operations appropriations bill, noted its "strong support" for Parks in Peril; similar language was adopted also by the House.

The Parks in Peril Program has become the largest in-situ biodiversity conservation project in the tropical world. The portion of PiP that has received central AID support has recently been working in 28 protected areas, comprising 19 million acres in 12 countries. Over 150 headquarters buildings, visitor centers and other protection facilities have been constructed or renovated and hundreds of rangers and other staff have been hired and trained. Often, through arrangements between the local government and the local NGO that is the PiP partner organization, these park employees are private—hired, trained, and paid by private organizations, hence bringing to their duties the flexibility and accountability of private control.

PiP has worked to protect cloud forests, coral reefs, tropical forests, and savannas. We note parenthetically that there are other PiP sites that do not receive support from the central AID budget; that portion of PiP works at more than 30 additional sites, helping to protect more than 50 million additional acres.

PiP funding has supported efforts to demarcate critical boundaries; recruit, train and equip rangers and community extensionists; build protection infrastructure and provide transportation and communication technology; promote compatible natural-resource use in local communities; carry out baseline studies and biodiversity monitoring; and establish sources of long-term financing for reserve operations. At all PiP sites, local peoples have been involved in management decisions, fostering support and pride for the preservation of their natural heritage. In short, this program has increasingly become a model towards which the rest of the world is looking.

A few recent examples of the many PiP success stories include:

Parks in Peril support laid the groundwork that enabled TNC's partner organization Fundacion Amigos de la Naturaleza (FAN) to add 333,459 acres of critical habitat to the Noel Kempff Mercado National Park in Bolivia, the first crucial step in a 1.8 million-acre expansion that will nearly double the park's original 2.3 million acre size. Institutional strengthening provided through Parks in Peril was a key factor in ensuring that FAN had the capability to negotiate this significant enlargement of the park. The Government of Bolivia has awarded FAN a 10-year contract to manage the Noel Kempff park. The Nature Conservancy also worked closely with FAN and Bolivian authorities to achieve a greenhouse gas mitigation pilot project, by which an American electric utility, American Electric Power (AEP), has signed a long-term contract that provides Noel Kempff park with $7 million over the course of 30 years. Having attained its original PiP goals, Noel Kempff has been consolidated.

Through the efforts of PiP's Paraguay partner, the Fundacion Moises Bertoni, thousands of additional acres have been added to the Mbaracayu Reserve in that country. Mbaracayu is one of the last remaining large areas in the Americas of humid subtropical Atlantic forest. It shelters thousands of endemic species that

evolved to survive conditions that can range from extreme heat to below freezing; hence, the genetic material in Mbaracayu (particularly the flora) is of exceptional interest and potential value. Once threatened with imminent destruction, Mbaracayu is now a contiguous area covering nearly 160,000 acres. Over the entire course of PIP/AID involvement with Mbaracayu, the park received $1.1 million from central AID/PIP funding. Building on this base, the Moises Bertoni Foundation has raised over $7 million of additional funds from groups including TNC itself, the MacArthur Foundation, the European Union, the Netherlands, Japan, the United Kingdom, and the Inter-American Development Bank (IDB). We plan to keep a continued friendly eye on the Mbaracayu park, but it has met the goals established under Parks in Peril and has been consolidated.

In Belize, the Rio Bravo Conservation and Management Area has created necessary on-site infrastructure and trained park personnel. The local PiP partner, Programme For Belize (PFB), enjoys an exceptional level of public and private support. The park, totaling over 228,000 acres, contains hundreds of bird species, flourishing tropical hardwood forests, and the best jaguar habitat in Central America. It is a private land trust held by PFB under an agreement with the Government of Belize. The land was in danger of clear-cutting, before it was acquired in the late 1980's with the help of grants from TNC, the Coca Cola Company, the Audubon Society, and AID. Today, eco-tourism is growing. Long-term planning has been completed and long-term financial support (including a greenhouse gas mitigation project) has been lined up. As a result, Rio Bravo also has been consolidated.

As we look ahead to the future of Parks in Peril, we are pleased that success—leading to the consolidation of ten (10) sites covering nearly eight (8) million acres—is opening the way for expansion of PiP to new sites. We deeply appreciate the AID support which helps make activities of this nature possible. Among the proposed new sites are the Guaraquecaba park (Brazil, 774,000 acres), the Blue and Crow Mountains (Jamaica, 196,000 acres), the Chaco (Paraguay, 1.926 million acres), and the Pantanal in Brazil (the world's largest continuous fresh-water wetland). These are typically places where TNC has already begun work, and the initial steps toward making them functional protected areas are already being taken. In the case of the Pantanal, for example, TNC used $2 million of its own funds to acquire two large ranches on the boundaries of the existing 338,000 acre park and has donated them to a respected Brazilian environmental NGO, Ecotropica. The former ranch land contains the only dry forest area within the Pantanal, hence is expected to provide the locations for future park infrastructure and eco-tourism. We are looking forward very much to working with Ecotropica and IBAMA (the Brazilian park agency) to secure the future of the Pantanal.

THE BIODIVERSITY SUPPORT PROGRAM

In 1988, in an effort to respond to the global crisis of Biodiversity loss, AID helped develop the Biodiversity Support Program (BSP), a consortium of the World Wildlife Fund, The Nature Conservancy, and the World Resources Institute. To date, the Biodiversity Support Program has successfully facilitated Biodiversity conservation in developing countries by supporting innovative, on-the-ground projects that integrate conservation with social and economic development, research and analysis of conservation and development techniques, and information exchange and outreach.

The goal of the Biodiversity Support Program is improved conservation of Biodiversity through integration of conservation and development. In pursuit of this goal, the Biodiversity Support Program works in AID-assisted countries in close collaboration with the local AID country Missions and with central support from AID's Global (and other) Bureaus, to facilitate conservation activities, as well as to strengthen the capacities of individuals, local communities, non-governmental organizations, governmental institutions and AID assistance programs to conserve biological diversity.

Over the last seven years, AID has invested $42.9 million in the Biodiversity Support Program supporting, assisting some 240 projects in 59 countries. Following are several examples of Biodiversity Support Program projects:

—BSP has supported some 75 local NGO's and peoples' organizations in six countries of Asia and Latin America to secure indigenous peoples' rights to natural resources. Local NGO partners in Asia have successfully used community-based maps (supported by BSP) to convince national policy makers to respect traditional homelands when making logging and mining concessions. A global survey of more than 60 community-based mapping projects has been produced.

—To better direct conservation investments in Latin America and the Caribbean, the Biodiversity Support Program developed and applied a regional Biodiversity priority setting exercise. The resulting document "A Regional Analysis of Geo-

graphic Priorities for Biodiversity Conservation in Latin America and the Caribbean" is helping AID, governments in Latin America and the Caribbean, and NGO's set priorities for conservation action. BSP's consortium partners have adopted the methods from this terrestrial exercise to their own planning and have participated in companion exercises to determine freshwater and coastal/marine priorities.

—In preparation for the Bolivia Summit on Sustainable development, BSP convened biodiversity experts and key stakeholders from throughout the Americas to form the Inter-American Commission on Biodiversity and Sustainable Development. The Commission proposed five hemispheric initiatives, and their final report was adopted as the official technical paper on biodiversity. In Santa Cruz, Bolivia, the Heads of State incorporated four of the Commission's initiatives into the Summit's Action Plan.

—In Asia and the Pacific, BSP's projects spread the use of sound knowledge and technologies to support a scientific basis for conservation decision-making and to legitimize the role of local communities in Biodiversity conservation.

—BSP's Conservation Initiatives Grants Program in the Ukraine is helping scientists and NGO activists in that country bring Biodiversity issues to the forefront. Over the next year, grants of up to $5,000 will support applied conservation initiatives in existing and potential protected areas. The Ukrainian advisory panel formed to help select the grantees represents a range of stakeholders with divergent views on conservation. Through the process facilitated by SP, Ukrainians are working together in an open and democratic process toward common goals.

—In Mexico, the Biodiversity Support Program helped establish a community forest reserve network in indigenous Tarahumara and Tepehuan communities, protecting over 75,000 hectares of pine-oak forests in the globally important Sierra Madre Occidental mountains of Chihuahua. This work led to Mexican Federal recognition of a 17,000 hectare reserve, with other reserves planned. Last year, a survey to locate high-biodiversity, old-growth forest remnants in the Sierra Madre identified the 15,000 hectare "Carricito del Huichol" as one of the last remaining examples. The Mexican NGO "CIPA-Mex" is leading a fight for its protection and, with the help of the Mexican environment ministry, recently thwarted yet another attempt to illegally log the area. Studies leading to declaration of formal protected area status are under way.

—In Indonesia, BSP's KEMALA program encourages local Indonesian NGO's and people's organizations to forge alliances and undertake such activities as joint management of protected areas, winning recognition of traditional forest and marine management regimes, and establishing community-based businesses whose viability depends on conserving local biodiversity. Also in Indonesia, BSP assisted AID in establishing the Indonesia Biodiversity Foundation (KEHATI), which administers an endowment of $16.5 million to support conservation efforts by a broad range of Indonesian institutions.

—In Papua New Guinea, BSP is currently working with The Nature Conservancy to support background analysis and technical studies necessary for development of a future Conservation Trust Fund for that country.

—In India, BSP catalyzed the Biodiversity Conservation Prioritization Project, which to an unprecedented degree is bringing together multiple Indian stakeholders to develop participatory methods for establishing conservation priorities. This two-year effort will produce a set of Indian plans for priority conservation strategies, sites, and species.

—In Africa, BSP assessed the training needs of more than 200 protected area managers working in 15 countries, established a cross-regional network of protected area authorities, and fostered unprecedented levels of conservation, collaboration, and communication among the conservation NGO's working in Africa.

BIODIVERSITY CONSERVATION NETWORK

In the early 1990's, staff at the Biodiversity Support Program and their AID colleagues noted that if products from a biologically rich area could be recognized for their economic value, then the community living in that area would likely conserve Biodiversity in order to secure some of those economic benefits. This observation provided the incentive to evaluate enterprise-based approaches towards conserving Biodiversity in greater depth. As a result, in late 1992, the United States-Asia Environmental Partnership, a program led by AID, created the Biodiversity Conservation Network, a $20 million, 6.5-year environmental conservation program. Specifically, the Biodiversity Conservation Network was established to measure the effec-

tiveness of enterprise-oriented approaches to conservation and to support conservation efforts at specific sites throughout Asia and the Pacific region.

As part of the Biodiversity Support Program, the Biodiversity Conservation Network maintains a close partnership with The Nature Conservancy. Currently, TNC is working on the following two enterprise-oriented conservation projects:

—In Lore Lindu National Park, located in Central Sulawesi, we are working with the Biodiversity Conservation Network and the government of Indonesia (on both a local and national level) to examine the feasibility and potential conservation impact of two wildlife enterprises and a nature-based tourism enterprise.

—In the Arnavon Islands, located in the Solomon Islands, we are working with the Biodiversity Conservation Network, local community groups and the provincial and national government to demonstrate the potential economic and ecological benefits of a community marine conservation area. Local stakeholder communities have obtained legal designation for the area, developed a management plan, established a sustainable deep-water fishing enterprise, and formed a group to advise neighboring communities on starting similar projects. The communities' regulations regarding the hunting of endangered sea turtles are pending adoption at the national level.

We also take this occasion to note with approval the essential role of the Global Environment Facility (GEF). A key lesson from many years of conservation activism, and especially from protection of biodiversity, is that the environment is ultimately a global issue. The GEF is an essential financial mechanism, concentrating on projects and programs in developing countries to protect the global environment and promote sustainable economic growth. The GEF thus far has committed $1.2 billion for 220 projects in 85 countries. The GEF can be more than a short-term grant and loan disbursing agency. It is potentially a strategic mechanism to assist countries to develop innovative and effective means to deal with environmental threats, especially as it develops new approaches to involving a broader array of stakeholders through such efforts as its mid-size projects initiative. We hope that the Subcommittee is able to fund GEF at the full $100 million pledge level—a level proportionate to the grave threats that face the global environment.

IN CONCLUSION

The Nature Conservancy urges the Subcommittee to support the Parks in Peril Program, the Biodiversity Support Program and its Biodiversity Conservation Network, the Global Environment Facility (GEF), as well as the rest of AID's Biodiversity programs in the fiscal year 1998 appropriations process. Thank you for the opportunity to share our views with you.

PREPARED STATEMENT OF FRED HAYNES, PRESIDENT, AMERICAN-TURKISH COUNCIL

On behalf of the American-Turkish Council, I am pleased to present our views on Turkish-United States relations within the context of the post-Cold War environment.

I. First, let us consider the evolution of Turkish-US relations:

Turkey's multi-party democratic tradition—spanning a half century—has indeed fostered a unique partnership with the United States. Turkey is the only predominantly Muslim secular democracy with a free market economy.

During the Cold War, Turkey helped protect vital Western interests in the volatile Middle East. Turkey contained potential Soviet access routes to the Mediterranean through the Turkish straits.

Turkish troops fought alongside United States troops in Korea, in support of the United Nations effort to control communist expansion in the Pacific.

During the Gulf War, Turkey stood with the United Nations and the United States to combat Iraqi aggression. Turkey's role was critical to Allied success and sent a strong message to future aggressors. To date, Turkey's cost of applying sanctions against Iraq totals roughly $30 billion.

Turkey hosted Operation Provide Comfort, the international program using Turkish bases to deter Iraqi attacks against the Kurds of Northern Iraq from 1991 through 1996. Turkey is now cooperating in establishing a follow-up program to continue Allied flights over Northern Iraq.

Turkey provided full support for the evacuation of Iraqi citizens from Northern Iraq at the end of 1996.

Turkey continues to play a critical role in securing peace in many of today's trouble-spots, including Bosnia, the Middle East, and the Caucasus. Currently, Turkish troops are serving alongside US troops in the NATO mission in Bosnia. Turkey is

the only member of NATO to train the Bosnian Army with the United States so as to preserve peace in the region through military parity.

Turkey recognized Israel in 1949, and for three decades remained the only Muslim country to have full diplomatic representation in Tel Aviv.

In February 1996, Turkey signed an agreement with Israel, providing for joint military training. In August 1996, Turkey signed a second defense agreement with Israel which permits the two countries to exchange military technology and conduct joint intelligence operations.

Turkey's secular democracy serves as an example to countries in the Middle East, the Caucasus, and Central Asia, in stemming the tide of extremism and religious fundamentalism. Turkey is dedicated to working with the United States both in the Middle East Peace Process and the Minsk Process.

Turkey's liberal market economy serves as a model for those countries trying to make the difficult transition from communism to a free market.

Turkey shares common traditions and languages with five Turkic republics of Central Asia that emerged from the disintegration of the Soviet Union. Enhanced relations with Turkey provide these countries with an alternative to Russian dependence and expand the potential for economic viability.

Turkey's government is committed to carrying out structural reforms, including further privatization. With the realization of these and human rights reforms, Turkey hopes to attain full membership in the European Union (Turkey is already a member of the European Customs Union).

In 1995, the US Department of Commerce designated Turkey as one of ten "Big Emerging Markets." It is projected that Turkey, with a market of 62 million consumers, will match the performance of the East Asian economies.

Turkey can be very instrumental in providing a secure outlet for Caspian oil and gas reserves. The abundance of Caspian reserves will provide the international community with an important alternative to OPEC oil. Turkey's stability, location, and existing facilities on the Mediterranean will best serve economic and commercial interests and facilitate peace and cooperation in the region on a multilateral basis.

With the end of the Cold War, new threats to security emerged and Turkey's role in the international arena was further enhanced. Today, we are faced with ethnic and nationalist extremism, religious fundamentalism, the revival of historic hatreds, international drug trafficking, and terrorism. Turkey and the US can and do work cooperatively in the name of shared values and principles to curb these international threats and to preserve the rule of law.

II. Second, in addition to the numerous strides Turkey and the US have taken and continue to take in promoting regional stability, a number of factors highlight Turkey's relevance to the US and serve as the rationale for strengthening Turkish-United States relations:

Turkey's critical geographic location is of major importance to the United States. Turkey serves as a bridge between East and West in geography, religion, culture and politics.

With respect to human rights, significant changes have been made in Turkish law concerning pre-trial confinement, effectively reducing the detention period.

Turkey has a large, young, well-educated population.

Turkey shares common ideals, values, and interests with the West in general and the US in particular. In addition, this nation borders on several countries of major interest to the United States. Three of these countries are accused of sponsoring international terrorism and have an involvement with weapons of mass destruction.

Turkey increasingly plays a role with respect to the sea lanes in the Black Sea, the Aegean and the Eastern Mediterranean, which includes a key role in the transit of oil and gas from the Gulf and Central Asia.

In a region where water resources are scarce, Turkey has vast quantities of fresh water available for export.

Turkey itself is an emerging commercial market for energy, aerospace, defense, agriculture, environment, telecommunications, transportation, construction, financial services, franchising, and other key areas. US businesses are investing in Turkey and using the country as a base of operations for regional investment.

Turkey is an important regional actor, contributing to peace, stability and prosperity. In this framework, Turkey has long attached great importance to fostering relations with Greece, a neighbor and fellow NATO ally, as well as other countries in the area. Private Turkish business executives have been working directly with Greek private business executives to develop trade and investment between the two countries, Turkey has similar private sector business councils with virtually all her neighbors.

III. Third, US assistance to Turkey should be viewed within its proper context:

Turkey has not received military grant assistance from the United States since 1992. All military financial aid to Turkey in the last four years has been in the form of loans, not grants. In fact, the terms of the loans have evolved from concessional rates to Treasury rates to market rates.

Unfortunately, Americans have been led to believe that Turkey continues to receive large amounts of United States funding at a great expense to the taxpayer. Nothing could be further from the truth. United States loans to Turkey are mutually beneficial and are by no means foreign policy "give-aways."

Since the United States instituted loans to Turkey, Turkey has consistently adhered to pay-back schedules. Moreover, these loans create jobs in the United States, as the funds are returned to the United States through the purchase of American equipment. The equipment is transported to Turkey via American shipping companies.

Excess Defense Articles provided to Turkey, which would otherwise incur United States storage costs, are refurbished by United States companies and transported by United States ships. Turkey assumes these costs, which benefit the United States economy.

The United States receives a net cash flow from issuing military loans to Turkey. For instance, in 1996, Turkey received $320 million worth of loans, but will pay back $504 million in principal and interest to the United States Government.

Most importantly, providing loans to Turkey serves international security. This is not a one-way process. Fostering an atmosphere of cooperation creates mutual benefits in the pursuit of common goals for regional and international peace and stability.

IV. Finally, Mr. Chairman, there are several recent developments that should be of interest to the Committee:

Visit by Mustafa Kalemli, speaker of the Turkish Grand National Assembly, to Athens, Greece.

Visits by leading Turkish industrialists to Athens, Greece in support of bilateral commercial and industrial relations. A successful conference of the Black Sea Economic Cooperation Business Council, which included participation by Greece and Turkey, was recently completed in Istanbul.

Turkey supports the latest European Union initiative to establish an independent Commission of Arbitration composed of "wise men," including members from both Turkey and Greece, to come up with solutions for Turkish-Greek differences.

The Turkish and Greek Foreign Ministers have met three times within last two months, as have the Undersecretaries of the respective Foreign Ministries.

Leaders of the Turkish Military have extended a friendly hand to the Greek Military in past weeks.

In short, issues in the Black Sea, the Aegean and the Eastern Mediterranean are being addressed in a very encouraging manner.

Thank you, Mr. Chairman, for allowing us the opportunity to present these views.

PREPARED STATEMENT OF LANE VANDERSLICE, ON BEHALF OF THE WORLD HUNGER EDUCATION SERVICE

"We are firmly convinced, and we act on that conviction, that with nations, as with individuals, our interests soundly calculated will ever be found inseparable from our moral duties"

—Thomas Jefferson, March 4, 1805

I am Lane Vanderslice, representing the World Hunger Education Service (WHES). WHES is a non-profit educational organization providing information and facilitating communication on issues of world poverty and hunger. Its principal publication, Hunger Notes, has been providing information and analysis on hunger issues for 21 years, and is now beginning an edition on the World Wide Web. Our testimony will be on three steps that the United States and this committee can take to reduce hunger and improve the situation of poor people of the world. Father Robert Drinan of our board, originally scheduled to appear, regrets his inability to be here at this time.

1. We need country-by-country assessments of progress in major areas, such as improving food security, as well as evaluations of major programs of multilateral and bilateral assistance to improve the lives of poor people, including programs of UN organizations such as UNICEF and WHO, and bilateral programs such as USAID.

2. The most important problem facing the people of the world is that they can be dominated by groups that have managed to achieve dominance over them by—

at bottom—military/physical threat means. We need sustained attention to this problem by everyone, including the people and political institutions of the United States.

3. We think the financial and intellectual commitment of the people and political institutions of the United States to the poor people of the world needs to be increased, not diminished, with the end of the Cold War. The U.S. commitment to preventing world hunger, in particular, needs strengthening. In our testimony to this committee we will focus on the financial commitment.

1. The U.S. public, indeed the people of the world, need a more accurate assessment of progress and performance on issues such as world hunger and child survival.—We need: (a) a fuller description of where we are with respect to major issues, and, (b) evaluations of major programs. Let us explain.

A fuller description of where we are with respect to major issues.—The various descriptions of these issues, such as UNICEF's annual State of the World's Children Report and USAID's Report to Congress on Child Survival are fine as far as they go. They do not get down to "where the rubber hits the road"—the country level. We have recently read two reports, both of which we consider to be good studies—the FAO studies on the world food situation prepared for the World Food Summit, and the USAID study, "Investments in Agriculture." The USAID study essentially says that if you don't have a good country policy framework, money spent on agriculture will be wasted. We believe this to be a key point. But where are the evaluations of "country frameworks" on a country-by-country basis to be found? They do not exist in a form that is accessible to the public. Yet surely the World Bank, the Food and Agriculture Organization, and the United States Agency for International Development have such assessments of progress and problems or can prepare them relatively easily. Or independent, relatively low cost "delphi style" evaluations can be done. It is time to make them available. We would suggest starting with two key issues: (1) food security/world hunger, and (2) child survival, and limit the evaluation to countries that are the most food insecure and with the highest rates of child mortality. These assessments needn't be done every year necessarily, but they should be done every two years. The Internet provides a way to make these assessments widely available and at low cost. Once they are available, hunger advocacy and education institutions can ensure even wider dissemination of the information. Our recommendation to you is report language suggesting that those institutions for which your subcommittee provide funding (or the U.S. agency responsible for administering that funding, e.g., the treasury for the World Bank) devise a plan for providing country policy and performance information on a regular basis for the key areas of world hunger and child survival.

Good publicly-available evaluations of the programs of major institutions helping to combat hunger and poverty.—There are many institutions to which we entrust taxpayer money in order to help those in developed countries combat hunger and poverty. Hundreds of millions and overall billions of dollars have been appropriated to UNICEF, the United Nations Development Program, the World Bank, the International Fund for Agriculture Development, the World Health Organization, and the United States Agency for International Development. Hunger Notes is very interested in such evaluations because of their importance and tries to publish excerpts from them when available. For example we published an evaluation of IFAD, and are about to publish excerpts from the recently published GAO report on child survival Yet, as far as we are able to determine, these evaluations are done much rarely than they should be. This makes it very difficult to assess progress, evaluate institutions and programs, and when, after discussion, it is seen to be desirable, make changes. We are faced with situations like the following. In the mid-1980s and into the 1990s WHO played a large role, with significant appropriations from the United States, in the world effort to prevent AIDS. Yet several years later—lo and behold—the responsibility has been taken away from WHO and given to a new program, UNAIDS, with, as far as we are able to determine, a substantial decrease in donor funding. We didn't see any publicly available evaluations of WHO's AIDS program? Did you? It seems to us that issues of administration and program direction are best evaluated and discussed on a regular basis with all the multilateral and bilateral aid agencies, and we urge you to adopt report language suggesting this. Congress must take this greater amount of evaluative material into consideration but not, if negative, immediately use it as an excuse to cut programs. The business of large international organizations is complicated and worldwide in scope and it is possible for evaluations to be mistaken or focus on different aspects of a complicated reality. The parable of the five blind men examining an elephant is appropriate here.

2. The most important problem facing the people of the world is that they can be dominated by a group that has managed to achieve dominance over them by—at bottom—military/physical threat means.—Armed military groups in Somalia. Orga-

nized killing by those in charge of the government in Rwanda. Death squads associated with those in power in Guatemala and previously other Latin American countries. Often the situation can be less dramatic but still very injurious to people's welfare. Government corruption in Mexico, for example, is an important part of the process, but by no means the only part whereby income is steered to those with political power and away from the average person.

There has been progress in some regions and countries, such as South Africa and many countries of Latin America. No longer does the Argentinian military take people with whom it has political differences and drop them from airplanes! The military in many countries, such as Argentina, Bolivia and Chile, is permitting civilian elections, (though the military in these countries still has a far greater political role than would be considered appropriate in the United States). Though there has been substantial attention to humanitarian emergencies/conflict situations/emerging democracies around the world, there has not been enough.

Table 1, abridged from the 1996 Freedom House survey, shows the magnitude of the problem. We wish to point out two major aspects of this table: A significant amount of the world's population—40 percent!—lives in countries that are not free. The percentage of the population that lives in countries that are free has dropped substantially, while those that live in countries that are only partially free has risen significantly.

TABLE 1.—FREEDOM OF THE WORLD'S POPULATION AS ESTIMATED BY FREEDOM HOUSE

Date	Free		Partly free		Not free	
	Number	Percent	Number	Percent	Number	Percent
1981	1,163.0	35.9	970.9	21.6	1,911.9	42.5
1988	1,924.6	38.3	1,205.4	24.0	1,896.0	37.7
1996	1,114.5	19.55	2,365.8	41.49	2,221.2	39.0

This is very possibly the most important part of the world hunger problem. It has meant famine in the most extreme cases, and hunger and poverty for many in a large number of other cases. Though this issue has received significant attention over the years, it needs much more attention, and from all of us.

Hunger Notes and the World Hunger Education Service is making this a priority. We have, for example, undertaken a special issue on Rwanda, "What Have Humanitarians Learned," which was an attempt to see what PVOs and others interested in Rwanda might have done beforehand to analyze and act to defuse violence, and what this might mean in terms of a code of conduct that PVOs, bilateral aid agencies, and others might begin to form and act on in other countries. We are, as well, planning an issue on human rights approaches to development assistance.

From the Congress we ask the following:

We must understand the possibility and actuality of wrongful violence against others as a fundamental part of human life, and must be prepared to make a contribution to reducing it, as a key part of our foreign policy. We have to realize it is an important problem that is by no means confined to other countries. It is universal. It happens frequently in Washington, for example, where "crews" sell drugs, rob, and kill, and thus terrorize neighborhoods.

We have to realize on an international level that we cannot "go it alone" but must in fact involve ourselves in cooperation with others. This includes the United Nations. We have to understand that our national sovereignty is not being usurped when we work in collaboration with others, which is what part of Congress at least still does not seem to have fully understood.

We must realize that progress will be imperfect and "messy." We must adopt to the greatest extent possible a bipartisan approach to the situation of wrongful violence. We need much discussion on this issue on the one hand, and on the other for fingerpointing to be kept to a minimum.

3. We need a significant increase in support for programs that work to end hunger and poverty.—The reduction in Cold War tensions should have released intellectual and financial resources to address other major world problems, such as violence, hunger, and poverty. For the United States government, on balance, it seems to have done no such thing. Three key points with respect to U.S. support for hunger and poverty are:

1. The United States cut funding for foreign aid, including initiatives to assist the world's poor, in fiscal 1996, and has essentially not restored that cut subsequently. USAID development assistance funding was cut by 24 percent, for example.

2. U.S. foreign assistance devoted to agriculture in particular is down sharply. Table 2 gives the details.

TABLE 2.—ALLOCATION OF USAID RESOURCES TO AGRICULTURE, IN MILLIONS OF DOLLARS AND AS A PERCENT OF TOTAL ECONOMIC ASSISTANCE, FISCAL YEAR 1989–94

	1989	1990	1991	1992	1993	1994
Agriculture allocation	$806	$577	$674	$626	$589	$418
Total economic assistance	$5,900	$6,684	$7,543	$6,572	$6,776	$6,641
Percent of total	14	18	16	18	14	19

3. The United States contribution to development has continued to decline as a percentage of GNP. Moreover, the United States is dead last in its share of GNP devoted to foreign aid, as Figure 1 indicates.

We believe that the $70 million increase in development assistance proposed by the Administration should be granted and, in fact, increased by the committee. A key area should be programs to reduce world hunger.

The United States and 180 other nations made worthwhile commitments at the World Food Summit, the most important being the commitment to reduce the number of undernourished people to half their present number by 2015. However, this commitment does not seem to have shown up in an overall increase in U.S. funding for the reduction of world hunger.

Two areas of increase that we would support are USAID's African food security initiative and restoration of funding for the International Fund for Agricultural Development (IFAD).

The African food security initiative is not a large initiative at this point: five countries and $25 million, when compared to a total $336 million request for "encouraging broad-based economic growth" in Africa. It should be bigger.

In 1994, all of IFAD's member countries, including the United States, agreed to an overall replenishment level of $600 million. The United States was supposed to give just over $30 million a year for three years, totaling $92 million. Unfortunately, the Administration finally agreed to pledge just $5 million over six years, totalling $30 million.

We would also support increases, not reductions, in child survival and microenterprise.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF TROPICAL MEDICINE AND HYGIENE

The American Society of Tropical Medicine and Hygiene (ASTMH), a professional society of 3,100 researchers and practitioners dedicated to the prevention and treatment of tropical infectious diseases, is pleased to submit the following public witness testimony in support of the tropical infectious disease research and control activities of the Agency for International Development.

"Tropical diseases" can be defined as those major public health problems caused by infectious agents that disproportionately affect people living in developing regions. Infectious diseases, including tropical infectious diseases, are world's leading cause of death, killing 17 million people (most of them young children) every year. They are responsible for one-third of all deaths and in 1990 they killed more people than cancer, heart diseases, and cerebrovascular diseases combined. In the developing world, the chance of dying is 40 times greater for a child than it is for his or her counterpart living in an industrialized nation. Furthermore, these diseases take tremendous health, economic, social, and emotional tolls on their victims, communities, and countries.

America must care about tropical infectious diseases for three reasons. These are the threats of emerging infections, exploding population, and erosion of our humanity if we fail to provide effective humanitarian (including health) assistance abroad.

1. Emerging Infections.—The threat of emerging infections is increasingly recognized by the public as a result of the emergence of major killers such as HIV (which has infected an estimated 20 million adults worldwide) and by news accounts of exotic tropical infectious diseases such as Ebola. As such, it is very fitting that the theme of this year's World Health Day was "Emerging Infectious Diseases." Despite remarkable advances in science, medicine, and public health throughout this century, the threat of tropical infectious diseases remains as serious as ever.

Approximately 2.5 billion people worldwide are at daily risk of tropical infectious diseases and 500 million people presently suffer from them. Parasites, bacteria, and

viruses are becoming resistant to our drugs. Approximately 30 new infectious diseases have been discovered in the last 20 years and previously recognized diseases are returning with new vigor. For example, dengue fever was reported at approximately 30,00 cases annually from 1956–1980, at approximately 138,000 cases per year in 1981–1985, and at almost 268,000 annually in 1986–1990. This is nearly a ten-fold increase in less than 40 years. Dengue is very common in Latin America and it is now seen in Mexico and is lapping at America's shores.

Infectious and tropical infectious diseases are not solely a "third world problem." The globalization of our food supply and international travel bring increasingly worrisome infectious diseases to our doorstep. While the average American supermarket had only 300 items on its shelf 40 years ago, it now exceeds 30,000 items, with demands for fresh produce from tropical areas increasing each year. Last year's outbreak of Cyclospora infection in over 800 people in 14 States and Canada was traced to Guatemalan raspberries. Ebola was imported to the United States by research primates from the Philippines. AIDS originated in central Africa and arrived in the United States via Haiti. Further, the United States has been the site of the emergence of serious infectious diseases in recent decades, such as hantavirus pulmonary syndrome, drug-resistant streptococcal infections, and chlorine-resistant cryptosporidial parasites. Between 1980 and 1992, the death rate due to infectious diseases increased 58 percent in the United States, making it the third leading cause of death in the country (only half of this increase is attributable to HIV).

There are many factors behind the increasing incidence of and threat of infectious diseases. One of the factors is the overall weakening of public health activities worldwide, including surveillance activities and a deterioration of laboratory facilities. Population shifts from rural areas to urban areas (200 million people worldwide live in cities with populations greater than 10 million) and increased international travel (500 million travellers annually) are also factors. It took over a year for the lethal strain of influenza which claimed millions of lives in the global pandemic of 1918–1919 to spread from Southeast Asia, where it originated, to Western Europe. Today, that flu bug could circumvent the globe in less than 2 weeks.

2. Exploding Population.—Exploding population in the absence of good health poses a tremendous threat. Good health plays a critical role in population control. In contrast to the widespread Malthusian notion that only disease and famine will necessarily control population overgrowth, in the modern world it is good health, not bad health, that has consistently brought population growth under control. In prospective surveillance for diarrhea in northeast Brazil, researchers learned to their surprise that high childhood mortality and morbidity was associated with the greatest population overgrowth. In contrast to 1 of 23 mothers in "better" homes, 17 of 32 mothers in the poorer homes had a baby during a two and a half year study (American Journal of Tropical Medicine Hygiene, Vol 51, pg 26–35, 1994). It is obvious that the high rates of childhood illness and staggering 25 percent mortality did not control but rather was associated with high birth rates. The dramatic association of improved health with voluntary reductions in population growth is apparent throughout countries across the globe as well as in single villages throughout the histories of developed countries.

3. Erosion of our Humanity. Controlling diseases is in our humanitarian interest—it is our duty and our responsibility as a world leader.—A recent report by the Institute of Medicine (IOM) reiterates the importance of U.S. assistance from both a humanitarian viewpoint and an economic viewpoint. In America's Vital Interest in Global Health, the IOM Board on International Health notes that the current level of foreign aid by the U.S. government is at its lowest point since 1950, as measured by gross domestic product, and that the proportion is lower than that of the other top 20 industrialized nations. America's response and willingness to lead will determine if a free system of government that recognizes the dignity of the individual can effectively deal with the worsening plight of the disadvantaged.

Controlling infectious and tropical infectious diseases is also in the United States's best economic interests. The IOM report appeals to the self-interests of the United States, noting that developing nations must have a healthy, productive population if their economies are to flourish (and hence provide a new market for U.S. exports). A prosperous international economy is beneficial to the U.S. with its tremendous potential for exports and other business opportunities and developing nations will ultimately require less assistance from the U.S. and other developed nations as their economies improve. Further, the economic impact of tropical infectious diseases on developing nations is tremendous.

A.I.D. CHILD SURVIVAL PROGRAM

The Agency for International Development's Child Survival Program has long been at the forefront of international efforts to alleviate morbidity and mortality among the world's most vulnerable populations—children under 5 years of age. In collaboration with the international community, including WHO and UNICEF, tremendous progress has been made. For example:

—Since 1960, infant mortality has fallen from 130 to 60 per 1000 live births, and child mortality has fallen from 180 to 80 per 1000 live births.

—By 1995, the goal of 80 percent coverage against the vaccine-preventable diseases of diphtheria, pertussis, measles, tuberculosis and polio had been achieved globally (although it was not achieved in every country).

—In 1980, 76 countries reported less than one neonatal tetanus death per 1000 live births annually; by 1995 this had increased to 122 nations.

—Immunization programs have helped reduce the number of measles cases by 70 percent and the number of measles deaths by 83 percent. Measles is targeted for elimination in the Americas by the year 2000.

However, the Child Survival Program must not be cut, as much remains to be done to save lives and build healthier, more independent and productive lives.—For example, 25 countries reported coverage below 50 percent for diphtheria, pertussis, measles, tuberculosis and polio. Every year, 12 million children less than 5 years of age die of infectious and tropical infectious diseases. Four diseases alone—acute respiratory infection, diarrheal diseases, malaria, and measles—account for two-thirds of this total. Further, approximately 25 percent of these 12 million children suffer from malnutrition. Two of these diseases, diarrheal diseases and malaria, are among the most common causes of morbidity and death in children under the age of 5. For these reasons, we are strongly opposed to the Administration's estimated $25–30 million reduction in population, health and nutrition activities in fiscal year 1998.

DIARRHEAL DISEASES AND MALNUTRITION

Diarrheal diseases, which are primarily spread by contaminated water or food, kill 3 to 4 million children annually. For example, in some areas of Brazil 1 child in every 4 may never reach his or her 5th birthday, over half of whom die of diarrheal diseases. The morbidity from diarrhea and malnutrition may be even greater than their staggering mortality—many children who survive experience 8 to 10 dehydrating, malnourishing diarrheal illnesses each year in their critical developmental first 2 years of life.

New research is showing that malnutrition is in fact an emerging infectious disease. Impaired intestinal absorptive function due to enteric pathogens may be equally or even more important than inadequate food intake as a determinant of malnutrition. Malnutrition is associated with increased diarrhea incidence and duration among children in tropical developing areas. Research advances are providing novel interventions to address these threats.

MALARIA

Malaria was once a serious health problem in America, including right here in our Nation's Capital. Many lives were lost to malaria during the construction of Washington, D.C. Malaria remains one of the world's most important parasitic diseases, taking a tremendous toll in lives lost as well as in medical costs, days of work lost, and social impact. While more than 90 percent of all cases are in sub-Sahara Africa, malaria is a problem in almost 100 countries with 2.5 billion people—40 percent of the world's population. An estimated 200 to 300 million cases occur annually and at least 1.5 million of these—and perhaps more than 2.5 million—are fatal. Mosquito resistance to pesticides and parasite resistance to drugs have resulted in a dramatic resurgence of malaria. Resistance to chloroquine, sulfadoxine-pyrimethamine, and mefloquine is emerging. Further, economic activities such as logging, agricultural projects, and road building are resulting in a spread of malaria.

The ASTMH is very encouraged by recent renewed attention to this major killer. The complexity and importance of this disease requires leadership from the U.S. and other developed nations and we were very pleased by National Institutes of Health (NIH) Director Dr. Harold Varmus's role in a recent gathering of international scientific leaders in Dakar, Senegal. In 1998, the NIH will launch a new malaria clinical research initiative to expand our understanding of human immunity to Plasmodium falciparum, the etiologic agent of the most severe form of malaria. Earlier this year, researchers at the Walter Reed Army Institute of Research reported that an experimental vaccine devised by the U.S. Army and a private phar-

maceutical company worked well in a preliminary test. This vaccine has been largely based on experimental work done at New York University, supported until recently by the A.I.D.

One of the most challenging problems is the general lack of involvement by pharmaceutical companies in antimalarial drug development, an issue that was discussed in Dakar. The ASTMH believes that the A.I.D. should support the involvement of pharmaceutical companies in this drug development. Further, we agree with the recommendation of the Dakar Antimalarials Working Group that departments of pharmacology, pharmacy and traditional medicines at universities in sub-Saharan Africa should play an expanded role in antimalarial research. We urge A.I.D. to provide support for malaria vaccine research in 1998. With renewed international interest and with scientific leadership from the United States, investigators can take advantage of the promising research opportunities that exist to stem the tremendous burden of malaria. However, it needs to be recognized that the currently existing financial support is inadequate for accomplishing this task.

SUMMARY

The global burden of age-old infectious diseases such as malaria, diarrheal diseases, and tuberculosis is well documented, and new infectious agents will continue to be discovered. Previously recognized pathogens will also continue to reemerge as serious public health problems in the developed and developing world. However, many uncertainties exist. We do not know where or when they will appear, what they will look like, or how they will behave. To be prepared, we must have an adequate surveillance system and modern infrastructure facilities, coupled with scientific expertise in both basic and applied areas, to develop whatever tools are necessary to rapidly respond to and control the threats posed by these diseases.

Through your leadership and commitment, Congress has provided significant support for child survival and disease activities during the last two fiscal years, and the ASTMH urges your continued support of these indispensable activities. Further, we request that you provide increased emphasis on the research and prevention activities for tropical infectious diseases, particularly the most prevalent and severe microbial diseases such as malaria and diarrhea. The impact of these diseases is significant in health, economic, and social terms to developing nations. Further, the United States has health, economic, and humanitarian interests in these diseases. Research in this area is progressing and with additional support we are optimistic that significant improvements can be made in prevention and treatment.

Thank you for your consideration of our request.

PREPARED STATEMENT OF THE JOHNS HOPKINS UNIVERSITY, PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES

The Johns Hopkins University Paul H. Nitze School of Advanced International Studies (SAIS) is pleased to have this opportunity to submit written testimony in support of fiscal year 1998 funding for the American Schools and Hospitals Abroad (ASHA) Program.

We strongly believe that the ASHA Program serves U.S. interests. It does so by supporting liberal arts institutions around the world that promote freedom of expression, private initiative, and tolerance. ASHA-funded institutions train a cadre of individuals who can communicate, share values, and work with Americans in business, government, the sciences, and other mutually beneficial endeavors, thus providing the crucial educated human resource base necessary for any long-term development.

Two of the Johns Hopkins programs have benefitted greatly from ASHA support in the past.

THE JOHNS HOPKINS UNIVERSITY-NANJING UNIVERSITY CENTER OF CHINESE AND AMERICAN STUDIES

The Hopkins-Nanjing Center, a bi-lingual graduate school in the People's Republic of China, has been bringing an American educational experience to top Chinese professionals and pre-professionals since 1986. SAIS designed and administers the American component of the Hopkins-Nanjing Center. Each year Chinese and American postgraduates from all parts of China and the United States are selected for an academic year at the Center through a merit-based (academic credentials and language ability) application process. Each Chinese student is paired with an American roommate in the Center's facility in Nanjing, a feature that is unique to China where most foreign students are housed separately from the Chinese students.

Johns Hopkins also brings to Nanjing a faculty of five American professors who reside at the Center and teach the Chinese students about the United States: U.S. history, government and politics, society, economics, foreign policy. In turn, the American students learn about contemporary China from Chinese professors and from their Chinese roommates. Chinese students learn about American values and institutions not only in the classroom but also from their American roommates and peers in the Center. An integral part of this intensive immersion of the students in each other's culture is the Center's uncensored, open-stacks library, again unique in China.

The Hopkins-Nanjing Center provides its Chinese students with unparalleled exposure to American ideas and educational practices. It is an opportunity publicly advertised and open to anyone in China who wishes to apply. With the severe restraints placed on Chinese academic programs, it is more important than ever that the Center remain as a resource of information for its Chinese students and as a forum of open discussion and frank exchange of views among the Chinese and American participants. Because fewer and fewer Chinese who travel to the United States for study return to China, the Center becomes all the more valuable as a place where Chinese can receive a solid American educational experience on their own soil. They are then able to bring that experience and their increased understanding of the United States back to their home institutions and into their careers either in the public sector or in the growing private sector in China.

The Hopkins-Nanjing Center serves U.S. policy interests and ASHA goals in a number of significant ways:

—propagates American political ideals with the sanction of the existing regime in China;

—keeps a window open to a select group of the new generation of Chinese intellectuals who must not be isolated from the West;

—trains together young Chinese and American postgraduates who will manage the United States-China relationship for decades to come;

—provides Chinese intellectuals with an uncensored, open stacks library that contains the most current western language collection of books and periodicals on American studies in China and on U.S. scholarship on China;

—exposes key Chinese to western economic principles and practices;

—produces China-savvy Americans for the American Corporate community doing business in China; and

—trains U.S. government personnel for China duty.

The Center serves the U.S. national agenda in a uniquely effective way by "reflecting favorably upon and increasing understanding of the United States" and in "demonstrating American ideas and practices" to the talented young future leaders of a country important to the United States now and for the long term.

THE JOHNS HOPKINS UNIVERSITY BOLOGNA CENTER

Established in 1955, The Johns Hopkins Bologna Center is unique in that, unlike most U.S. educational institutions overseas, it is theory full-time resident American graduate school of international relations in Europe. As an integral part of SAIS, the Center offers an interdisciplinary program of studies in international economics, politics, history and law, with special emphasis on European studies.

The Center serves as a living example abroad of the American form of graduate education with its small classes, low ratio of students to faculty, and close, informal communication among students, teachers, and administration. Academically, the Center exposes non-American students to contemporary American approaches to the social sciences. The Bologna Center is neither a vocational school—in the sense of providing training for specific jobs—nor a purely liberal arts or scientific school. Rather, it seeks to relate its academic instruction to the expanding variety of private and public activities involved in relations among governments and national societies.

The Bologna Center aims to promote the exchange of cultures and to provide exposure to the basic tenants of free-market economics. The current objectives of the Center are to reinforce its position in these specific areas: European-American relations, East-West European cooperation, and Mediterranean issues, the latter including both the troubled Balkan region and Europe's relations with the developing countries of the Middle East and North Africa. The ongoing attempts at transformation to democracy and market economy in Central and Eastern Europe, and the difficulties experienced in the moves to a single, unified market in Western Europe give the Center a unique, bridge-building position as educator to students from all over the world, who in time will themselves assume top-ranking roles in govern-

ment and business. This endows the Center with a bold and essential role in America's endeavors to maintain a constructive, positive profile and relevance abroad.

Since its creation, the Bologna Center has been at the cutting edge of political and economic developments in Western and Eastern Europe. In fact, it was the American academic institution to establish close ties with universities in Eastern Europe during the 1950's. The Center currently has exchange agreements with institutions in Central and Eastern Europe, including Poland, Hungary, Bulgaria, the Czech Republic and Russia. These relationships have come about as a result of the Center's efforts to expand its academic program to include all of Europe and to encourage greater communication and cooperation between Eastern and Western European institutions of higher learning.

In addition to providing graduate level education to train a new generation of international leaders, the Bologna Center serves as a meeting place for students of various nationalities to come together to learn each other's history and culture, thereby increasing international understanding. The Center conveys to future international leaders a sense of American society and ideas which can only help to facilitate communication and understanding with partner countries around the globe.

Especially noteworthy is the international composition of the faculty and the student body, which together represent 30 countries, with more than half of the students being non-American. Since 1975, more than seventy students from Eastern Europe and the former Soviet Union have been educated in Bologna, and an increasing number of students have been accepted from these countries. Significant numbers of students also come from Canada and countries in the Middle East, the Far East, Africa, and Latin America. Special efforts continue to be made to enroll more students from developing countries.

This international atmosphere alters inaccurate preconceptions held by U.S. and non-U.S. students alike, stimulating a greater understanding of one another based on interaction, education, and experience. By exposing its students to the American system of graduate education and providing them with the experience of living and studying together in Europe in a truly international environment, the Center strengthens the bonds among future leaders of the United States, Europe, and other areas of the world including developing countries.

Bologna Center graduates are in positions of importance worldwide in foreign offices and ministries of foreign affairs, in other governmental agencies, and in international and regional organizations. Thus far the Center had educated more than 280 European specialists in the U.S. government, more than 186 officials of West European governments, and more than 170 international civil servants. Bologna Center alumni are also employed in the private sector with international corporations and commercial firms, in banks and other financial institutions, non-profit organizations, media organizations, and research centers and universities around the world. The notable achievements of the Centers alumni, who come from 85 different countries, clearly demonstrate the significance of the Bologna Center's leadership role in the formation of future world leaders and in the promotion of democracy and international market economics.

FISCAL YEAR 1998 FUNDING REQUEST

We recognize and appreciate the Committee's support of the ASHA program in past years. We are concerned that the Agency for International Development (AID) continues to disregard the Congress' intentions to ensure the continuation of this program, and hope you will continue to take a strong position with AID to ensure that the ASHA program is not terminated and continues to receive adequate funding to conduct the competitive grant program. Therefore, we respectfully request that you consider a direct appropriation for ASHA in fiscal year 1998 of at least $15 million.

Thank you for your consideration of this request. Please do not hesitate to contact us if you have any questions or require any further information.

PREPARED STATEMENT OF THE WORLD WILDLIFE FUND

World Wildlife Fund appreciates the opportunity to submit testimony on the fiscal year 1998 Foreign Operations Appropriations legislation.

WWF supports the modest increase in the administration's fiscal year 1998 budgets for bilateral and multilateral assistance in the Department of State, the Agency for International Development and the Department of Treasury. This increase will help ensure the effectiveness of key environmental programs that had been threatened by drastic cuts made in fiscal year 1996.

U.S. Agency for International Development

WWF strongly supports the president's proposed $998 million for development assistance and $700 million for the Development Fund for Africa. Of these amounts, $290 million is proposed for environmental programs globally, an increase of $62 million over fiscal year 1997 levels ($227.6 million).

USAID's integrated approach to biodiversity conservation and sustainable use recognizes the interdependency of humans, wildlife, and their environments. USAID provides technical and financial support for conservation projects around the world that emphasize community-based conservation.

WWF applauds the administration's earmark of $700 million for the Development Fund for Africa, as it assures U.S. commitment to the countries of Africa to help achieve broad-based, sustainable economic growth. Given the acute environmental problems in many African nations, biodiversity has long been an integral part of the DFA's goals. Some USAID-funded projects are:

—The WWF-managed L.I.F.E. project (Living in a Finite Environment) funds several programs in Southern Africa, including one in Namibia that teaches communities how to sustainably manage and exploit their natural resource base. For example, in Caprivi last year over $80,000 was generated for construction of thatched grass roofs for tourist sites. In addition, to address crop destruction by elephants, buffalos and other wildlife, the program was instrumental in the construction of electric fences. As a result, an estimated $6,000 was saved in crop productivity in 1996.

—The Rwenzori Mountains Conservation Development Project, co-funded by WWF and DFA, straddles the Uganda-Zaire border and encompasses some of the highest peaks and richest biodiversity in Africa. Project goals include collaborating with Rwenzori Mountains National Park staff to develop a park management plan, working with the community to pursue sustainable forest use, and agricultural activities such as tree planting and bee keeping to reduce human pressure on the park. For example, as an alternative to collecting honey from wild bees in the reserve which often resulted in burning the land and destroying trees, bee keeping and tree planting have been taught. Better relationships between the community and park staff have decreased tension over such issues as burials in the park and imposing fees on local inhabitants for crossing through the park.

Of the $290 million USAID proposes for environmental programs in fiscal year 1998, WWF strongly urges the increase in funding over fiscal year 1997 be proportionally reflected in the agency's critical work related to global climate change and biodiversity. This would include increased funding for the Bureau for Global Programs, Field Support and Research, which not only funds climate change and biodiversity programs, but also acts as a catalyst to integrate environmental concerns in USAID programs globally.

One example of the many successful programs supported by the Global Bureau is the Biodiversity Support Program (BSP). A consortium of three leading U.S. environmental organizations WWF, The Nature Conservancy and World Resources Institute BSP supports innovative, on-the-ground initiatives that seek to integrate conservation with social and economic development. Since its establishment in 1988, BSP has worked with over 95 local organizations to support more than 400 projects in 59 countries around the world.

—In Mexico, for example, the ORGANIZATE! project, funded by BSP, has helped residents develop alternative, environmentally sustainable livelihoods in the area of the El Cielo Reserve in Northern Mexico, while raising awareness about the reserve's importance. As a result, many of the reserve residents last year opposed a logging enterprise proposal to resume logging in El Cielo. Pressure from the local residents influenced the Mexican government to deny the logging company permission to resume logging.

—Last year, BSP's Peoples and Forests Programs assisted communities and organizations from 25 localities in six countries. The program, for example, supports an Indonesian NGO working with the Bentian Dayak people of Indonesia to map their forest areas and document traditional resource management practices which preserve local rainforest ecosystems, meet subsistence needs and generate cash income through the sale of forest-cultivated rattan. As a result of this work, government officials were persuaded to exclude the Bentian forest areas and rattan gardens from a proposed reforestation site for a logging concession.

—BSP's analyses of global climate change in Central Africa and its initiative in creating new partnerships has led to the Central African Regional Program on

the Environment (CARPE). This new partnership of five NGOs and four U.S. government agencies will address deforestation in the second largest tropical rainforest in the world.

BSP exemplifies the type of USAID/PVO partnership that successfully and cost effectively uses U.S. taxpayer support to assist in integrating conservation with social and economic development.

MULTILATERAL ASSISTANCE

Department of State

While we support the administration's request for an increase in the International Organizations and Programs account, WWF opposes the Department of State's fiscal year 1998 request for no increase from fiscal year 1997 levels for International Conservation Programs. At the proposed level of $3.75 million, the U.S. last year was unable to contribute its $1.3 million commitment to the core budget of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). The department was only able to fulfill its commitment to CITES through an additional amount resulting from the reallocation of funds within International Organizations and Programs account.

CITES is arguably the largest and most successful wildlife conservation agreement. One hundred thirty-five countries are now parties to the convention; the United States was one of the first nations to sign in 1973. CITES has become an effective forum for addressing broad wildlife conservation issues and needs, playing a critical role in preventing the extinction of thousands of species in trade. The U.S. contribution to CITES is critical to continue this important work.

The continued U.S. contribution of $750,000 to the Ramsar Convention also is important. The convention is a critical tool for not only conserving but also promoting sustainable use of aquatic ecosystems globally. More than 770 sites totalling over 52 million hectares in over 90 contracting countries are designated as wetlands of international importance and protected under the Ramsar Convention.

WWF urges the Congress to require the Department of State to fully fund its obligations to CITES, the Ramsar Convention and other international conservation programs.

United Nations Development Program

WWF supports the president's request for $100 million for the United Nations Development Program (UNDP). For the past ten years, WWF and UNDP have collaborated with considerable success to help national governments and local communities develop and implement programs supporting the long-term protection of Asia's biological diversity.

Specifically, WWF has closely worked with UNDP country programs in Bhutan, pre-SLORC Burma, Cambodia, China, India, Nepal, Pakistan, Papua New Guinea, Philippines, and Vietnam. In several of these countries, UNDP support was critical to initiating innovative, sustainable conservation efforts that otherwise would never have been realized. WWF effectively engaged the credibility and resources of UNDP to kick off outstanding conservation programs such as the world's first environmental trust fund in Bhutan, the Indo-China Forum for Biodiversity Conservation, Nepal's People and Parks Project, the Vietnam Environmental Business Council, and current efforts to initiate a Ecoregional Biodiversity Initiative in the Himalayas.

G–7 Pilot Program (PPG–7) to Conserve the Brazilian Rain Forest

WWF supports the Department of State's effort to organize U.S. government funding support for the PPG–7's Rain Forest Trust Fund at $3 million to $10 million over the next three years.

The Brazil Pilot Program is a collaborative effort to reduce the degradation of Brazil's Amazon and Atlantic forests, which cover an area nearly the size of the U.S.'s lower 48 states. It was conceived at the 1990 G–7 summit in Houston, Texas. In December 1991, a number of donor nations pledged $250 million as initial support. Part of these funds are managed by the World Bank through its Rain Forest Trust Fund and the remaining funds comprise bilateral donor co-financing.

The PPG–7 is unique for its integrated participation by all sectors of Brazilian civil society, the leadership provided by the federal government of Brazil, and for its diverse international support. It is the first instance in which the global community has joined hands to address a local environmental challenge that is of worldwide significance. This initiative has set a precedent for addressing the global issues of greenhouse gas emissions, biodiversity conservation, tropical deforestation, and sustainable development in ways instructive to other localized but globally important environmental issues.

The United States has provided $7.5 million to PPG–7 over the past five years (compared with Germany's $80 million). Each donor chooses one or more components to finance. The United States has chosen applied research, while Germany, for example, has chosen the small grants component.

Most of the WWF staff in Brazil has participated in designing and commenting on the different components of the project, e.g., small grants for NGOs, forestry, environmental education, and state policies. Most of the examples that the World Bank uses to showcase its future plans under the project are current projects managed by WWF.

WWF urges the subcommittee to support the Brazil Pilot Program and request the State Department to provide adequate funding for the PPG–7's Rain Forest Trust Fund over the next three years.

MULTILATERAL DEVELOPMENT BANKS

International Development Association (IDA)

WWF supports the administration's request of $800 million for the full scheduled payment to the eleventh replenishment of the International Development Association (IDA) and payment of $234.5 million to clear accumulated arrearages.

IDA, the concessional window of the World Bank, is the single most important source of development finance for the world's poorest countries. Support for IDA is an attractive vehicle for U.S. development assistance. Through investment in specific projects and economy-wide or sector-specific reform programs, IDA can help to address the root causes of political and economic instability such as extreme poverty, environmental degradation, and weak institutions of government and civil society.

IDA is also cost-effective: every U.S. dollar contribution leverages several additional dollars from other donors. Finally, IDA is responsive to U.S. leadership, which has been responsible for recent reforms to make the institution more transparent and accountable.

While IDA and the World Bank more generally have been criticized for failing to pay adequate attention to poverty reduction and to the environment in its policies and loan-funded operations, WWF believes that U.S.-led progress toward reform is sufficient to justify continued support. Moreover, prospects for continued reform are strong: the World Bank's Board of Executive Directors has recently approved a "Strategic Compact" with Bank management to invest resources in improving the Bank's efficiency and effectiveness as well as to focus its efforts in such critical areas as social analysis, rural development, and capacity-building in Africa.

Finally, from WWF's perspective, there is unexploited potential for IDA and the World Bank Group to play a more proactive role in promoting environmental sustainability in the context of individual borrower countries and the global community as a whole. Indications that the Bank is moving in this direction are ongoing discussions between the Bank and the government of Kenya regarding the first-ever "environmental adjustment" loan, in which IDA resources would be utilized to support macroeconomic and institutional change necessary for sound environmental management. WWF believes that meeting the administration's request for IDA funding this year would provide a signal of support for such initiatives and for the important new directions being taken by the institution as a whole.

Global environment facility

World Wildlife Fund supports the administration's fiscal year 1998 request of $100 million for the Global Environment Facility (GEF).

The focus of the GEF has been the protection of biodiversity, reduction of global warming, protection of international waters, and prevention of depletion of the ozone layer.

The GEF has a unique role in its funding mechanism in the international system: it is the only multilateral funding institution devoted exclusively to the protection of the global environment. It serves as a potent symbol of the global community's shared commitment to the goals of environmental protection and sustainable development.

The GEF serves two broad functions, both of which are critical to declared U.S. national interests. The first of these functions is as the funding mechanism for the Convention on Biological Diversity (CDB) and the Framework Convention on Climate Change (FCCC). Money allocated by governments is channeled through the GEF to support activities called for in these treaties, both of which have been signed by the United States (the CDB awaits confirmation by the Senate).

The second important function played by the GEF is as a catalyst for reform in the policies and operations of its implementing agencies. The United States has al-

ways supported a reform agenda within these agencies, including issues of transparency, information sharing, and NGO access. While widespread reform within these institutions has not been fully realized, the GEF has played a modest but important role in what progress has been achieved in setting policies and standards that are slowly being internalized by the implementing agencies.

GEF is not without its problems. Disbursement of funds has been hampered by a number of factors, including the slow development of strategies and project criteria. These have now been put into place and, along with GEF's new procedures to streamline NGO access to its fund, hopefully will speed the flow of resources to critical environmental problems.

U.S. leadership is crucial in the GEF's continued roles as a catalyst for reform and as a funding mechanism for the two conventions described above. U.S. funding to the GEF over this replenishment period has fallen well short of the commitments made. Failure to meet these commitments risks other donors following suit as permitted by GEF's burden sharing agreement. This shortfall is starting to seriously erode the U.S.'s capacity and voice in shaping the GEF, which has been critical to date. Also threatened is the progress being achieved in the Facility's roles outlined above. Insufficient funding would constitute a serious setback to the pursuit of global sustainable development and environmental protection. Full funding of the fiscal year 1998 Administration request would go a long way toward offsetting this trend and restoring the U.S.'s preeminent role in this institution's operations.

Some members of Congress have called for increased funding above the administration's request for a number of important programs in the 150 account such as Child Survival, Newly Independent States and Refugee and Migration Assistance. WWF urges the committee, in considering these increased levels, to ensure that equally significant conservation programs administered by the Department of State and USAID, such as those outlined above, are not consequently underfunded. Failure to adequately fund these environmental programs will deal a serious setback to international environmental initiatives that affect U.S. interests.

For more than three decades, the United States has been a key participant and catalyst in global efforts to protect endangered and threatened wildlife, to promote international cooperation on environment and science, and to support community-based efforts in conservation and biodiversity. In the past few years, drastic cuts by the Congress in the foreign affairs budget have seriously undermined the government's international role in environment-related activities. WWF urges the subcommittee to support the administration's efforts to restore much of past years' budget loss, thereby helping to regain U.S. prominence in global environmental programs.

World Wildlife Fund looks forward to working with the subcommittee on the Foreign Operations bill. Thank you.

APPENDIX I.—PROPOSED COMMITTEE REPORT LANGUAGE ON BIODIVERSITY SUPPORT PROGRAM

The Subcommittee commends USAID for its work in integrating the conservation of biodiversity in its development assistance programs. Conservation of biodiversity, the variety of all forms of life on earth, not only is essential to human survival, but is also important to the global economy. For example, the 20 best-selling pharmaceuticals in the U.S., with combined revenues of about $6 billion worldwide in a given year, all relied on plants, microbes, and animals for their development.

USAID's Bureau for Global Programs, Field Support and Research has played a pivotal role in ensuring that USAID bureaus and missions successfully address environmental problems around the world.

Accordingly, the Committee requests that the Bureau for Global Programs, Field Support and Research continue to be adequately funded for programs promoting biodiversity and climate change. Specifically, the Committee requests the Bureau's Center for Environment be funded for $50 million in fiscal year 1998, of which $3.5 million fund the successful Biodiversity Support Program (BSP), a consortium of three leading U.S. environmental organizations—World Wildlife Fund, The Nature Conservancy, and World Resources Institute. BSP exemplifies the type of USAID/Private Voluntary Organization partnership that successfully and cost-effectively uses U.S. taxpayer support to assist countries with conservation of biodiversity linked with social and economic development. BSP has effectively leveraged core funding from the Bureau on Global Programs with many times more funding from USAID missions overseas and regional bureaus.

APPENDIX II.—PROPOSED COMMITTEE REPORT LANGUAGE ON INTERNATIONAL CONSERVATION PROGRAMS

The Committee recognizes the importance of international organizations and programs as crucial to protecting the health and environment of the American people. These activities, such as the Ramsar Convention on Wetlands of International Importance and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), represent sound investments toward preserving fish, wildlife and habitats for the benefit of future generations. The Committee expects that committed funds be provided for these crucial activities.

PREPARED STATEMENT OF THOMAS A. NASSIF, CHAIRMAN, AMERICAN TASK FORCE FOR LEBANON

The American Task Force for Lebanon is an organization whose goal is to work towards reestablishing a secure, stable, independent, and sovereign Lebanon with full control over all its territory. Our members reflect most religious groups in Lebanon and include a prominent roster of American talent in business, law, medicine, the professions, and the arts, as well as public officials, including two members of Congress.

During its fifteen-year civil war, Lebanon sustained $25 billion in direct damage to its infrastructure, according to a 1991 United Nations assessment. This is an enormous burden on a country with an estimated 1996 GDP of $8 billion and a public debt of over $11 billion. This debt is a direct result of the legacy of war, a weak tax base, and the financial requirements of a reconstruction program in the absence of sufficient concessional finance. The mounting debt is raising serious concerns regarding its sustainability and its adverse impact on development. Lebanon's reconstruction of infrastructure is designed to accommodate an economy geared toward an era of Middle East peace, which has unfortunately not been realized.

We are grateful that the United States hosted the Friends of Lebanon Conference to assist Lebanon's reconstruction in Washington on December 16, 1996. The Friends of Lebanon Conference was important because the United States lent its prestige in assembling donor countries and multilateral lending institutions. During the Conference, the United States pledged $20 million to Lebanon.

For fiscal year 1997, Lebanon received only $2 million in spite of its great need. Before the Friends of Lebanon Conference, plans were to phase out all assistance to Lebanon by 1999. Let me say, Mr. Chairman, that this would not be a welcome development, as it undercuts U.S. efforts at promoting the peace process and democracy in the Middle East. The Lebanese-American community will be vigilant in ensuring that Lebanon continues to receive foreign assistance while it is redeveloping, because it is in the interest of the United States.

The United States Agency for International Development has projected a development program for Lebanon of $12 million per annum over the next five years. USAID feels that much can be accomplished with this level of foreign assistance. We concur. All USAID projects in Lebanon are administered by U.S.-registered PVO's. Also, by the end of May, USAID will permanently station an officer in Lebanon. The presence of a USAID officer will enhance the level of cooperation between PVO's and other donors and ensure that accountability meets Congressional standards during this period of budget cutbacks.

The new USAID strategy has three objectives which we feel cover niches receiving little attention from other foreign donors, who have mainly targeted infrastructure. The objectives are reconstruction and expanded economic opportunity; democracy and governance; and, improved environmental practice. We especially want to applaud the work that USAID is doing in the areas of rural community development, the Beirut Stock Exchange, the Environmental Center for Research and Development at the American University of Beirut, and the reorganization and computerization of the central control agencies, such as the general accounting office, central inspection board, and the civil service board.

A proposal that the World Bank is considering has the potential to address some of Lebanon's socioeconomic problems. Although Lebanon has a prosperous banking sector, Lebanese banks have historically been commercial banks offering trade finance. Long-term credit is almost nonexistent. Banks are required to keep 10 percent of total deposits on reserve with the Central Bank of Lebanon. It has been proposed that the Central Bank make available 1 percent of this idle money for long-term loans of between $5000 and $20,000 for small-and medium-size enterprises outside of Greater Beirut. The loans would be administered by commercial banks, which have over 200 branches in the villages. This project is critical because 1.6 million out of Lebanon's 3.1 million people reside in Greater Beirut due to lopsided de-

velopment and rural unemployment. Viable economic activity outside of Greater Beirut would alleviate the tremendous strain on Beirut's physical and social infrastructure. If this project proceeds, the U.S. could provide $2 million in start-up capital.

We urge direct funding of the American Schools and Hospitals Abroad Program for fiscal year 1998. This program supports such fine institutions in Lebanon as the American University of Beirut, Lebanese-American University, and International College. In recognition of the Lebanese army's role as the symbol of national sovereignty, we urge continued training of Lebanese Army personnel under the International Military Education and Training program and we urge that nonlethal equipment continue to go to the Lebanese Army under Excess Defense Articles.

PREPARED STATEMENT OF SIDONIE CHIAPETTA AND ERIK HAUNREITER, ON BEHALF OF THE NATIONAL WILDLIFE FEDERATION

EXECUTIVE SUMMARY

The National Wildlife Federation urges the Subcommittee to appropriate $2 billion for bilateral Development Assistance, of which $600 million should be available for population assistance, and $108 million for education, with programmatic emphasis on women and girls. In the Multilateral arena NWF recommends appropriations at the level of the President's request: $1.034 billion for the International Development Association of the World Bank, $100 million for the Global Environmental Facility, and $365 million for the International Organizations and Programs account.

BILATERAL ASSISTANCE

In our view the most urgent task facing your Subcommittee is to increase levels of long-term development assistance. Long term development assistance helps to prevent ecological disasters; and it enhances U.S. security in very tangible ways: by reducing immigration pressures, and by ensuring the stability of our trading partners overseas. It also answers to the fundamental belief of the American people that ours is a wealthy nation, and should do its share to help those in need. Our recommendation is a return to the fiscal year 1995 level of $2 billion for development assistance, with special priority on two areas: international population assistance, and education for girls and women.

Population assistance

In previous years, NWF has addressed the Subcommittee on the urgent need to stabilize human population; we have cited the importance of this goal for U.S. food security, and for the protection of precious biological assets like genetic diversity, and renewable resources, like fresh water and forest cover. As the largest-ever generation of young people enters its reproductive years, these concerns are with us, as ever. However, this year, we wish to highlight the importance of population assistance from a purely human perspective: that of its impact on women's health.

NWF believes that U.S. population assistance is administered responsibly, and with due concern for human rights. One cannot overstate the need for a wide variety of contraceptive choices; for patients to be completely informed about the possible ill-effects of contraceptives (particularly when long-lasting methods are in question) and for adequate follow-up to identify and deal with problems. The potential negative impacts of contraception on women's health should always be closely monitored, and we believe that USAID and its Cooperating Agencies do so, and that they respond quickly to problems and reports of problems.

The other aspect of this charge is that the state of women's reproductive health in general should be monitored, and there should be a response to the information that comes to light. New information has come to light.

This past year, in its annual "Progress of Nations" report, UNICEF published new data from a variety of sources about the incidence of maternal mortality, and maternal morbidity around the world. This report made such an unforgettable statement of the facts that we will quote from it at length. UNICEF is an agency that has always had the highest reputation within the U.N. system and on Capitol Hill. Even during the current difficulties of the U.S.-U.N. relationship, it has enjoyed immunity from major funding cuts, and from criticism. The interesting thing about this is that UNICEF, in a circumstance where parochialism could be expected to run rampant, has in effect used its protected status to advocate on behalf of two other UN agencies: the World Health Organization and UNFPA. There is certainly no particular institutional advantage for UNICEF in producing a report that highlights the lamentable state of womens' reproductive health. It follows therefore, that the leaders

of UNICEF want women to be healthy, even if the dollars to do that work go to two different UN agencies. It follows that they see a deep link between the health of mothers and the health of children, and they wanted to use their most public opportunity to say so. This truly is leadership.

What follows is remarkable not only for the new statistics, but for the way it spells out what "maternal mortality" actually means. Men who read this should realize that the information comes as shocking news to most women as well. The problems it describes are so alien to our experience that it seems almost improper to talk about them. Fortunately, UNICEF was not too squeamish to bring us this information, so we feel we have a duty to highlight it for members of the Congressional Subcommittee that can actually make the situation better. What follows is an excerpt from Peter Adamson's essay "A Failure of Imagination" in the Progress of Nations Report.[1]

"For a decade, the figure of 500,000 maternal deaths a year has been part of the statistical liturgy. In 1996, new estimates are showing that the number of women who die each year in pregnancy and childbirth is probably closer to 600,000 * * *

But before the new estimates replace the old as a way of packaging up the problem, it should be said that a mistake has been made in allowing statistics such as these to slip into easy usage. For these are not deaths like other deaths, and death is only a part of the story they have to tell.

They die, these hundreds of thousands of women whose lives come to an end in their teens and twenties and thirties, in ways that set them apart from the normal run of human experience.

Over 140,000 die of hemorrhaging, violently pumping blood onto the floor of the bus or bullock cart or blood-soaked stretcher as their families and friends search in vain for help.

About 75,000 more die from attempting to abort themselves. Some have taken drugs. Others have submitted to violent massage. Many more have inserted a sharp object—a straightened coat-hanger, a knitting-needle or a sharpened stick—through the vagina into the uterus. Fifty thousand women and girls attempt such procedures every day. Most survive, though often with crippling discomfort, pelvic inflammatory disease, and a continuing foul discharge. But many do not survive: with punctured uterus, infected wound and creeping sepsis, they die in pain and alone, bleeding and frightened and ashamed.

Perhaps 75,000 more die with brain and kidney damage in the convulsions of eclampsia, a condition that is described by a survivor as "the worst feeling in the world that can possibly be imagined."

Another 100,000 die of sepsis, the bloodstream poisoned by a rising infection from an unhealed uterus or from retaining pieces of placenta, bringing fever and hallucinations and appalling pain.

Smaller but still significant numbers die of an anaemia so severe that the muscles of the heart fail.

And as many as 40,000 a year die of obstructed labor—days of futile contractions repeatedly grinding down the skull of an already-asphyxiated baby onto the soft tissues of a pelvis that is just too small.

In the 1990's so far, 3 million young women have died in one or more of these ways. And they continue to die at the rate of 1,600 every day, yesterday and today and tomorrow.

Ratio of injuries

For the most part, these are the deaths not of the ill, or of the very old, or of the very young, but of healthy women in the prime of their lives upon whom both old and young may depend.

But the numbers of the dead alone do not reveal the full scale of this tragedy. For every woman who dies, approximately 30 more incur injuries, infections, and disabilities which are usually untreated and unspoken of, and which are often humiliating and painful, debilitating and lifelong.

It is part of the silence that has for so long surrounded the issue of maternal morbidity that there is so little research into its prevalence. But based on a few studies and many assumptions, the best estimate that can be made puts the ratio of injuries to deaths at about 30 to 1.

This means that at least 15 million women a year sustain the kind of damage in pregnancy and childbirth that will have a profound effect on their lives. And even allowing for the fact that some women will suffer such injuries more than once during their child-bearing years, the cumulative total of those affected can be conservatively estimated at some 300 million women, or more than a quarter of the adult women now alive in the developing world.

It is therefore no exaggeration to say that the issue of maternal mortality and morbidity, fast in its conspiracy of silence, is in scale and severity the most neglected tragedy of our times.

Obvious signs

Many of the injuries sustained during pregnancy and childbirth are distressingly obvious. Rupture of the uterus, prolapse,[2] pelvic inflammatory disease, and lower genital tract injuries, make life miserable for millions.

Most obvious and distressing of all is fistula.

Fistula occurs when the tissues of the birth canal are deadened by prolonged labor and days of pressure from the baby's skull. In the days and weeks after the birth, the dead tissue falls away, leaving holes which allow leakage from the bladder and rectum, or both, into the vagina. Urine and feces now bypass the muscles that normally control the flow. The woman is incontinent. And without an operation to repair the fistula, she will remain so all her life. Special clothing is not available. She must make do with cloths and rags which quickly become soaked and soiled. The constant leaking abrades the skin of the genital area and produces a permanent and painful rash. Washing is difficult. Frequent bathing is impossible.

Soon, the woman is excluded from her husband's bed, and then, from his home. Living in an outhouse or animal shed, she cannot visit anyone or travel anywhere except by walking. Each year, unknown numbers decide that suicide is preferable to such a life.

The best available estimates suggest that 80,000 women develop fistula every year. Most cases go untreated, and somewhere between 500,000 and 1 million women are living with the problem at this moment."

The essay goes on to discuss a few of the more widespread chronic health problems associated with childbirth, such as acute anaemia, and the reasons why these dreadful problems so often go untreated. Then it asks "What can be done?"

"The first and most obvious step towards reducing the toll of maternal mortality and morbidity is to make high-quality family planning services available to all who need them. With today's knowledge, it is possible to do this in ways that are acceptable to all countries and cultures.

Meeting only the existing demand for family planning would reduce pregnancies in the developing world by up to a fifth, bringing at least an equivalent reduction in maternal deaths and injuries. Add in the many other benefits of family planning for all—fewer abortions, better health and nutrition of women and children, faster progress towards gender equality, slower population growth, reduced environmental pressures—and the costs are almost derisory."

The rest of the recommendations involve educating birth attendants to identify the pregnancies with complications, and arrange for skilled obstetric care to be available; ensuring that all surgeons have training in the correct way to perform a caesarean section, and other measures. The report also has a special side-bar on how maternal mortality and morbidity impact children:

"About half of infant deaths occur in the first month of life—and most of those in the first week. Those lives can only be saved by clean and safe births, maintenance of body temperature, initiation of spontaneous breathing, and an almost immediate beginning of breastfeeding. This comes down to the availability of the right skills and care in pregnancy and childbirth. There is therefore a significant overlap between the action needed to protect women and the action needed to protect newborns. An even more obvious implication is that the 585,000 women who die each year in childbirth leave behind them at least a million motherless children. The physical and emotional cost is immeasurable. But it is hinted at by one study in Bangladesh showing very significant differences in the survival rates of children with and without mothers (particularly for girls)."

On the positive side, birth spacing, through the use of family planning, greatly enhances infant survival: babies born less than two years after their next-older sibling have almost twice the chance of dying in infancy, relative to babies born after a hiatus of more than two years. This is because infants conceived too soon after a previous pregnancy are more likely to have a low birth-weight. The heavy drain of childbearing on the mother's body may also mean that her milk is less abundant or less nourishing, giving the newborn two strikes against it from the outset.

Clearly, providing family planning is a humanitarian mission of the first importance. The long-term environmental benefits of stabilizing population will be inestimable; and there is no trade-off between the two: individuals can be saved now, and future generations' interests can be safeguarded at the same time.

NWF proposes an expanded appropriation for bilateral activities in Population and Health, such that $600 million could be allocated to family planning and other population programs in fiscal year 1998. This is not even half of what would be re-

quired if the U.S. were to attempt to meet its 1998 share for the goal of universal access to family planning by the year 2000. However, it would be a start in the right direction.

Education

According to UNICEF, simply meeting the unmet demand for family planning would prevent as much as one-fifth of pregnancies in the developing world each year. However, surveys show that a much higher proportion—between one-quarter and one-half—of all births in the developing countries are either unwanted or mis-timed.[3] This means that there is a significant subset of those couples who have unwanted or mis-timed pregnancies who aren't aware that contraception could offer them a way out of their problem. The gap is one that can only be closed by education—and particularly by educating women to the point where they feel entitled to assert their rights as regards marriage and childbearing: the right not to be coerced into marriage or into sexual relations, and the right to control the timing and number of their pregnancies. Education emancipates a girl or a woman personally, and it also enhances her earning power. What is more, educating women seems to impact directly on family size, and on the survival prospects of children. In Asia, Africa and Latin America, women with seven or more years of schooling have two to three fewer children than women with only three years of schooling. Even very small amounts of schooling seem to have an impact on family health: if a woman has just one to three years of education, the likelihood that her children will die in infancy declines by 15 percent relative to a woman with no schooling at all.[4]

NWF urges that a total of $108 million to be allocated for basic education activities through USAID, and that at least one tenth of that should be spent on programs focused on women and girls.

MULTILATERAL ASSISTANCE

The Multilateral Development Banks

Mr. Chairman, as you know, in the past, the National Wildlife Federation has been a vocal critic of the policies and practices of the multilateral development banks (MDB's) and an advocate for change in these institutions. By coordinating our efforts with non-governmental organizations in the U.S. and in affected countries, combined with pressure by members of congress, we have succeeded in bringing about many important changes in the MDBs. Although there has been progress made in the policies of the MDBs, especially in areas of improved local public participation and transparency, full implementation of these policies has yet to occur. If the MDBs are to remain effective as institutions committed to poverty alleviation, the pace of reform must quicken.

Presently, there are many efforts, both within the MDBs and outside, to bring about further change within the banks and to ensure their adherence to their own progressive policies. In a recent draft report entitled "The United States and the Multilateral Development Banks," to be released by the Center for Strategic and International Studies, a number of recommendations for reforming the MDB's and U.S. policy towards these institutions were outlined. Among recommendations included were: greater efforts at "graduating" countries from MDB loans, improved local participation in MDB projects, improved transparency, and "fixing the gap between rhetoric and reality."[5] The task force, which included NWF's International Office Director, Barbara Bramble, argued that the cycle of dependency which persists for so many borrower nations can be broken by (1) a more efficient allocation of resources and (2) by limiting the time frame for loans. This would allow the MDBs to return to their traditional role of facilitating the transition from aid-dependency to economic self-reliance. It would also allow them to become more active in non-lending activities such as consulting.[6]

At the most well known and influential of the MDBs, the World Bank, a number of important new policies and initiatives have been formulated under the leadership of World Bank president James Wolfensohn, which have the potential to make the Bank more effective in achieving its goal of alleviating poverty in the world's poorest countries. Some examples include: the Heavily Indebted Poor Countries Debt Initiative, a project to help the poorest countries alleviate the debt burdens which have impeded progress on development; the "partnership for capacity building" to expand the Bank's efforts to train local experts in the Africa region; and the Bank's Participation Mainstreaming initiative, a program to encourage and facilitate stakeholder participation which has been shown to increase prospects for project success. Implementation of these projects has been slow at best. The Bank has, however, recently committed itself to further reform through its Strategic Compact, a document which

outlines the Bank's goal to become "more efficient and to increase the development effectiveness of everything it does." [7]

United States interests in the MDB's

In outlining the U.S. interests in the MDBs, the CSIS draft report states:

"The MDB's objectives of reducing poverty, stimulating broad-based economic growth, and promoting environmental sustainability in developing countries continue to be important U.S. interests. They are key prerequisites to reducing political and social instability abroad, which, if left unchecked, has enormous security, economic, and social costs for the United States and the developing world. The United States has a very large stake in the environmental choices made by developing countries, and pervasive poverty often results in migration, drug production, and crime."

As we have argued in the past, we feel that it is in our nation's economic and security interests to maintain continued support for the MDB's and their efforts in alleviating poverty, achieving economic and social stability, and improving natural resource management policies. The United States can benefit greatly from a stable international political climate that is conducive to trade and foreign investment, and the MDB's will continue to play an influential role in this arena.

Implementation of reforms

The National Wildlife Federation supports the new policies being formulated by the MDB's, and we believe that these institutions are continuing to move in the right direction. We feel, however, that the pace at which these policies are being implemented is inadequate. A case in point is the World Bank's evaluation of country performance. Aware that conventional measures of Gross Domestic Product (GDP) do not tell the full development story of a country, the Bank has developed measures that better account for social and environmental factors and their contribution to a prosperous economy. However, the Bank has failed up to now to include its own important research, which was initiated in 1989, in its advisory and lending operations. Without full and immediate implementation, the commitments made by these institutions may never be realized. The commitments have been made; now its time to follow through.

It is therefore important that the U.S. maintain pressure and play a leadership role in getting these institutions to carry through with their commitments and make changes that really count. The only way the U.S. can continue to remain influential in the MDB's, and to ensure that our global interests are served, is to fully support these institutions and to meet our own obligations. This includes, most importantly, our financial obligations toward the International Development Association (IDA), the branch of the World Bank that lends to the world's poorest countries. Currently, we are not meeting our pledges for the 11th replenishment of IDA, nor have we paid our arrears for the 10th replenishment. It is absolutely essential that the U.S. meet its financial obligations toward IDA. NWF therefore urges the Subcommittee to appropriate the President's request of $1.034 billion to meet our commitments to the International Development Association. By fulfilling our obligations, the U.S. can continue to play an active role in IDA, and bring about positive change.

International organizations and programs account

NWF supports the President's request of $365 million for the International Organizations and Programs Account.—Although the programs in this account amount to a small percentage of the entire foreign operations budget, they enable the United States to meet its global commitments to environmental protection as agreed to in international treaties and conferences. The potential benefits to be gained from supporting agreements such as the Convention on International Trade in Endangered Species (CITES), the Montreal Protocol for the protection of the ozone layer, and the Ramsar Wetlands Conservation Agreement far outweigh the relatively small expenditures required. In addition, NWF strongly supports appropriating the President's request for the UN Development Program and the UN Environment Program to their fiscal year 1995 levels. Both agencies have long needed reform, but they are now engaged in that process. In the case of UNDP reform is happening under the enlightened leadership of Gus Speth. The United Nations Environment Program is responding to sensible prodding by the Department of State. As with the World Bank, such leadership cannot be exercised if the U.S. is not a major financial player among the member governments.

Global environment facility (GEF)

NWF supports the President's request of $100 million for the GEF.—The GEF is the major funding mechanism for realizing the goals expressed in international en-

vironmental treaties on climate change, biodiversity conservation, ozone depletion and the conservation of international waters. The GEF has established funding subcategories or "Operational Programs" in three of the four areas, and has funded what it calls "Short-term response measures" in the area of Ozone depletion. In our view, the most valuable work of the GEF has been its support of pilot projects in energy technologies with low greenhouse gas emissions rates, and its portfolio of projects in renewable energy technologies for rural electrification. It has also funded a number of significant projects in the management of biological diversity reserve areas, and buffer zones around ecological reserves. Over the last three years, the GEF has organized 20 workshops helping representatives from 60 recipient countries to develop project designs that will meet its guidelines for environmental protection. It has worked closely with the Conferences of the Parties to two of the major environmental accords (the Framework Convention on Climate Change, the Convention on Biodiversity) to develop Operational Programs that will best promote environmental goals. As it was hoped, the availability of funding through the GEF has stimulated governments' interest in (and technical capacity for) implementing development projects that try to maximize the efficiency of natural resource use while minimizing ecosystem damage.

Conclusion

National Wildlife Federation urges you, Mr. Chairman, and all the members of the Subcommittee to reflect on the tremendous power that you have to right the wrongs we have spoken about. We urge you to be bold in exercising your power. The U.S. budget will never be balanced by cutting the foreign aid programs mentioned here, programs which the majority of your constituents support. On the other hand, increasing the levels of assistance by the very modest amounts we suggest will do inestimable good. Be generous in framing your Bill.

ENDNOTES

1. The Progress of Nations: The nations of the world ranked according to their achievements in child health, nutrition, education, family planning and progress for women, 1996, UNICEF.
2. Prolapse of the uterus is a condition in which the musculature and ligaments supporting the uterus are so weakened (usually by excessive childbearing or by obstructed labor) that the uterus partially or wholly slides out of the body through the vagina. A woman with the most severe form of prolapse is unable to sit or squat down normally, but must hold her uterus back with her hand. This condition is almost never seen in industrialized nations because fertility is lower here, and the strain of an obstructed labor is usually relieved by a caesarean section.
3. "A Response to Concerns About Population Assistance" Susan A. Cohen, Alan Guttmacher Institute, 1997.
4. "Accelerating Girls' Education: A Priority for Governments" fact sheet published by the Population Council, quoted in "High Stakes" a report by the Rockefeller Foundation, 1997.
5. "The United States and the Multilateral Development Banks" Draft Final Report, Center for Strategic and International Studies, March 1997.
6. Ibid.
7. "The Strategic Compact: A Summary Note." The World Bank, 1997.

APPENDIX I. SELECTED LETTERS FROM CITIZENS

SCOTTSDALE, AZ, *April 23, 1997.*

Hon. Senator MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR MR. CHAIRMAN: I am writing this letter to express my concern and support for funding for the overseas population programs which are currently being reviewed by you and your subcommittee. I feel very strongly that it is important that every government of every country on this earth, recognize the need for population planning in an effort to reduce the impact that humans have on the environment. I urge you and your committee to carefully consider the consequences of your decision. This goes beyond a quality of life issue to a matter of existence. Let's not wait until more plant and animal species become extinct as a result of our inability to realize our responsibility as humans to limit the impact we have on this planet. Thank you for your consideration.

Sincerely,

TERESA STEIMLE.

OKLAHOMA STATE UNIVERSITY, *April 7, 1997.*

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington, DC.

DEAR SENATOR MCCONNELL: I urge you and your committee to support extensive funding for family planning programs, both in the United States and in the international arena.

Family planning programs prevent women from having more babies than can be supported and they represent freedom and a chance at a better life for millions upon millions of women and children.

Married women, with the help of well-funded family planning programming, can have fewer babies, allowing the family to concentrate often-scarce resources on a smaller number of children. This greatly increases the chances that those children will receive nutritious food, medical care, sufficient housing and clothing, and a chance at social mobility. Without family planning for poor families, the limited money available is spread even more sparingly over an increasing number of children, all of whom have a diminished chance at a good, healthy life.

Even from an economic standpoint, spending more on family planning now makes sense. It is less expensive to pay now for contraceptives than to pay later for another million starving adults in countries with disastrously high birth rates and disastrously low contraceptive availability. As a world leader, it is the United States' responsibility to prevent imminent starvation (not to mention a dangerous strain to the world's natural resources) by allowing parents the opportunity to sensibly limit the number of babies they bring into the world to a number that they can support.

Thank you for your time and consideration.

Sincerely,

EVA FOSTER.

ST. AUGUSTINE, FL, *April 21, 1997.*

Hon. MITCH MCCONNELL,
Chairman Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington, DC.

DEAR SENATOR MCCONNELL: Please show your support by voting to expend additional funds for voluntary family planning programs that will stabilize world population, and protect the environment. If a safe, voluntary family planning is made accessible to all, we will go a long way towards ensuring more abundant resources and a clean environment for future generations.

Sincerely,

SARAH G. THOMPSON.

MIAMISBURG, OH, *April 20, 1997.*

Hon. Senator MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR SENATOR MCCONNELL: I am writing concerning the budgeting of crucial family planning funds overseas. I feel it is extremely important to support more funds for voluntary planning programs that will stabilize world population, thus aiding in the protection of our environment. It is our duty to aid in population control around the world. As the population increases and the land and sea are destroyed to satisfy the rising global demand needed in order to feed the rapidly growing countries, the damages are not only to their countries but also to our world. We must aid in not only providing much-needed contraceptive devices but also in educating women. For the reasons above, Rep. Callahan, please support making voluntary family planning available to all so that future generations can experience the same clean and beautiful environment that we are able to enjoy today.

Thank you,

LAURA SENNET.

COLUMBUS, OH, *May 4, 1997.*

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington, DC.

DEAR SENATOR MCCONNELL: I am writing express my support for continued U.S. funding of international family planning. I think America should continue to help the poor and uneducated folks that we share the planet with. If we don't continue to invest in such an important program, overpopulation of the earth will only bring about its demise sooner than necessary.

Rapid human population growth is having detrimental effects on natural resources, because growth is happening faster than nature can adjust. Overfishing of our oceans and destruction of the tropical rain forests are just two examples of what can happen. Population growth must be curtailed to give people time to learn how to do things in a sustainable manner. I became so worried about environmental problems, I enrolled in the School of Natural Resources at The Ohio State University. Here I'm learning not only about natural resources, but about other values held by society as well.

A sensible way to settle disagreements is to come to a compromise. Since it is illegal to use funds allotted family planning for abortion, a compromise has already been reached with anti-abortionists. Since no religious morals are now being broken, education for family planning should continue. Funding for family planning actually needs to be increased to account for the vast numbers of people now living on the planet. World population "clocks" now estimate that there are at least 5.8 billion people living on the planet. Approximately 80 million people have been added within a year's time.

I've learned that insect populations will grow quickly past outbreak levels until their source of food becomes exhausted. Populations may reach an equilibrium if there is a continued, limited supply. If we don't control of our reproductive rate, we run the risk of exhausting our base of support. I shudder when I think that we may be no more intelligent than the rest of the organisms on the planet, and when realizing that we also do more damage. Please continue to support international family planning. Thank you.

Sincerely,

T. HISSOM.

WINONA STATE UNIVERSITY, COMMUNICATION STUDIES DEPARTMENT,
Winona, MN, April 27, 1997.

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR SENATOR MCCONNELL: I understand that the Foreign Operations Subcommittee will hold public hearings soon about U.S. support for population programs, like family planning and better education for girls, in many parts of the world. This is a letter of support for maintaining U.S. aid to programs that will help save the environment from population pressure that are killing coral reefs, rain forests, and humane human communities.

International family planning programs have been attacked by Congressional foes of family planning. They are determined to choke off these services overseas because of a misguided fear that family planning funds will be used for abortion, which is illegal in most developing countries. It is irresponsible and short sighted to suspend, cut, and restrict U.S. funding for much-needed contraceptive services in developing countries. Please continue to support family planning programs overseas.

Sincerely,

BRUCE DORRIES.

COLUMBIA, MD, *April 22, 1997.*

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR SENATOR MCCONNELL: This letter is to express my concern over the crisis in regards to the world population. The tremendous increase in the number of people in the past few decades and the continued increase in the rate of population expansion is very alarming. The continued increase in world population may seriously deplete the world's natural resources and diminish the quality of life for all. We as

a caring nation should do all we can to help other nations and our own people to understand the seriousness of the situation. I urge you to support more funds for voluntary family planning programs. These programs will help stabilize the world population, protect the environment, and in the end ensure that future generations will have a healthy environment in which to live.

Sincerely,

WILLIAM J. KAUTTER.

DUMFRIES, VA, *April 19, 1997.*

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington, DC.

DEAR SENATOR MCCONNELL: We need to appropriate more money for overseas population programs in 1998. Despite impressive family planning successes over the past 25 years, the world population continues to grow. Significant cuts and unnecessary delays made in the past two years have disrupted family planning services and women are suffering.

Unchecked population growth means depletion of water resources, vanishing fish stocks, eroding agricultural lands, disappearing forests, fuel wood scarcity, famine and suffering. It forces people to graze on land that cannot support it and clear rain forests which leads to expansion of deserts worldwide. Continued rapid growth imperils species and habitats around the globe.

World population continues to grow at 90 million people a year. We need to ensure that those want to limit the size of their families can do so safely and cheaply. We are already damaging and wasting precious natural resources in our struggle to sustain our current population of 5.8 billion. Improving the overall standard of living and conserving wild places can only be harder when the population doubles, as it is expected to.

Lower population growth means fewer women and children suffering and dying, a healthier environment and enhanced protection of our natural resources. The U.S. should do more to educate girls and women in the poorest countries, as well as provide more and better family planning services. Family planning saves lives, reduces suffering and prevents abortions.

Thank you,

BRIAN HOTCHKISS.

MAY 9, 1997.

DEAR SENATOR MCCONNELL: Please support more funds for voluntary family planning programs that will help to stabilize the world's growing population thereby taking pressure off of the environment.

Thank you for your support.

Sincerely,

SHANA WALES.

APRIL 5, 1997.

Hon. MITCH MCCONNELL
Chairman, Subcommittee on Foreign Operations, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR SENATOR MCCONNELL: Human population growth is by FAR the greatest threat to ecosystems, human happiness and political systems. I urge you to take whatever steps possible to encourage people everywhere in the world to curtail the growth in human population. Even with the most optimistic estimates and the best plans in place, it will not be long before the growth will be checked by very unpleasant natural means and/or severe and draconian political solutions.

The costs of dealing with the problems of overpopulation will be huge compared to the cost of any plan to reduce the growth.

The immediate goal should be inform every woman on earth that she need not bear any children SHE doesn't want, and to educate every one that there are many other routes to an enjoyable, happy life.

ALL legal, cultural, educational and economic barriers to women's ability to choose any kind of life they desire should be eliminated.

Sincerely,

JAMES HENKEL.

FAIRFAX, VA, *April 8, 1997.*

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

Dear Chairman McConnell: Please support increased funding for voluntary family planning programs. By doing this you will be helping to stabilize the world population and protect the environment, thereby ensuring more abundant resources and a cleaner world for future generations.

Thank you for your support.

Sincerely,

BRYANT BULLOCK.

ALEXANDRIA, VA, *April 9, 1997.*

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR CHAIRMAN MCCONNELL: Please support increased funding for voluntary family planning programs. By doing this you will be helping to stabilize the world population and protect the environment, thereby ensuring more abundant resources and a cleaner world for future generations.

Thank you for your support.

Sincerely,

SCOTT FRANCIS.

APRIL 11, 1997.

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington DC.

DEAR SENATOR MCCONNELL: There are many very important issues facing the world today, but a fundamental one is population growth. This problem affects everything from natural resources to personal well-being. In the next couple of weeks, you and other representatives will be debating the importance of funding voluntary international family planning. I hope that you will agree with me about the importance of providing more funding to these vital programs.

As the population in a region increases, the need for land, energy, food, educational opportunities and other basics increases as well. Unlike the population rate, which seems to be an inexhaustible resource, the other resources are finite—and disappearing. The by-products of too many people in a region include pollution, overcultivation of land which reduces the fertility and productivity of the soil, clearing of natural areas and over-hunting which leads to extinction of many animals and plants, and many other negatives. Failing to make a concerted effort now to slow the population growth promises more irreparable damage to the earth and the natural resources that we all need.

Women who receive education about family planning (along with traditional subjects) tend to make choices to have children later and to have fewer children. They also usually have jobs which allow them to support their children (with or without spouses). They are better able to care for and educate the children they have—which begins a positive cycle of smaller families and prioritizing education for children. This is the kind of cycle that we need to foster and to encourage. This is the kind of cycle that will lead out of the cycles of poverty and starvation that grip many families in many countries.

It is imperative that we continue to fund voluntary international family planning. I appreciate your attention to this issue.

Yours very sincerely,

EMILY SHORTRIDGE.

APRIL 16, 1997.

Hon. MITCH MCCONNELL,
Chairman, Foreign Operations Subcommittee, Senate Appropriations Committee, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: It is very important that you support more funds for voluntary family planning programs that will stabilize world population, and protect

the environment. Safe, voluntary family planning is one great way to help provide more abundant resources and a clean environment for future generations.

Thank you for supporting this great and worthy cause.

Sincerely,

CHRISTOPHER TOVELL.

APRIL 20, 1997.

TO MEMBERS OF THE HOUSE AND SENATE COMMITTEES: I strongly support continued funding of population programs as part of the U.S. Foreign Policy. Such programs are CRITICALLY important in checking the most dangerous threat to the world: man.

Funding for population programs help countries to control their own population growth. Countries such as Mexico and the Philippines, to name two, have populations that are growing at unsustainable levels.

Uncontrolled population growth correlates directly to increased levels of poverty, and accelerated levels of environmental damage. The National Wildlife Federation can quote the statistics to you, but I wish to express my support of this program.

Senators and Congressmen, you need to consider not only the short term interests of the United States, but its long term interests and needs, and those of the world community. The U.S.' strategic needs are increasingly coupled with those of the world at large, and to deny funding for population programs is both short-sighted, and irresponsible in light of the long-term interests of this country. Not appropriating and spending funds for population planning means that this country would have to spend even more money later for resources that have become in increasingly short supply, such as fish stocks, and have to provide even more money in economic aid for those countries that we support, because those countries will probably not be able to even afford to feed themselves, among other problems.

Sincerely,

JEFFREY HARRIS.

PREPARED STATEMENT OF THE FAITH ACTION FOR PEOPLE-CENTERED DEVELOPMENT POLICY

OVERVIEW

The development paradigm of the past twenty-five years is undergoing a fundamental revision. An approach in which government is the dominant actor is giving way to a more dynamic process in which both the market and civil society sectors assume greater leadership and responsibilities.

Market and civil society sectors are bringing to bear the lessons and experiences garnered over recent decades. The approaches of these two sectors are compatible in some respects, but are in tension in others. Although the market approach has tended to dominate recent debate, it is important that policy makers give equal consideration to the perspectives of civil society.

The two sectors differ in their view of the role of government. The market sector advocates minimal regulation and a well-defined and circumscribed role for government. Civil society, while supporting efforts to reform government institutions to improve their governance capacity, insist that government must fulfill its role in protecting human rights and ensuring the common good. Specifically, government must regulate the market and work to facilitate greater market access for those otherwise excluded and to address market failures and limitations.

Proponents emphasize the dynamism and creative potential markets bring to economic growth and development. They call for government policies and institutions that will give the market freedom of movement and opportunity.

Civil society organizations are helping construct a new paradigm at the global level that begins with the conviction that the productive and sustainable development potential of local communities and grassroots groups are key. Resources, technical assistance, and policies that help to unleash and strengthen the productive capacity of men, women, and youth directly improve the quality of their lives and contribute to economic growth and development for society as a whole. At a national and global level responsive, transparent and accountable institutions are needed that will support development efforts at the local level.

In this model, foreign aid should support developing country efforts to expand access to the market and mobilize the productive potential of local groups. Donor governments can help to create the conditions that would make these efforts both possible and effective. Resources should be targeted to those countries and peoples who

are on the margins of national and global economies or whose rights may be threatened by unregulated market forces.

Failure of donor governments to target assistance in this way will strengthen the trend toward new and greater disparities at the global level and within developing countries. While private entities are now the greatest source of financial resources for development, the vast majority of this private finance has gone to a handful of countries including China, Indonesia, Malaysia, and Thailand. By contrast, "many of the world's poorest countries are still virtually unable to access the $159 billion in private finance that the developing countries as a whole received in 1995. They attracted almost no foreign direct investment or loans from international banks."[1]

Official aid agencies, including the U.S. Agency for International Development, need to keep a people-focus at the center of their efforts. Concern about the quality, structure, and distribution of economic growth should be integral to all efforts to develop markets and promote growth. This concern also should extend beyond aid programs to market development activities of other U.S. government agencies, including the Departments of Agriculture and Commerce.

MORAL PRINCIPLES

We are convinced that it is both appropriate and necessary to reflect on the moral underpinnings of government policy decisions. These decisions embody moral values that reflect our national character. The ability of the U.S. to ensure "liberty and justice for all" depends on the strength of the moral fabric that holds us together as a people. As churches and faith-based organizations, we offer the following moral principles as guidelines for foreign assistance.

1. *All people—male and female—are created in the image of God, loved by God and equal in worth, dignity and fundamental rights*.—Bearing the divine image, everyone is entitled to participate meaningfully in the political, social and economic decisions that shape society. In harmony with the rest of creation, all people are entitled to an equitable share of the fruits of the earth. The economy exists for the people, not people for the economy.

Development aid, therefore, should enhance human dignity, equity and basic human rights. Aid should strengthen human potential and foster universal access to resources and employment. It must assist and equip people and communities to select, design and implement their own plans for sustainable development. Aid programs should be accountable to the political, civil, economic, social and cultural rights codified in international treaties.

2. *As redeemer and liberator, God calls all human beings to demonstrate a special concern for people living in poverty and oppression*.—Nations will be judged on the basis of how they treat the hungry, homeless, and other vulnerable members of society. Thus, economies must give preference to the dignity of those who labor, to human rights, gender equity and sustaining the earth, above the interests of capital. As instruments of the common good, governments have a duty to regulate national and global economies so that all people are ensured equitable access to dignified, sustainable livelihoods and the basic necessities of life.

Development aid, therefore should express our nation's historic commitment to the emancipation of people who are oppressed. Aid should be directed toward freeing people trapped in poverty and empowering people who are disenfranchised. It should be focused in areas and with groups that the market cannot or does not serve, or that have been marginalized or harmed by market mechanisms. Aid must not, however, be a substitute for public actions which appropriately regulate the market so that the fundamental rights and basic needs of all are served. Programs to promote democracy should be aimed at enfranchising those who are most marginalized.

3. *Human beings are persons-in-community, intended to live in covenant relationships according to the norms of love and justice*.—They are neither isolated individuals nor faceless members of totalitarian collectivities. All people are created and called to love God and neighbor—across the divisions of ethnicity, class and nation. "Justice is love distributed" and requires that everyone have access to sufficient resources to live in dignity, meet their family's needs and fully participate in the shared life of their community. This means that great extremes in the distribution of income and wealth must be avoided. Our covenant with God and one another is violated when a few people have much more than they need while many others lack the basic necessities.

Development aid, therefore should express love of neighbor and covenant community among the human family. Aid should foster people-centered development that increases the equitable distribution of resources and helps overcome vast disparities of wealth among nations and peoples. It should support and strengthen local com-

munities and cooperative development processes. It should not undermine existing forms of community and cooperation.

RECOMMENDATIONS FOR FISCAL YEAR 1998 FOREIGN ASSISTANCE

Based on the principles outlined above we offer recommendations on fiscal year 1998 foreign assistance funding and policies.

I. Funding: Overall level, priorities, and offsets

A. Overall assistance level

We urge the subcommittee to approve the Administration's total request of $13.4 billion. The proposed $1 billion (or 8.8 percent) increase over fiscal year 1997 represents a modest but essential recognition of the importance of international engagement. We are keenly aware that in the past lower overall levels of foreign aid invariably have resulted in lower levels of development assistance.

B. Priorities

We urge the subcommittee and the Administration to give greater priority to those regions and sectors that are increasingly marginalized in the world and national economies. We suggest below specific regions and sectors that we believe should be given priority consideration in foreign aid funding.

1. *Low-income developing countries and poor people within them, with particular attention to sub-saharan Africa*.—Only $3.1 billion or 34 percent of bilateral assistance[2] requested for fiscal year 1998 is designated for low-income countries.[3] Two-thirds of that aid goes to Egypt ($2.1 billion), leaving just over $1 billion (of the total $9.2 billion) for the more than forty low-income aid recipient countries. Israel, with a per capita income of $13,920, receives three times the amount allocated to these poor countries.

While there is tremendous variation in levels of development among African countries, over half (33 out of 56) of the low-income countries in the world are in sub-Saharan Africa. U.S. foreign aid priorities, as reflected by aid allocations, require a radical revision.

In contrast with bilateral aid programs, concessional lending by the World Bank and regional development banks, including the Inter-American Development Bank's Fund for Special Operations, represent the most important source of development finance for most low-income countries. These are precisely the countries that are least likely to have access to private sources of finance. While we share long-standing concerns about the quality of the programs of these institutions, we believe strongly that the external finance they provide poor countries needs to be maintained, even as we intensify our work with others to bring about reform of the institutions.

Faith Action recommends that the Committee:

Reallocate significant amounts of bilateral assistance away from high income countries in favor of low-income countries in Africa, Latin America and the Caribbean, and Asia and to poor people within those countries. We urge an increase in funding for the Development Fund for Africa to the fiscal year 1995 level of $781 million.

Approve the President's full request for the World Bank International Development Association (IDA) and the Inter-American Development Bank Fund for Special Operations (FSO).

Approve the Administration's request for funding for International Organizations and Programs, including $100 million for the U.N. Development Programme, to strengthen coordinated follow-up to the U.N. summits and conferences.

Consider the proposals presented in the Microcredit for Self-Reliance Act of 1997 (H.R. 1129) introduced by Reps. Hall and Houghton. Of particular interest is the proposed $20 million for a special initiative for the support of community-based micro-finance institutions through the International Fund for Agricultural Development (IFAD), which has been a pioneer in this area.

2. *Support for food security programs*.—Last year's World Food Summit refocused world attention on the plight of the more than 800 million people who are chronically undernourished and living on the margins of human existence. The assembled world leaders declared that, "The problems of hunger and food insecurity have global dimensions and are likely to persist, and even increase dramatically in some regions, unless urgent, determined and concerted action is taken, given the anticipated increase in the world's population and the stress on natural resources."[4]

The Summit Plan of Action emphasizes the importance of participatory development and recognizes the critical role of women in achieving food security. It also emphasizes the importance of access by poor family farmers to land, technical as-

sistance, credit and other production assistance. The community of nations agreed to various ways of mobilizing additional resources for food security efforts.

AID funding for agricultural activities has decreased dramatically in recent years. We believe that this decline must be reversed and that additional resources must be dedicated to achieving global food security. The Administration's proposed Africa Food Security Initiative is an important step in this direction. We urge Congress to renew and strengthen U.S. support for the International Fund for Agricultural Development, with its decades of effective work with poor farmers. We note Congress' past efforts to provide adequate funding for IFAD, most recently by authorizing the transfer of funds from AID development assistance. We would urge instead of earmarking AID funds to be disbursed at the discretion of the Administration, that the U.S. contribution be appropriated specifically for IFAD at a level consistent with past contributions.

Faith Action recommends that the Committee:

Increase resources for agricultural development including approval of USAID's proposed $30 million African Food Security Initiative.

Restore a separate funding line for the International Fund for Agricultural Development (IFAD) in the International Organizations and Programs account and increase the U.S. contribution to $17.5 million, the ceiling level authorized for transfer from development assistance in the fiscal year 1997 appropriations legislation.

3. *Support debt relief for highly indebted poor countries*.—We recognize the Heavily Indebted Poor Country Initiative (HIPC) approved by the World Bank and International Monetary Fund last year as a potentially helpful first step toward authentic relief for poor countries from unjust debts. The initiative would provide bilateral and multilateral relief to poor countries with debts deemed unsustainable. We are, however, concerned that the relief offered under the Initiative will be substantially less than the level needed to free up resources for investments in human development. In our view, the eligibility requirements are too narrow, the conditions attached to debt relief are too stringent and the requirements are not sufficiently focused on poverty reduction. Further, the length of time before an eligible country gets debt relief is far too long.

Experience in the initial cases of Uganda and Bolivia suggest that the World Bank/IMF analyses are overly optimistic about countries' potential to grow and reduce their debt to sustainable levels. Despite extremely high levels of poverty, government commitment to improve health, education, and nutrition and ten years of successful economic stabilization and restructuring programs, the debt relief for these countries may amount to only 10 percent or less of their total debt stock.

Faith Action recommends that the Committee:

Approve full funding of the Administration's $22 million request for bilateral debt relief under the HIPC initiative.

Encourage the Administration to use its leadership in the World Bank and IMF to support substantial and "up-front" multilateral debt relief within the HIPC Initiative for the full range of heavily indebted poor countries. Further, the Committee should urge the Administration to take into account the precarious situation of poor countries, especially those in sub-Saharan Africa and Latin America, when assessing their need for debt relief. Finally, it should call on the Administration to take the lead within the Paris Club to revise the Naples Terms, which currently govern bilateral debt reduction, to allow more debt stock to be eligible for rescheduling and reduction.

4. *Support programs that provide an alternative to child labor*.—The quest by transnational corporations to lower production costs has led increasingly to the use of child labor, at a fraction of the already low wages paid adults in developing countries. Too often the result is exploitation of children as docile, underpaid workers who labor long hours in unsafe and unhealthy working environments, and are unable to attend school. Increased exploitation of child workers points to the need for mechanisms that ensure protection of children's basic human rights. In the end, governments are responsible for these protections. In this regard, we will follow with interest the implementation of the Workplace Code of Conduct developed by the Apparel Industry Partnership, which was recently announced with the backing of the Clinton Administration.

The Foreign Operations Subcommittee has supported increased funding for child survival activities. We urge the Committee to extend that concern for children beyond the early years when their very survival is tenuous, to their later years, when many are deprived of opportunities for schooling and the possibility of fully developing their human potential.

Faith Action recommends that the Committee:

Look into the serious problem of child labor and to talk with the Administration about additional efforts that could be made to address this problem. AID should con-

sider the possibility of targeting some of the educational programs for girls in areas where child labor conditions are particularly problematic.

C. Funding offsets

We urge the committee to offset increases recommended above by shifting funds from the following programs, which we oppose.

1. *Foreign military finance (FMF) and international military education and training (IMET).*—Together, these represent the single largest expenditure in the foreign aid appropriation. Two countries, Israel ($1.8 billion) and Egypt ($1.2 billion), account for 90 percent of FMF.

While the defense of strategic allies throughout the world against foreign attack may be the rationale for the FMF and IMET, the weapons and skills acquired often create invulnerable militaries that become the enemies of their own people and violate human rights of dissenters with impunity. IMET, for example, has helped to finance the School of the Americas, which has been implicated in training of Latin American military officers known to be responsible for human rights violations in their countries.

Looking at these programs in their larger context, military aid comes on top of $266 billion defense budget, much of which is used to project U.S. military force overseas. This Cold War strategy, fostered as a check on the expansion of the Soviet Union and its regional allies, is an anachronism in a world where the threat of nuclear annihilation has diminished markedly and where several regional wars or threats of such wars, have been set aside in favor of negotiations.

It is time for a new foreign policy more in keeping with new global and regional realities. Some of the military aid to Israel and Egypt should be redirected to support conflict resolution, peace processes, sustainable development and regional economic development within the Middle East, and eventually redistributed toward development aid for other parts of the world. Increased efforts are needed to deal with the scourge of the 100 million anti-personnel landmines remaining in the ground in more than 60 countries, which continue to maim and cripple people and societies long after the fighting ends.

Faith Action recommends that the Committee:

Approve the $15 million FMF requested for demining operations. We hope the Committee will urge the administration to participate in negotiations and sign a treaty banning landmines before the end of 1997.

Reject the Administration's request for an FMF increase and instead reduce FMF by 10 percent annually for seven years, with those funds being added to development assistance.

Reject the Administration's request for an increase in IMET and reduce funding except for "expanded IMET," which goes toward training military officers and civilians in, human rights, responsible resource management and principles of civilian oversight of the military.

2. *Anti-narcotics aid.*—This is by far the fastest growing account in the foreign aid bill, with the fiscal year 1998 request of $230 million representing a more than 100 percent increase over the fiscal year 1995 level of $110 million. In our view, these increases are attributable in large part to political opportunism around an issue about which the electorate is deeply concerned. While sharing this concern, we oppose much of the funding for this program both on the basis of its lack of effectiveness and its negative effect on the human rights situation in source countries. We support funding for multilateral institutions and agencies working to combat international narcotics trafficking and believe more progress could be achieved through increased efforts to control money laundering, precursor chemicals and firearms, and to establish well-functioning justice systems in source and transit countries.

Drugs continue to enter the United States in large amounts. Cocaine and heroin remained "readily available in all major U.S. metropolitan areas during 1995" according to a report by the National Narcotics Intelligence Consumers Committee, as cited by GAO.[5] Constant adaptations by narcotics producers and traffickers means that reductions in one area may simply result in increases elsewhere. For example, the Administration reports an 18 percent reduction of coca cultivation in Peru in 1996 while also citing a 32 percent increase in cultivation in Colombia.[6]

The GAO report cites a number of obstacles to the success of these anti-narcotics efforts, including a lack of oversight in the use of the assistance. This is particularly troubling because some 40 percent of the assistance is used to support government agencies, including security and military forces in the source countries. The militaries of Peru, Colombia, and Mexico are responsible for serious on-going human rights abuses. Anti-narcotics assistance seeks to strengthen these forces, but does not address human rights concerns.

Faith Action recommends that the Committee:

Transfer resources for alternative development projects aimed at reduction of coca cultivation to the Agency for International Development.

Reduce dramatically the funding for International Narcotics control and strengthen prohibitions on anti-narcotics assistance to military and security forces responsible for human rights abuses.

3. *Middle East development bank*.—While we are not opposed in principle to U.S. participation in and support for the Bank, we believe that any U.S. contribution should come from existing resources to the Middle East.

Faith Action recommends that the Committee:

Reject the Administration's request for $52.5 million in ESF for a U.S. contribution to the Middle East Development Bank. The Committee should require the Administration to use existing resources to the Middle East for any U.S. contribution to the Bank.

4. *Export promotion programs*.—The Administration is requesting more than $800 million for the Export-Import Bank, the Overseas Private Investment Corporation and the Trade and Development Agency for fiscal year 1998. The effectiveness of these programs in enhancing U.S. exports and creating jobs in the United States has been questioned by the GAO. The programs tend to concentrate resources in upper-middle income countries rather than poorer countries in Africa, Latin America, and Asia. During a time of scarce budget resources, U.S. taxpayer dollars should not give priority to programs that subsidize corporations. The market itself can and should provide the needed incentive for these companies to invest and develop new markets abroad.

Faith Action recommends that the Committee:

Reduce funding for the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency below the Administration's request level, and shift the resources to the priority programs outlined above.

II. Institutional reform

Agency for International Development.—We believe that reform efforts at AID need to be intensified. Current efforts to develop a new strategic plan provide an opportunity for AID to focus its mission and goals more sharply. We urge AID to formulate its mission and goals with a clear commitment to poverty reduction and people-centered development.

We also believe that AID should accelerate the development of new working relations and methods of collaboration with other governmental and non-governmental actors. We favor the cooperative partnership approach advocated by the Development Assistance Committee of the Organization for Economic Cooperation and Development. We believe AID's New Partnership Initiative has developed important conceptual frameworks and methods for supporting local development. We urge AID leadership to move quickly to integrate these methods throughout the agency and to provide necessary resources to ensure widespread implementation of the Initiative.

World Bank International Development Association.—While reform of the World Bank has moved ahead under the leadership of President Wolfensohn there continues to be a gap between the discourse coming from the headquarters and the programs on the ground. An assessment by OXFAM International gives highest marks for attention to the need for debt reduction and promoting greater participation and conclude that much greater efforts are needed in the area of equity, poverty reduction and increased transparency and accountability of Bank operations.

One important area in which non-governmental organizations are pressing for change at the Bank concerns the participation by groups and communities in the borrowing countries that are affected by Bank operations in the identification, design, implementation and evaluation of projects and policies. The Bank has carried out a learning process on participation over the past decade and steps are being taken to establish methods to increase participation, but it must now take steps to ensure consultation with affected peoples, especially at the earliest stages of its lending, with necessary resources made available for such consultation.

We also would like to draw the Committee's attention to a new effort just getting underway. The Structural Adjustment Participatory Review Initiative (SAPRI) is a joint World Bank—civil society exercise to assess the impact of the Bank's structural adjustment programs from a grassroots perspective. Reviews will be carried out in ten countries, including El Salvador, Ghana, Mali, Uganda, Zimbabwe and Bangladesh. We believe that this effort will help to advance civil society-Bank dialogue on an issue that has been of profound concern to our organizations.

Inter-American and African Development Foundations.—Since their inception, these Foundations have been on the leading edge of effective methods to promote

and support grassroots development. In recent years, bilateral and multilateral official aid agencies have been trying to reform their structures and methods to emulate the approach of the Foundations. Thus far, however, they have not been able to address the obstacles inherent in their size, complexity, and lack of familiarity, knowledge, and experience at the grassroots level. Among government institutions, the Foundations remain in the forefront of the people-centered approach that our organizations advocate.

Faith Action urges the Committee to approve the requested level of funding for the Foundations and together with U.S. non-governmental and private and voluntary organizations to engage the Foundations in identifying and responding to the new challenges of grassroots development in a changing global environment.

CONCLUSION

Changes in the global economy, accompanied by corresponding political and social changes recast the development process in ways that require careful thought and insight. Moral underpinnings are especially important at a time when missions and goals are being reconsidered. We hope that the moral principles outlined above will provide useful guidance to the Committee as it decides foreign aid priorities this year. We would like to work with the Committee to ensure that improved quality of life for poor people around the world is the measure of effectiveness of our foreign assistance.

ENDNOTES

1. OECD Development Assistance Committee. "Efforts and Policies of the Members of the Development Assistance Committee:" 1994 Report. Paris: OECD, 1997.
2. Including development assistance, ESF, military assistance, NIS/SEED, international narcotics control, and debt restructuring.
3. GNP per capita of $694 and below in 1993.
4. World Food Summit, "Rome Declaration of World Food Security," Rome, 1996.
5. U.S. General Accounting Office. "Drug Control: Long-Standing Problems Hinder U.S. International Efforts." GAO/NSIAD–97–75, February 1997.
6. International Narcotics control Strategy Report, 1996.
7. Op.cit.
8. OXFAM INTERNATIONAL, "Report Card on James D. Wolfensohn and The World Bank, June 1995–August 1996."

PREPARED STATEMENT OF THE NATIONAL COUNCIL FOR INTERNATIONAL HEALTH

"No matter how selfish our motives, we can no longer be indifferent to the suffering of others. The microbe that felled one child in a distant country yesterday can reach yours today, and seed a global pandemic tomorrow."

—Nobel Laureate Dr. Joshua Lederberg, 1996

Thank you for allowing the National Council for International Health (NCIH) to submit public testimony regarding the prioritization of US foreign aid appropriations. NCIH is a membership organization with over 100 member organizations including the American Medical Association, the American Public Health Association, American Dental Association, the American College of Preventive Medicine, the American Nurses Association, the American Association of Critical Care Nurses, the Association of Schools of Public Health (representing 28 Schools) and dozens of other international health and development organizations. Most of these organizations, and thousands of individual health professionals are in support of this Subcommittee re-examining its fundamental priorities in light of both pressing human needs around the world and the rapidly growing threat to our nation's security from new and re-emerging infectious diseases.

A serious and growing threat to US security.—Four esteemed reports over the last 6 years have identified 'new and re-emerging' diseases as a serious threat to Americans. More than a threat, these pathogens are already costing more lives, both American and foreign, than any other 'threat' humanity has known. Over 150,000 Americans died last year from infectious diseases, raising it from the fifth greatest killer of Americans to third place in just 12 years. HIV/AIDS represents only half of this increase. Another 24,000 Americans died from 'unknown' causes that were 'likely' due to infectious agents. These numbers are climbing and unlike the top two causes of death in America, heart disease and cancer, reducing our risk to infectious diseases will require a global and multi-dimensional approach.

Fifty years ago the Marshall Plan was launched to control the spread of Communism. Today, overwhelming evidence suggests a new initiative of comparable commitment is needed to protect Americans from the global spread of infectious dis-

eases. Foreign aid and the appropriations of this subcommittee will play a decisive role in waging this new 'hot war'. Slowing and stopping the global spread of infectious diseases can rationally become a primary directive of US foreign policy. The evidence is overwhelming and American lives are already being lost with a rapidly growing potential for assured catastrophic consequences if we continue to delay an adequate response. A more far reaching approach to human welfare by the US in the previous decades could have lead to the early detection of the emergence of HIV/AIDS. In the mid-1960's African doctors were noting the effects of the "Slims diseases" along the Kinshasa hiway. Our interest then, would have given our scientific community as much as a 20 year head start in combating this virulent and rapidly mutating virus. Hundreds of thousand of US lives may have been saved as well as the $30 billion or more now annually spend in the US fighting this one disease.

This testimony will not focus on documenting the problem already detailed in the numberous prestigious reports, journals, books, articles and documentaries over the last few years and the panelist you will hear from today. We will instead highlight solutions. Particularly those solutions that could be implemented with adequate funding by this Subcommittee.

Domestic problem/global Solutions.—We have basically three places to address the global spread of infectious diseases. We can go on as we are, addressing each disease as it reaches our lungs, our schools, our blood supply or our hospitals. We could react to isolationist ideas and try endlessly to close or restrict microbial entry at US borders and airports. Or, we can take the cheapest and most effective approach of launching pre-emptive strikes on the microbes home turf—the conditions of poverty, hunger, illiteracy, squalor and chaos in which the majority of pathogens prolifically breed and mutate.

** * * the emergence of the most harmful diseases can be countered not only for pathogens that are recognized as threats but also for those posing threats that are not yet recognized. Providing pure water supplies, reducing attendant-borne transmission, reducing vector-borne transmission preferentially from ill people (e.g., by providing mosquito-proof houses) should guard against the emergence of virulent pathogens, whether the pathogens are unidentified or are highly virulent variants of identified human pathogens.*

—Paul W. Ewald, Dept. of Biology, Amherst College. "Guarding Against the most Dangerous Emerging Pathogens: Insights from Evolutionary Biology", Emerging Infectious Diseases, CDC, Vol. 2, No. 4, Oct.–Dec. 1996.

There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction.

—John F. Kennedy

The CISET Report's recommended actions.—The Committee on International Science, Engineering, and Technology (CISET) Working Group (including specialists from the Department of Defense, the National Security Council and the Center for Disease Control and Prevention, and more than a dozen other federal agencies) outlined four basic strategies needed to safeguard our nation. These actions include:

—A. Surveillance (a global health network of adequately trained health workers and adequate supplied clinics with access to the Internet).

—B. Response (fully trained and supplied response teams).

—C. Research and Development. (sufficient knowledge base, research and production capacity.)

—D. Prevention (universal access to primary health services, clean water, safe sanitation, basic education, adequate nutrition, income generating opportunities and a safe political and natural environment).

(CISET report is available: http://www.whitehouse.gov.White__House/EOP/OSTP/CISET/html/ciset.html For a copy of the report call CDC, 404–639–2603 or fax your request to 404–639–3039.)

Appropriations by this Subcommittee have the greatest application in the first and last actions noted above—surveillance and prevention. While existing foreign aid funds directed in these areas are extremely inadequate, the total amount needed is not beyond the capacity of this committee to appropriate. A shift of approximately 20 percent of the existing aid budget (approximately what the Department of Defense spends for a single B–2 Bomber) could provide Americans with significant protection against global microbial threats, be they introduced by nature, by accident or by hostile human antagonists. The US economic benefits from the early global eradication of polio and measles, the significant global reduction of malnutrition, illiteracy, Tuberculosis (TB), HIV/AIDS, cholera, malaria, Hepatitis A, and dozens of other lethal and disabling diseases, would alone make such an investment worth while.

Solutions (in more detail):

A. Surveillance.—A global health network of adequately trained health workers and adequate supplied clinics with Internet access would be our nation's early warning system regarding the emergence of any new or old microbial threats as well as being our first strike force for preventing or combating their initial spread.

Appropriations from this Subcommittee provides support to: Foreign Government Health Departments; USAID Missions; NGO/PVO organizations; University Training & Research facilities; WHO Collaborative Centers. (Other Subcommittees support DOD and CDC programs also important in these efforts).

B. Response—As with fires, response time is critical in controlling a microbial blaze. Our capacity to rapidly deploy fully trained and adequately supplied teams of experts into 'hot zones' is well worth the investment. Some appropriations from this subcommittee for WHO, Schools of Public Health and USAID field capacity contribute greatly to overcoming technical, logistical or cultural barriers. (Appropriations from other Subcommittees support CDC, DOD, or PHS collaborative efforts)

C. Research and Development.—The number one rule in any war is 'know your enemy'. Our ability to identify and understand each pathogen is essential in developing a timely and effective medicine or method for dealing with it. Expanded research efforts can provide us with a sufficient knowledge base to do both rapid genetic identification and development of effective technological/social treatment or control. Technological advances have given US troops an overwhelming advantage on regular battle fields. The best pharmaceutical weapons we can afford will now be valuable from both a military and a civilian perspective on every battle field we must now prepare for. In addition, short term and long term cross disciplinary strategic studies are needed. Such studies should be carried out cooperatively between government and universities with extensive input from corporations, industry and communities. Progress now will enable effective response to the natural, accidental or intentional release of many different pathogens. This subcommittee has played an important role in funding efforts through US Universities research programs. Pharmaceutical Companies, NIH, and CDC will also be critically important.

D. Prevention.—It is within this arena that the appropriations of this subcommittee can have the most impact on preventing or reducing the global spread of many infectious diseases. WHO estimates that 80 percent of all human disease in the developing world is caused by lack of clean water and proper sanitation. Current appropriations for such programs are now minimal. Some may argue that universal access to clean water and safe sanitation is a desirable goal, but the development of vaccines to combat infections of water born diseases would be more cost effective. On a 'dollar spent/life saved' criteria this is true. But such a limited investment will do nothing to protect us (or those without such basic services) from the new pathogens that may emerge or old pathogens that may adapt under such inadequate hygienic conditions.

Universal access to adequate nutrition.—Adequate nutrition is the human body's first line of defense against the majority of the world's pathogens. Malnutrition is a preventable, underlying cause of a high proportion of infectious diseases. Congress has already undertaken substantial action to address this problem in the Food, Agriculture, Conservation, and Trade Act of 1990, which established food security for the poorest and the prevention of malnutrition as priorities in food assistance programs administered by the United States Agency for International Development (USAID) under the Agriculture Trade Development and Assistance Act of 1954. More is needed.

Micronutrients.—Preventing key micronutrient deficiencies of vitamin A, iodine, iron and zinc is a low-cost, practical and effective approach to boosting the human immune system and building the human capacity to protect the health of billions of people throughout the world.

Vitamin A deficiency is a scourge of approximately a quarter of a billion children in poor countries. Vitamin A helps the body build an effective barrier against pathogens entering via the skin, respiratory or digestive systems. Research financed by the USAID and other donors has convincingly demonstrated that vitamin A supplementation and fortification can reduce childhood infections and thus reduce childhood mortality by 30 percent or more. An estimated 20,000,000 children are likely to die and 3,500,000 children are likely to go blind in the next decade if access to vitamin A is not available. The World Bank has estimated that vitamin A supplementation only costs approximately $9 for every life year saved adjusted for disability. A single capsule of Vitamin A costs only five cents and a single dose administered only 3–4 times a year per child, will provide maximum protection. Not less than $17,000,000 for fiscal year 1998 and not less than $20,000,000 for fiscal year 1999 should be made available only for implementing Vitamin A deficiency prevention strategies, especially supplementation and fortification programs.

Iodine, Iron and Zinc.—Today 1,600,000,000 people are at risk of iodine deficiency disorders, with the fetus and infant being the most vulnerable to permanent brain damage. Iodine deficiency is the most prevalent cause of mental retardation worldwide. Iodizing salt can go far in preventing this tragedy and thus enhancing the intellectual and economic performance of future generations. The World Bank estimates that iodizing salt only costs $8 for every year of life saved adjusted for disability. Nearly 2,000,000,000 people are iron deficient, particularly women of child bearing age and young children, approximately 1,000,000,000 of whom suffer from anemia. Iron deficiency anemia during pregnancy can increase the risk of both maternal and infant illness and mortality. Moreover, iron deficiency can hinder learning among school age children and work productivity among adults. The World Bank has estimated that iron supplementation costs only $4 to $13 for every year of life saved adjusted for disability. With adequate support for the necessary interventions, vitamin A and iodine deficiencies could be virtually eliminated, and iron deficiency anemia reduced by one-third, by the first decade of the 21st century. New studies show that diarrhea, pneumonia and malaria may be reduced by the correction of zinc deficiencies. In addition to amounts available for micronutrient programs we recommend this subcommittee appropriate $13,000,000 for fiscal year 1998 and $15,000,000 for fiscal year 1999 for iodine and iron deficiency prevention programs, especially fortification and supplementation programs, with particular emphasis on alleviating deficiencies in pregnant women.

Breastfeeding.—Increased funding for the promotion of breastfeeding alone may be as productive in boosting the immune system as micronutrients with breastfed infants four times less likely to die of acute respiratory infections and up to 25 times less likely to die from diarrheal disease. Breastfeeding also helps to delay conception which leads to fewer and delayed births which in turn contributes to the health of the mother and ultimately the family. We recommend a ten-fold increase in efforts to promote the use of breastfeeding in the developing world.

Universal access to primary health services.—Antibiotics, Immunization, ORT, reproductive health services, health information, growth charts * * *. We recommend no less than $200 million be committed to establishing a global network of basic health clinics, with trained staff, adequate supplies, and Internet capabilities.

Reducing antibiotic resistance.—While more outbreaks of new exotic pathogens like Ebola or Lassa Fever will most certainly occur, WHO and CDC insist that the greatest threat to our health is from the gradual loss of our antibiotic arsenal. While much needs to be done within the US, control and appropriate use of antibiotics in developing nations is also critical. Increasing global trade, global travel and urban crowding in developing countries with weak health systems will lead to the increased rise and spread of resistant microorganisms. At least two development programs funded by this committee play a direct and enormously significant role in the early detection of resistant strains and in reducing the factors that lead to newer drug-resistant strains. The training of public health workers and basic education. These will best leverage the basic research that is also needed.

Training of health workers is essential to the proper diagnostics and treatment of infectious diseases and other health problems. Intensive instruction for health practitioners in infectious disease management and prevention here and in developing countries is a vital weapon against infectious diseases. Of over 5000 students graduating from US schools of Public Health in 1996, only 200 specialized in international health. Time is crucial in an outbreak and persons in or from developing areas who can pacify the spread of disease before it reaches unmanageable proportions will be the first line of defense in secondary prevention of diseases outbreaks.

Infant and child mortality.—Child survival (CS) activities which utilize simple, available technologies have proven to be particularly effective in saving lives and improving child health. Both UNICEF and the USAID have provided strong leadership as well as financial and technical support for these efforts. Interventions at all levels of society will be required to improve and sustain the health of children. Child survival programs implemented by United States-based Private Voluntary Organizations (PVOs) and other Non-Governmental Organizations (NGOs) are documented to be extremely effective in reaching the very poor at the community level and in achieving long-term reductions in child mortality and morbidity. 'Not-for-profit' PVO/NGOs implementing CS projects leverage significant amounts of private resources, a minimum of 25 percent, to match public funds. We recommend UNICEF for an appropriation of $100,000,000 for fiscal year 1998, and $105,000,000 for fiscal year 1999. For other CS activities we recommend no less than $350,000,000 for fiscal year 1998 and no less than $380,000,000 for fiscal year 1999 for activities with a direct measurable impact on the reduction in the rates of child death and disease, focusing on the poor with a particular emphasis on delivery of community-based primary health care and health education services. These activities should primarily

be limited to the direct provision of health services, such as improved and expanded immunization programs, oral rehydration to combat diarrheal disease, and health education programs aimed at improving nutrition and sanitation and at promoting child spacing, which all have a direct measurable impact on the rates of child death and disease. A special focus on the poor in communities with a particular emphasis on delivery of community-based primary health care should also be mandatory. Only on an exceptional basis should these appropriations be used for purposes other than the direct provision of these basic health services. Of the total recommended, not less than $40,000,000 for fiscal year 1998 and not less than $60,000,000 for fiscal year 1999 should be provided to private and voluntary organizations under the PVO Child Survival grants program carried out by USAID. All of these CS funds should be in addition to the funding directed at micronutrient efforts, international disaster assistance, AIDS prevention and control, or any other appropriations for health, migration or refugee assistance.

These US investments in international child survival efforts will be paid back to the US many times over with the accelerated global eradication of polio and measles alone. The $32 million US investment in the global eradication effort of Smallpox 20 years ago has already saved the US over $3 billion in domestic expenses.

More emphasis should also be put on getting resources where they are most needed. The two regions of the world where infectious disease deaths are still highest receive the least amounts of US aid—Africa and Asia. Vaccines, ORT, antibiotics and Vitamin A are essential but not enough to sustain child survival and development. Other health and development programs are also essential.

Tuberculosis (TB).—It is estimated that 15,000,000 individuals in the United States are infected with TB. Last year, a single patient from another country who was hospitalized in California passed the TB bacillus on to 12 of the 17 health care providers who took care of her, two of whom developed full blown TB, and we may never know if they in turn passed the disease on to other patients before it was realized the infection had been transmitted to them. And we have no idea how many people this patient infected on public transportation. The TB threat to Americans consists of two elements: (A) The global spread of TB in general, including its resurgence in the United States, and (B) the emergence and spread of strains of TB that are multi-drug resistant. The elimination of TB in the United States can only be achieved by controlling the disease in developing countries were TB is spreading as a result of inadequate treatment. TB is the largest infectious killer of adults, causing more deaths than AIDS, cholera, malaria, tetanus, meningitis and typhoid fever combined and takes many individuals in their most productive years of life. No other infectious disease creates as many orphans as TB. Nearly 170,000 children die of TB annually, because of infection usually by an adult family member. The World Health Organization has stated that the best curative method for TB is Directly Observed Treatment (DOT), in which health workers directly monitor that patients with TB for the purpose of ensuring that such patients take their full course of medicine. By guaranteeing that the treatment regimens are completed, DOT prevents the further spread of infection and development of strains of TB that are multi-drug-resistant. Few public health expenditures provide so much value for so little money as expenditures for the prevention and treatment of TB. In some parts of the world, the cost of curing TB is as little as 90 cents for every year added to the life of the patient. Drugs for the treatment of TB cost as little as $11 per person in some parts of the world and such drugs are more than 95 percent effective. Deficient TB treatment practices anywhere in the world can cause the TB bacteria to become multi-drug resistant. Strains then imported into the US will cost as much as $250,000 per patient to cure. In the developing world TB can be prevented for well under $100 per patient. Treatment of TB in the US now costs hundreds of millions of dollars per year while our international efforts at TB control are virtually non-existent. According to the World Bank, the control of TB is among the most cost-effective of all health interventions. In order to control TB in the United States in a more effective manner, it is necessary to ensure the effectiveness of TB control programs worldwide. US funding for the global control of TB should be no less than $40,000,000 for fiscal year 1998 and $50,000,000 for fiscal year 1999.

Maternal survival and health, which are vital in and of themselves and also vital for child survival, are not currently a fiscal priority of our international aid package. Universal access to nurse-midwives and essential obstetric care could help prevent a significant number of the 580,000 women who will die this year as a result of complications in pregnancy or child birth. No less than $25 million should be made available for this.

Maternal and child mortality resulting from AIDS.—As of 1992, nearly 5,000,000 women of childbearing age and over 1,000,000 children were infected with the human immunodeficiency virus (HIV), the virus that causes the acquired immune

deficiency syndrome (AIDS). The vast majority of these women and children live in developing countries. We can expect the maternal and child mortality rate in many developing countries to increase dramatically, as will the number of orphans with HIV/AIDS, until HIV/AIDS prevention and control efforts are successful. HIV/AIDS is renowned for its ability to mutate. There are already over 100 minor variations of the virus with nearly half a dozen major subtypes. Preventing the emergence of new strains is highly desirable. Development of a vaccine is critical, but public education, protected sex and economic alternatives for sex-industry workers (women and children) are also needed. The most effective efforts to respond to HIV/AIDS are based at the community level and involve non-governmental organizations as well as government agencies. USAID should expand its assistance to developing countries for community-based prevention, care and control programs and activities relating to HIV/AIDS, and should participate in coordinated efforts with other donors. Coordination of efforts of bilateral, multilateral and non-governmental agencies is essential. While highly controversial, AIDS vaccine trials will most likely be conducted in the developing nations. Progress anywhere should bring direct benefits to both the US population and people in developing nations. International AIDS Prevention and Control Fund—Section 104(c) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151b(c); relating to development assistance for health related activities) should be amended by adding at the end the following new paragraph: "(4)(A) In carrying out this subsection, the President shall promote, encourage, and undertake community-based prevention, and control programs and activities relating to the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS) in developing countries." This subcommittee should appropriate $140,000,000 for fiscal year 1998 and $150,000,000 for fiscal year 1999 for use in carrying out this paragraph, which shall be in addition to other amounts made for health purpose. Amounts appropriated for these efforts should be authorized to remain available until expended. The US government was one of the main proponents of the creation of The Joint United Nations Programme on HIV/AIDS in 1996. It is successfully coordinating multilateral activities and working with communities and countries in national strategic planning which makes bilateral aid better directed. It should receive financial backing from the US at no less than $20,000,000.

Basic education.—Primary education, early childhood development activities, and programs to achieve literacy are essential for increasing the productive capacity of people and their ability to earn income and improve family health. Basic education, usually defined as early childhood education, primary and lower secondary schooling, as well as adult literacy, has been shown to be the one of the most economically productive investments that brings numerous beneficial health and social impacts. Widespread education leads to more equitable income distribution and ultimately, to political stability. Wars and political instability are a significant contributor to the spread of infectious diseases.

More than 100,000,000 school aged children, the majority of them girls, are not enrolled in primary school. Basic education, especially for girls, contributes to increased child health, survival and overall life expectancy and lower birth rates. It is estimated that every additional year of schooling for girls lowers child death rates by 5 to 10 percent. US assistance for basic education in developing countries has accounted for less than 2 percent of US foreign assistance in recent years. We recommend that no less than $120,000,000 for fiscal year 1998 and not less than $140,000,000 for fiscal year 1999 be appropriated for basic education.

Universal access to clean water and safe sanitation.—Not less than $200 million.

International family planning and child spacing.—Universal access to quality voluntary family planning will significantly help prevent the spread of HIV/AIDS and other Sexually Transmitted Diseases (STDs). It could also helps improve child health by reducing the occurrence of prematurity and low birthweight and allowing longer breastfeeding. The risk of maternal death or illness in the developing world is highest for women who bear children when they are under the age of 18 or over age 35, for pregnancies spaced less than two years apart, and for women who already have 4 or more children. Universal access to voluntary family planning could prevent up to one-third of the 585,000 maternal deaths annually. The inability of couples to plan births decreases undermines women's opportunities for education, for earning income, for improving the care of existing children, and for community activities and personal development. We suggest appropriations of no less than $550,000,000 for fiscal year 1998 and no less than $600,000,000 for fiscal year 1999.

Universal access to affordable credit for income generating opportunities.—A families ability to earn is directly related to their access to health care. We urge this subcommittee to appropriate and earmark $85 million for microcredit programs serving the poorest and $170 million for microcredit overall.

Refugees.—In 1997 there are 27 million people of concern in refugee-like situations in areas from Northern Iraq, to Angola, to the former Yugoslavia. Additionally there are estimated to be more than 20,000,000 internally displaced persons. Whenever they travel, illnesses travel with them. Funding for Refugee Assistance Programs should not be less than $730,000,000 for fiscal year 1998 and $780,000,000 for fiscal year 1999, and should be appropriated for the "Migration and Refugee Assistance" account, of which not less than $470,000,000 for fiscal year 1998 and $500,000,000 for fiscal year 1999 should be available only for programs of refugee assistance overseas (in addition to the amounts available for programs for refugees from the former Soviet Union, Eastern Europe, and elsewhere who resettle in Israel). Not less than $100,000,000 for each of the fiscal years 1998 and 1999 should be appropriated for the "Emergency Refugee and Migration Assistance Fund" account.

Debt relief.—Debt Relief to countries like Uganda will assist political leaders to better meet the health and education needs of their own people.

Multilateral programs.—NCIH supports $1.035 billion for the International Development Association (IDA) of the World Bank to cover both fiscal year 1998 contributions and past arrears. We are also hopeful Congress will press the World Bank to promote popular participation in Bank operations, especially by consulting local communities prior to approving loans.

OTHER IMPORTANT CONSIDERATIONS FOR THE CONTROL OF INFECTIOUS DISEASES

Freedom from war and violence.—War is a very significant factor contributing to the migration of people and the destruction of existing health efforts. Both war and migration are significant factors in the spread of disease. Civil wars bring with them refugee camps, mass internal migrations, disruption of medical and health services, a lack of food and sometimes rape (i.e. unprotected sex). It should not go unnoticed that the current conflict in Zaire resembles a simulation exercise carried out in 1989 by the American Society of Tropical Medicine & Hygiene in Honolulu. In their simulation an airborne Ebola is detected—but not before some infected westerners have returned home to New York, Paris, Montreal, etc.

The worst-ever outbreak of Lassa fever, a deadly hemorrhagic disease, is now threatening to spread to Sierra Leone's capital, Freetown. Britain's Medical Emergency Relief International (MERLIN) said the case numbers had doubled since December. Refugees fleeing the 6-year old civil war were packing into the town of Kenema, 60 miles from the capital, and conditions are appropriate for the spread of this highly virulent disease. "This is the worst outbreak of Lassa fever since records began," said Richard Allen, medical adviser to MERLIN. "Now we are concerned that Lassa fever may spread from the bush to the capital city, Freetown. The first suspected case of Lassa fever was admitted to a Freetown hospital this week."

Reducing military aid can free up valuable resources for improving health and development conditions.

Control of land mines.—Land mines kill and maim hundreds of thousands of people a year. Each non-fatal injury requires the use of antibiotics. The elimination of land mines is ideal but additional lives and limbs can be saved and resistant pathogens prevented with access basic health services.

Reducing STD's.—War and sexually transmitted diseases (STDs) go hand in hand. The Vietnam War produced a drug resistant form of Gonorrhea, now a major US problem.

One of the most dangerous activities for US troops outside of waging war is trying to stop a war or quell civil unrest. Given the escalating cost and risk of peace keeping, preventing the breakdown of nation states deserves increased attention. A recent CIA report studied the factors related to the breakdown of nation states in order to predict and possibly prevent future conflicts where US troops might be needed. After looking at hundreds of variables, the CIA identified the infant mortality rate as the number one indicator. While it is obvious that child survival programs alone are insufficient to keep nations from imploding, the value of reducing child deaths should not be underestimated as a critical factor in keeping populations more docile. Exposing US troops to chaos does expose them to higher rates of infectious diseases but, not sending US troops to quell conflicts could result in even greater chaos spurring increased microbial travel.

The intentional use of biological weapons by terrorists is perhaps the most frightening future prospect. There is really no way to defend against such an attack if an agitated force is committed to delivering pathogens to US citizens. While the threat of retaliation by a powerful US military force might prevent major adversaries from using biological weapons, the same US military force of unconfrontable power will force smaller aggressor groups into covert actions to achieve their objec-

tives. The smaller the force, the more likely it could immunize its members against an infectious agent and then deliver that agent, undetected, to its target population. Essentially, the US should be very hesitant in causing harm to any group except the microbes. It is not possible to overstate our vulnerability to use of biological weapons. Even trying to defend against biologicals may carry serious health side effects as now possibly manifested by the Gulf War Syndrome. Adequately supporting the four basic recommendations of the CISET report would help neutralize the effects of an intentional biological attack. Just as important, this Subcommittee should not overlook the degree to which US leadership in helping the world meet the most basic of human needs globally will reduce the likely hood of future conflicts and covert aggression.

History has taught us that wars produce hunger, but we are less aware that mass poverty can lead to war or end in chaos. While hunger rules, peace cannot prevail.

—Willie Brandt, Chairperson of the Brandt Commission. 1981

Freedom from environmental degradation.—Human movement into previously undisturbed environments increase the risk of coming into contact with exotic pathogens. Destruction of natural habitats also reduces the number of species that may provide humanity with genetic information to produce newer miracle drugs. Toxic substances in the environment increase the mutinogenic factor for all pathogens as well as debilitating human and animal immune systems. Environmental alterations will result in increased migration of both infectious agents and human populations. Appropriations by this committee to protect and restore environmental habitats is also crucial.

From peace keeping, to conflict resolution, to the clearing of land mines, creating livable and sustainable environments must become a much higher priority. To date, too small a portion of US foreign aid has been directed at improving human health, economic and environmental conditions where they are most lacking. To make matters worse, development programs have received deeper and more disproportionate cuts than any other sector in the foreign aid budget. This must be reversed.

Social and behavioral changes.—Long-term solutions to improving human health will ultimately involve more than the right pill, world peace, alleviating poverty or protecting the environment. Without profound social and behavioral change the full potential for human health will not be achieved. Generations of culture and tradition can have as much influence on health as the availability of technology. Funding for the involvement of cultural anthropologists, psychologists and sociologists in the battle for worldwide health is something this subcommittee should not shy away from.

With a focus on prevention, this Subcommittee can do more to protect the security of Americans than any other government agency, including the Department of Defense. Secretary of State Madeline Albright recently said that foreign aid represents only 1 percent of our federal budget but it will determine 50 percent of our history. In the context of infectious diseases, 50 percent could be an underestimate. Given the severity of the situation, there has never been a more profound rationale for shifting foreign aid priorities and funds.

There are basically three ways to provide more resources.—(1) From within the existing foreign aid budget; (2) From with in the existing federal budget; or (3) from an additional tax or levy specifically for such a purpose. If sufficient money is not added to the foreign aid appropriations budget to meet this new security need, this Subcommittee will have to make the tough decisions on where it will be found within the existing aid budget. A shift of 20 percent of the current foreign aid appropriations could accomplish significant international health and development objectives the Preamble of our Constitution aligns with:

"We the people of the United States in order to form a more perfect Union, establish justice, insure domestic tranquillity, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America."

Some aid constituencies will not be happy with such a shift; but they can make their case to the American people if their needs are indeed more urgent or important than this.

If this Congress cannot find the money within the existing budget to implement these essential security measures then the powers of the US Constitution sanction you to generate the resources.

Article 1. Section 8. of the Constitution says that "The Congress shall have Power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States * * *"

Taxing air travel.—In all fairness, it is the global trade and the traveling public (approximately 10 percent of the US population) and the millions of foreign visitors to the US each year that most closely link the rest of the US population with the infectious diseases found scattered throughout the rest of the world. It is estimated that over 25 million people travel virtually unrestricted between the developing world and North America each year and that number is growing rapidly. While diseases are imported into the US on a regular basis it must also be noted that lethal drug resistant pathogens are also exported from the US to other parts of the world where limited or non-existent medical facilities are unable to deal with them. A 2 percent increase in the current 10 percent air travel tax could generate much of the revenue needed ($2 billion annually) to dramatically reduce the global impact of infectious disease. While the idea of any 'new' tax is repulsive to most members of Congress, the idea of a global epidemic taking the lives of 2 million to 5 million Americans should generate far more concern. There is nothing preventing the resurgence of a flu virus (or some other pathogen like TB) with the same or higher virulence as the "Spanish" flu that killed nearly 700,000 Americans at the early part of this century. A similar 1'bug' today, with the advantage of modern air travel, could take out 1–3 percent of the US population in the matter of months. Such an plague will be catastrophic by any measure. An additional dollar or two per air flight would not be beyond the majority of flyers to afford to ensure better health security for the rest of the US population. Food imports are another source of infectious agents and also deserve consideration. While such a tax is not within the jurisdiction of this subcommittee, such an idea deserves close public scrutiny and debate.

Other creative funding mechanisms could generate addition millions for our common defense. The domestic savings from the not-to-distant-future global eradication of Polio and Measles, and the reduction of TB, could now be targeted for future domestic and international health and development efforts. Minor US global expenditures yield enormous domestic savings as demonstrated by the eradication of Small Pox mentioned earlier. This year, protecting US children against polio will cost Americans $231 million, plus an additional $14.3 million for a second vaccine to prevent "7 to 8" Americans from getting polio as a rare reaction to the first vaccine. All of these current expenditures will be saved when polio is eradicated. Eradication of measles will save Americans over $250 million a year while reduction of TB could be saving us up to $500 million annually.

We support the President's request for a $1.45 billion increase in the foreign aid budget. We strongly disagree, however, with the President's fiscal year 1998 budget for USAID, where funds for population, health and nutrition have been targeted for a reduction of approximately $25–30 million dollars. This is unacceptable. While other categories in the USAID budget, such as agriculture and environment or aid to the former Soviet states, must certainly be increased, these increases should not come at the expense of health and child survival programs. We strongly urge any budget increase to be applied in a fair and proportional manner.

More US aid is needed to address global poverty. According to Church World Service/Lutheran World Relief, "Only 34 percent of bilateral assistance (including development assistance, ESF, military assistance, NIS/SEED, international narcotics control, and debt restructuring) requested for fiscal year 1998 is designated for low-income countries (GNP per capita $695 and below in 1993). Two thirds of that aid goes to Egypt ($2.1 billion), leaving just over $1 billion (of the total $9.2 billion) for the more than forty low-income aid recipient countries. Israel, with a per capita income of $13,920, receives three times the amount allocated to these poor countries." While it may be obvious for political reasons why two nations receive over $5 billion in US aid, it is indefensible that development efforts focused on the poorest half of the world would receive so little. The old national security approach of 'peace-through-strength' must now be tempered with 'containment' by prevention and compassion. Given the potential for human (American and foreign) devastation, we must reorient our appropriations to achieving a broader security and lasting peace.

CONCLUSION

Previous warnings unheeded.—Nearly two decades ago, Congress was given a clear warning by no less than a Presidential Commission after an exhaustive study of the issue of world hunger. At the end of the Carter Administration, this prestigious group of experts concluded:

In the final analysis, unless Americans—as citizens of an increasingly interdependent world—place far higher priority on overcoming world hunger, its effects will no longer remain remote or unfamiliar. Nor can we wait until we reach the brink of the precipice; the major actions required do not lend themselves to crisis planning,

*patchwork management, or emergency financing * * *. The hour is late. Age-old forces of poverty, disease, inequity, and hunger continue to challenge the world. Our humanity demands that we act upon these challenges now * * * .*

—Presidential Commission on World Hunger, 1980.

Policy makers then failed to respond to that warning but the microbes didn't. They were already in the process of fulfilling on the Commission's prophecy. Less than 2 years after the release of the Commission's report, our nation began to feel the sting of the HIV/AIDS pandemic. Now, science, wisdom, experience and the Bible tell us of the consequences of failing to follow the golden rule. HIV/AIDS was not the first disease in modern times to be brought into America and it will not be the last. More will come. A new strains of HIV, Polio, or Tuberculosis? Or an infectious disease we've not seen before. In whatever form, they will come and this Subcommittee funds our first lines of defense.

Wide spread poverty and chaos, and the associated lack of basic health services, clean water, sanitation, nutrition, and education, are perhaps the greatest contributors to the vitality and virulence of pathogens. These fertile microbial breeding grounds, combined with the modern air travel of over a million people a day across all national borders, creates a truly 'global village' where political, economic, or social boundaries become nothing more than a figment of our human imagination. Microbes are indiscriminate predators of the human family. Until we become as indiscriminate in caring for one another, we will continue to give advantage to their numbers and their virulence.

"Public health is purchasable. Within natural limitations, any community can determine its own death rate."

—Herman M. Biggs, MD, Msc, LLD (1859–1923).

PREPARED STATEMENT OF LUCINDA A. LOW, CHAIR, AMERICAN BAR ASSOCIATION SECTION OF INTERNATIONAL LAW AND PRACTICE, ON BEHALF OF THE AMERICAN BAR ASSOCIATION

Mr. Chairman and Members of the Committee: Mr. Chairman and members of the Committee, the American Bar Association (ABA) appreciates the opportunity to present testimony on the fiscal year 1998 Foreign Operations Appropriations budget. My name is Lucinda Low and I am the Chair of the American Bar Association's Section of International Law and Practice. This written testimony is being submitted on behalf of the ABA at the request of N. Lee Cooper, President of the Association.

In my non-volunteer life, I am a member of the Washington, D.C.-based law firm of Miller & Chevalier. As the attached curriculum vitae indicates, I practice in the area of international business law, representing principally U.S. companies doing business overseas.

This testimony describes the ABA's global Rule of Law projects that, through development of "legal infrastructure," promote democracy around the world. With over 348,000 members, the ABA is the world's largest professional voluntary organization. Through these projects, our lawyers, judges, law professors, and sister institutions have achieved extraordinary results. Due in large part to a sophisticated volunteer network, the ABA has been able to play a crucial role in ensuring that the U.S. maintains its commitment to engagement and leadership in the international arena in a very cost-effective manner. It is our hope that these programs continue to receive U.S. contributions.

BACKGROUND

Embracing the rule of law through respect for and commitment to legal institutions is the linchpin of the democratization process. The benefits of a credible and predictable legal system, anchored by institutions committed to the rule of law, cannot be underestimated. To the extent that U.S. businesses can depend on a country's legal system, foreign markets become a much more attractive export opportunity. Conversely, where there is no rule of law, corruption and favoritism may flourish, often to the detriment of U.S. interests.

The ABA's global Rule of Law projects have been important in fostering legal reforms and democracy which have in turn increased U.S. exports in emerging markets. Even so, the vast human potential and contribution of developing countries has largely been unrealized. Because of the central role democracy and legal infrastructure play in protecting fundamental freedoms, human rights, and liberties, continuing effort to strengthen the rule of law is necessary. But for the development

of legal infrastructure, many transitional societies would never realize democracy. These are the goals to which ABA projects are committed.

ABA PROJECTS

All ABA rule of law projects have been guided by three principles. First, these projects are designed to be responsive to the needs and priorities of the host countries; the countries, not the ABA, define the need. Second, the design of these programs recognizes that U.S. legal experience and traditions offer only one approach that participating countries may wish to consider. Third, these projects are public service endeavors, not avenues for developing business opportunities. The result of these programs has always been to take a modest grant and leverage those sums to yield a much larger benefit for the host governments and people.

A. The Central and East European law initiative ("CEELI")

The most comprehensive technical legal assistance project of the ABA is the Central and East European Law Initiative, or "CEELI". Shortly after the fall of the Berlin Wall in 1990, CEELI was conceived and organized by the ABA Section of International Law and Practice to provide technical legal assistance to the emerging democracies in Central and Eastern Europe. Our Section also provided the initial seed capital for CEELI. By 1992, CEELI began to provide assistance to the Newly Independent States of the former Soviet Union ("NIS").

Through a variety of program components, CEELI is making available U.S. legal expertise to assist countries that are modifying or restructuring their laws and legal systems. CEELI has focused on work in several critical priority areas: constitutional reform; judicial restructuring; bar reform; criminal law and procedure reform; commercial law; and legal education reform. CEELI has also helped develop and/or institutionalize self-sustaining indigenous non-governmental organizations (NGOs) in more than 22 countries.

Designed to respond to the needs of the countries, CEELI has emphasized long-term engagement and nurtured projects that facilitate extensive consultations with policy makers, legal scholars, judges, and attorneys in each country. Accordingly, CEELI has developed individual country plans that address the particularized circumstances of each locale. CEELI accomplishes its work primarily through resident liaisons and legal specialists, working pro bono, who spend one to two years working on a daily and continuous basis with local partners. CEELI liaisons often live and work in places where the comforts of life that you and I often take for granted do not exist.

Over the course of the past four years, CEELI has established itself as a fundamental force for law reform in Central and Eastern Europe and the NIS. To date, CEELI has conducted 241 Technical Legal Assistance Workshops; assessed over 305 draft laws; placed 139 long-term liaisons and 146 legal specialists in the region; hosted 47 Central and Eastern European law school deans; sent dozens of U.S. legal reform experts to assist in law school reform; and has placed over 50 students from the NIS in LLM programs throughout the United States. The credit for this remarkable achievement goes to the over 5,000 American attorneys, judges, legal scholars, and private practitioners, who have, as acts of public service, given their time and expertise to make this project successful.

When calculating the in-kind contributions of volunteer legal professionals at an understated rate of $150 per hour, CEELI has yielded over $77 million of pro bono service. Considering the modest CEELI budget in comparison to funding allocated to consulting firms, the exceptional programmatic impact and financial leverage that an NGO can achieve by using qualified volunteer professionals in a public service project is indisputable. This model of a volunteer professional assistance project is a viable and cost-effective alternative to other uses of U.S. government funding by, for example, for-profit firms. Congress has voiced strong support for programs like CEELI and their ability to leverage U.S. taxpayer dollars (H.R. Rep. No. 524, 103d Cong., 2d Sess., 82 (1994); S. Rep. No. 287, 103d Cong., 2d Sess., 76 (1994); H.R. Rep. No. 128, 104 Cong., 1st Sess., 80 (1995); H.R. Rep. No. 143, 104th Cong., 1st Sess., 31 (1995); S. Rep. No. 143, 104th Cong., 1st Sess., 42 (1995); S. Rep. No. 000, 104th Cong., 1st Sess., 40 (1995); H.R. Rep. No. 600, 104th Cong., 2d Sess., 31 (1996)).

B. The ABA Cambodia democracy & law project

The Cambodia Law and Democracy Project ("Cambodia Project") was launched by the ABA Section of International Law and Practice during 1992 at the request of Cambodian institutions seeking assistance with Cambodia's law modernization process. The principal purpose of the Cambodia Project is to assist Cambodia in planning and implementing legal and judicial reforms to promote democracy, a market

economy, and the rule of law, and in building the other infrastructure (e.g., bar associations) necessary to support the legal system. In reality, the Cambodian legal system is being reconstituted from the ground up. Breaking from its past, Cambodia, since the formation of its new government, has embraced the common law system. U.S. input is therefore particularly critical.

Under a grant from the Asia Foundation in 1993, the Cambodia Project provided a collection of legal materials in Phnom Penh principally through ABA donations. In late 1996, the Cambodia Project established a Legal Research and Documentation Center at the Bar Association of the Kingdom of Cambodia (BAKC) which has now secured over 1,800 donated books and publications, which include Khmer laws and selected translations, the Official Journal of the Kingdom of Cambodia, and foreign and American legal materials. Since its official opening in March of 1997, the Center—which I had the privilege to visit last month—is fulfilling requests for information from lawyers, law students, NGOs, and the National Assembly Legal Research and Documentation Center.

During 1993–94, the ABA Constitutional Law Advisors assisted in drafting the new Constitution, and legal education advisors provided a needs assessment of Cambodia's legal education programs and institutions. Short-term advisors traveled to Cambodia to assist in the areas of foreign investment, contract law, and commercial arbitration. U.S. legal experts provided commentary in the areas of border disputes, intellectual property, penal code issues, environmental law, family law, and bar association development. During this period, an ABA resident legal advisor was placed in Phnom Penh to oversee all ABA and Asia Foundation legal initiatives. This action led to a request from USAID that the ABA take on a larger role in the law development process in Cambodia, which resulted in a cooperative agreement between USAID/Cambodia and the ABA in 1995.

The Cambodia Project currently has three long-term resident advisors in Cambodia. They assist the Ministry of Commerce and the BAKC, providing institution-building, teaching, and legal drafting assistance. By working in close coordination with the Ministry of Commerce, the Cambodia Project has effectively extended efforts to improve Cambodia's legal system into Cambodia's market economy. The completion of Cambodia's Bankruptcy Law, Business Organizations and Contract Law, Products Liability Law, and Contracts Law is evidence of the project's successful advancement. In addition to the their roles in law drafting, the advisors have conducted classes at a local university, seminars in the provinces, and daily discussion and training sessions at the Ministry of Commerce. The purpose of these events has been to train Cambodian officials and lawyers to understand and utilize the laws created to advance the rule of law and foster Cambodian social and economic prosperity.

As with all legal technical assistance programs, the ABA Cambodia Law and Democracy Project develops all program components at the request of, and in close consultation with, participating country institutions. The bulk of the assistance continues to be provided by U.S. lawyers on a pro bono basis utilizing donated materials, allowing a small grant to be leveraged for the benefit of democracy in the host country. The Cambodia Project has received $1,639,679 over the last four years, and the ABA has contributed an additional $1,033,360 to this project.

C. African initiatives

1. U.S./Africa judicial exchange program

The Robert A. Shuker USIA U.S./Africa Judicial Exchange Program grew out of a proposal by Mr. R. William Ide, III, a former president of the American Bar Association. After an official trip to Africa during which he met with judges, lawyers, and government officials, Mr. Ide suggested that the United States Information Agency develop programs so that African judges, public defenders, and bar association officials could learn from each other and from their American counterparts. The ABA sponsored the effort with the National Judicial College, and the Superior Court of the District of Columbia joining as cosponsors. The main goals of the program were to enhance the development of the participating countries' legal systems, strengthen the rule of law and the independence of the judiciary, and create long-term linkages between African and American participants. The United States Information Agency provided $250,000 with the other sponsoring organizations providing contributions of over $400,000.

Phase I took the form of a one-month study tour. In April 1995, twelve judges from the four participating countries Tanzania, Malawi, Uganda, and Zambia traveled to the United States to study and work together for over a month to identify innovations that could improve the quality of justice in their courts back home. Ten days were spent in Reno, Nevada, at the National Judicial College (NJC) in specialized workshops led by faculty of the National Judicial College. The remaining twen-

ty days hosted by the American Bar Association (ABA) and the District of Columbia Superior Court in Washington, DC included panel discussions, seminars, and court visits.

For Phase II, an American delegation of judges and of representatives from the NJC and ABA traveled to Malawi, Tanzania, Uganda to conduct a series of specialized seminars and training sessions with justices, magistrates, judicial officers and administrative personnel, legal educators, and attorneys. At the end of each visit, the delegation submitted detailed recommendations on improving legal system of the participating country. Particular attention was given to Alternative Dispute Resolution.

For Phase III, an American assessment team visited each country to assess the effectiveness of Phases I and II and identify future needs of their respective judiciaries. The Phase III team also provided Phase II training for Zambia. All parties United States officials in Africa, the delegation team, the judiciaries of the four hosting countries, and members of the respective African bar associations concluded that the overall program had exceeded all expectations. Malawi and Uganda had already implemented the recommended new rules and procedures, while Zambia and Tanzania were expected to implement similar changes in the near future.

2. African law initiative sister law school program

An indispensable part of the foundation for a sustainable rule of law in countries transitioning to democracy is the legal education system. The ABA has received three successive grants from the USIA Office of Citizen Exchanges to assist law schools in Africa. The African Law Initiative Sister Law School Program was initiated in 1994 and continues to assist eleven law schools in eight African countries: Eritrea, Ethiopia, Ghana, Kenya, Tanzania, Uganda, and Zambia. Over thirty United States law schools have been involved with this program. The program has created and supported links between US and African law schools and helped to improve the capacity of the African law schools to train lawyers able to respond to the new needs brought about by democratic and free-market reforms in their countries. Solid links have emerged over the course of the program.

In addition to bringing African and American law school deans and professors together to lay the groundwork for linkages, the program has assisted with faculty training and curriculum development, most recently in the area of clinical legal education. The program has shipped or facilitated the shipment of many law books and journals, helping to update the collections at the law libraries. The newest USIA grant will support a program that will create or strengthen courses in areas of law, such as human rights law, constitutional law, commercial law, and others that are vital to the training of lawyers in these societies. US law schools have been generous with their time and resources, with professors and deans participating on a pro bono basis, so that the project has had a significantly wider impact than would be possible only with the USIA funds.

3. Other developing projects

The Section of International Law and Practice, together with two other ABA sections, provided partial funding for a recent trip of Ambassador Robert van Lierop to Rwanda to observe the work of the Rwandan war crimes tribunals, and to assess the needs of the Rwandan legal system for technical assistance. We are in the process of reviewing his recommendations and have also been asked to evaluate the feasibility of several other proposed projects in Africa.

D. Arab legal institute

A new rule of law project of the Association since we reported to this Committee last year is the Arab Legal Institute. Initiated and organized by the ABA's Section of International Law and Practice and its Standing Committee on World Order Under Law, the Arab Legal Institute ("ALI") is the first pan-Arab effort to promote the rule of law in the Arab states of the Middle East and North Africa, to train Arab lawyers, to train judges as independent adjudicators, and to promote human rights. Since the Institute itself will be led by the Arab Lawyers Union (which includes a number of Arabs of high standing) its significance will be substantial.

While technical assistance to the Palestinians will be offered, what is most important is that the Arab Lawyers Union (representing the legal profession in the Middle East and North Africa) has agreed to lead a pan-Arab project designed to educate and to consider reforms conforming to internationally accepted standards. Such a program is critical to creating conditions for economic stability and opportunity and respect for the rule of law, principal ingredients for regional development and civil society. The strong pan-Arab support is exemplified in ALI's board which is made up of members of the Arab Lawyers Union. We are confident that such strong

Arab involvement means that the project will have a sustained and continuously substantial regional effect.

The Arab Lawyers Union will lead ALI, supported by a coalition of international bar associations. Since this is the first Arab-directed rule of law project, it is almost certain to have a positive impact. In fact, our Arab partners are so committed to this effort that they and several of their governments have offered material assistance regardless of current events in the region.

We are planning to open the Arab Legal Institute in May 1997 at a meeting of the Arab Lawyers Union in Tunisia. ALI's headquarters will be in Cairo with additional facilities in Tunis, Amman and perhaps elsewhere. Rather than restricting itself solely to Gaza and the West Bank, the Institute will be concerned with all Arab states of the Middle East and North Africa. It is agreed, however, that the West Bank and Gaza will be among the Institute's first projects. This early attention to a particularly sensitive region will contribute to the success of Builders for Peace and other U.S. initiatives directed toward stabilizing the Palestinian economy and promoting investment. It will also furnish essential support to our Government's program to provide for duty-free treatment to products of the West Bank and Gaza and qualifying industrial zones.

The Arab Legal Institute has united the legal profession in the Arab states of the Middle East and North Africa in a common effort to upgrade the legal education of the profession and the judiciary, and to conduct research and to provide counseling on different aspects of the law and legal systems prevailing in the Arab states. The underlying premise is the common recognition that regional peace and prosperity depend in part on educating those who develop the laws and administer the legal system and on looking at ways to improve the legal structure.

The Arab Lawyers Union has invited the U.N. High Commissioner for Human Rights to participate in the project. The International Bar Association, the Law Society of England and Wales and the Paris Bar are also joining with the ABA to provide technical assistance and to secure financial support.

Our Arab colleagues believe this project will enable them to address fundamental problems existing throughout the Arab world. In varying degrees from state to state, their history and contemporary concerns have left Arab states with legal systems and institutions that cannot cope effectively with some important problems and that cannot take advantage of opportunities, particularly in areas of economic development. Progress is inhibited by the lack of a legal profession equipped to deal with trade, economic development, privatization and capital market issues as well as insufficient acceptance of the role of a judiciary in enforcing legal rights and in settling public and private disputes. The Institute will contribute to the prospects for fundamental reform by equipping the Arab legal profession with critical resources to pursue its own agenda and at its own pace. The functions of the Institute will be educational and not political.

The Constitution for the Institute was agreed upon at a meeting in Berlin in Fall 1996, and bylaws and final documents were approved early in 1997 at a meeting of the Permanent Bureau of the Arab Lawyers Union and by the participating non-Arab bar associations. Now, the Institute will be established as its own legal entity by a protocol with the Egyptian government. Land near Cairo is being furnished for the Institute's headquarters. Facilities also are being contributed in Tunis and Amman. The government of Lebanon has indicated its wish to participate and its willingness to offer support.

According to the agreed Constitution, the Board of Directors' members will be from Arab states, and a Board of Trustees will be composed of Arab and non-Arab representatives of the supporting bar associations. We have agreed to establish an Academic Advisory Committee composed of Arab and non-Arab lawyers, judges, law professors, and others with relevant experience of high standing and expertise. The Academic Advisory Committee will be responsible for advising on matters relating to the academic programs, including the appointment of lecturers and professors, the establishment of courses, and more generally to facilitate the development of rule of law programs in the Arab states.

Funds or services have already been donated by several of the collaborating bar associations. Most recently, the International Bar Association ("IBA") has developed a list of projects which it is committed to undertake to support the Arab Legal Institute. Among the initiatives proposed by the IBA are a series of workshops addressing the independence of the judiciary, of the bar association and of legal practitioners; translation into Arabic of the IBA International Code of Ethics, IBA General Principles of Ethics, and other similar documents; and articles on selected human rights issues written for insertion into Arab journals and newspapers.

European governments likely will furnish grant funding. The ABA has dedicated a portion of its staff time and resources to seeking grant funds in the U.S. for this

important endeavor. Thus far, the U.S. government has not committed any funding, although we understand the State Department is supportive of the project.

We estimate that the value of the facilities offered by the Arab states is in excess of one million dollars. We expect to receive shortly non-U.S. grants in excess of $500,000. Pro bono time and expense outlays by representatives of the American Bar Association have exceeded $200,000. For every dollar contributed to the project's support, approximately $3 in pro bono time can be expected to be contributed.

The Association anticipates that this initiative, which unites Arab, European and American lawyers in shared principles of professionalism and respect for the rule of law, will advance our mutual interests. We are looking forward to the commencement of the initial programs, the first of many we expect will flourish under the aegis of the Arab Legal Institute. We believe that this effort will positively affect the present dynamics in the Arab states and will contribute to a future based on accepted rule of law principles. We hope the U.S. government will join with other governments and financial sponsors to support ALI's courageous Arab leaders and this ABA-initiated rule of law program.

E. Latin America

Over the years, the ABA has conducted a number of rule-of-law projects in Latin America. These have included a series of programs in Central America in the late 1980's on the judicial system and alternative dispute resolution, a Latin American Sister Law School Program in 1993–94, and others. One current project and one developing project in the region, both involving regulatory reform, are described below.

1. Latin America administrative law project

This project is designed as technical assistance to CITEL (the Inter-American Telecommunication Commission), which functions under the auspices of the OAS. The specific counterpart within CITEL for this project is the Joint Working Group on Legal Matters, with participation from each of the three standing committees of CITEL. This project is jointly sponsored between the ABA Section of International Law and Practice and the Inter-American Bar Association (IABA), and ultimately may include participation by other ABA sections as well as other regional bar associations within Central and South America.

The focus of the project is the creation of information resources and the publication of a report summarizing the salient structural and procedural features of developing telecommunications regulatory authorities in Latin America. The original impetus for this project, which was initiated in 1994, was the increasing emergence within the region of new telecommunications regulatory frameworks and authorities as an outgrowth of the privatization and liberalization in the telecommunications sector. The interest in this project originally reflected a recognition that: (i) the success of telecommunications reform would be dependent in large measure on the perception by private sector investors of the stability and fairness of regulatory processes; (ii) the best available models for telecommunications regulation were from countries with other legal and political systems such as the U.S. and the U.K.; and (iii) a wide diversity of approaches was emerging in the countries of common legal and political systems in the region, creating a need for a common basis of understanding of the significance of the differences.

Since the inception of the project, the effort has gained additional importance due to the focus of the Summit of the Americas on the development of the telecommunications sector and the critical role of transparent regulatory frameworks in the implementation of the new WTO Agreement on Basic Telecommunications Services.

The project consists of two parts: The first is the creation of a database of information on telecom regulatory structures and procedures in each country of the region. A questionnaire is currently being prepared by CITEL. The resulting information will be available for reference in the drafting of the report. The report itself constitutes the second part of the project. The report will be a descriptive reference, and is not intended to include any specific proposals or model rules. A detailed outline of the report has been prepared and approved by the CITEL Joint Working Group. Specific drafting assignments are now being made and drafting has begun. A preliminary draft will be presented to the next Joint Working Group meeting which is scheduled to take place the first week of August 1997.

At this stage, the project is being funded and staffed entirely from internal resources.

2. CONASEV—National Securities Exchange Commission of Peru

In October 1996, the Council of the Section of International Law and Practice approved a project proposal regarding the preliminary drafting of a cooperative agreement. This agreement establishes the basis for technical assistance and exchange

of information between CONASEV (National Securities Exchange Commission of Peru) and the Section. The purpose of the agreement would be to provide assistance in the areas of securities and capital markets regulation.

A steering committee formed by members of the Section was created to supervise the drafting of an agreement in close collaboration with representatives of CONASEV. The Steering Committee has finished reviewing the Spanish version of the agreement and has started working on the English version. Additionally, the Steering Committee is in the process of identifying potential funding sources to develop a tentative project to provide technical assistance to CONASEV.

F. Other projects

1. Hong Kong and the People's Republic of China

This Spring, an ABA delegation which I led visited Hong Kong to study the implications of the impending reversion of sovereignty for the rule of law. The delegation met with government officials, opposition leaders, business leaders, and bar groups to discuss the effect of the reversion on the legislative body, the courts, independent agencies such as the Independent Commission on Corruption, and the legal system in general. The trip was funded by the ABA and by the participants themselves; a report of the meetings and our conclusions is in preparation. Next week, our Council will be reviewing a proposal to seek outside funding for several follow-up visits to Hong Kong in each of the three years following the reversion.

We are also in discussions with outside funding sources concerning possible rule of law projects in mainland China. Our Section sustained a substantial loss three years ago when a joint seminar with the All-China Lawyers Association in China was unilaterally cancelled by the Chinese on the eve of the program; as a result, we have been cautious about projects in China. However, it is apparent that the continued development of the rule of law in China is an important priority, both for China itself and for the future of Hong Kong. We will therefore be looking closely at project opportunities in China over the next year.

CONCLUSION

Foreign assistance is very much maligned and misunderstood, partly because its benefits are not often apparent. The ABA appreciates the difficult task your Subcommittee has in dealing with the fiscal year 1998 Foreign Operations Appropriations bill. Yet Mr. Chairman, we hope that your decisions will be guided by the goal of protecting America's vital interests. Since the United States is the only country capable of providing effective global leadership, it is more important now than ever for our own self-interest to accept this challenge. Accordingly, for this nation to function as a super power, we must fully participate in the global economy through engagement and a commitment to foreign assistance.

Only one percent of the federal budget is devoted to foreign assistance, to programs which yield an enormous return for American taxpayers. Internationally, these programs foster democracy and human rights, build free markets and free trade, combat corruption, and promote sustainable development. Here at home, U.S. foreign assistance leads to increased exports, high quality American jobs, and greater economic and national security.

The ABA believes that its global rule of law projects are one means to this end. Our programs have yielded tremendous leverage on a relatively modest U.S. financial investment. This is largely due to the vast amount of free legal technical assistance available to us. A strong commitment to legal and commercial infrastructures supports the ability of emerging markets to purchase U.S. products.

Mr. Chairman, let me conclude by reiterating how important foreign assistance is to America's success. Our national interests are increasingly becoming more intertwined with the political stability of other nations, whose policies can promote or disrupt the free flow of goods and services. In that regard, countless American workers and businesses depend on trade and a thriving global economy for their livelihoods, which is fostered by the support of rule of law projects. There has been a tremendous movement in recent years toward economic and political openness. We cannot afford to reverse the tremendous gains that rule of law democracy projects have made in fostering growth in the global economy. For the aforementioned reasons, we urge this committee to continue its support for the ABA's technical legal assistance programs through the appropriations process.

PREPARED STATEMENT OF HOBART C. GARDINER, PRESIDENT AND CEO, INTERNATIONAL EXECUTIVE SERVICE CORPS

The International Executive Service Corps accelerates the sound growth of a free enterprise system in the world's developing countries and emerging democracies. Long-term sustainable development in developing and emerging countries depends upon economic growth. The private sector is widely recognized as the engine of growth and is the most reliable source of efficiency and innovation, giving rise to a healthy, educated populace.

IESC supports this private sector development by supplying managerial and professional skills and knowledge rather than financial aid. We make American executives available to individual enterprises in the countries we want to help. As a business-to-business (and people-to-people) kind of foreign aid, we furnish three elements frequently lacking in large scale government-to-government assistance. First, we present to the American private sector, both individuals and U.S. companies, an opportunity to participate directly in the building of a strong private sector overseas. Second, we draw on the vast resources of managerial and professional talent that have built the American economy and for which financial aid alone is no substitute. Third, we foster stable foreign business climates for direct foreign investment by U.S. companies.

Over the past 32 years, we have helped create new businesses, increase sales, increase employment and raise standards of living in over 120 countries. During this time, 20,000 clients have been served, one million jobs have been created or saved overseas, and our clients have purchased three billion dollars worth of American goods, equipment and services. Two hundred eighty clients have entered into joint ventures or other alliances with American businesses.

Historically, forty percent of our activity is repeat business. The reason is the quality of our volunteers. For instance, early on, the Hungarians asked IESC to help them establish a stock exchange in Budapest. We sent Bob Bishop, who retired from the New York Stock Exchange as Senior Vice President. He did a magnificent job—teaching them to set up and manage a stock exchange, and the importance of SEC-type rules. He told them what to watch our for and what to insist on. They were very pleased. As the project was coming to an end, they asked Bob if he would conduct a seminar on "capital formation" at the local university. He said he would be delighted to, what university? They said, "Karl Marx University." Since then, they changed its name to the University of Budapest.

The International Executive Service Corps is the most effective business-development organization of its kind in the world. Our business is not just doing good, but doing good business. We have taught African women to support themselves and their families by carving and selling wooden sculptures. We have shown Russians how to manage formerly state-owned manufacturing plants. We have coached the new owners of a sawmill in Ghana. We have built a hydroponic greenhouse in Egypt and taught mentally-handicapped adults to grow and sell lettuce to major hotels in Cairo and Alexandria. We helped a retailer in Guatemala become a creative merchandiser who just opened the first full-fledged modern department store in Guatemala.

IESC assistance is cost-effective because our experts are not paid. Over the past 32 years, one million executive days have been contributed to IESC projects. This contribution has leveraged the funding we have received from AID, from other grants, contributions and the fees we charge our clients. In 1996, 62 percent of the cost of the IESC operation came from the private sector and 38 percent came from the public sector.

IESC makes sure that the world knows about U.S. business leadership, initiative and creativity. Recognizing our impact, nineteen other industrial countries around the world have formed their own versions of IESC, and are now sending their own business executives to teach modern business techniques to the developing world. The Japanese, for example, have studied IESC and created their own service corps in order, as they put it, to be sure "Japan's face is visible." Incidentally, these foreign organizations now have aggressively active programs in Latin America and the Caribbean while IESC has had to curtail our operations there because of a lack of funding from AID. Imitation, indeed, may be the sincerest form of flattery, but it is ironic and sad that as other industrialized countries copy our program AID is reducing support for our activities right in our own backyard. This retreat jeopardizes U.S. trade and investment opportunities which IESC could foster for U.S. business.

We do, however, have one new program in Panama. We recently signed an agreement to assist the Panamanians make appropriate use of the U.S. properties there that will revert to Panamanian control. It will also provide linkage for U.S. business to participate in this transformation. We were happy to do this because of the im-

portance of the Canal to our shipping interests and in the interests of a successful transition.

IESC believes that giving a hand out is one thing: giving a hand-up is another. We break the cycle of dependency in developing countries by teaching self-sufficiency, independence, competence and responsibility. We also teach realistic business practices by charging our clients a fee. So far, we have collected over $200 million in fees from our clients, which has allowed us to do more projects.

In the former communist countries, a primary barrier to foreign business has been the government's unfamiliarity with the need to create an enabling environment. Therefore, IESC's public administration program is designed to teach local, regional and national government officials to understand the most effective role of government in a market economy. Since "open governments and open markets go hand-in-hand," the public administrators trained by IESC offer critical support to the private sector in a free market economy. We have sent 359 leaders from municipal, and federal government to help accomplish this objective.

IESC has also been active in the former Soviet Union in defense conversion activities. In fact, you probably recall when listening devices were found in the American Embassy in Moscow. IESC was assigned the task of converting the manufacturer of these listening devices from military to other uses. Thanks to the hard work and creativity of several IESC volunteer experts, that plant is now a major manufacturer of hearing aids in Russia.

More important, our defense conversion activities have changed attitudes. Thomas Reed, former Secretary of the Air Force, served as an IESC volunteer on several of these projects. Tom pointed out the long-term importance of IESC's programs in this area when he noted "The point of all this is that Defense Conversion has little to do with the conversion of facilities. It has everything to do with the conversion of the mindset of the leadership of these societies. In this undertaking, IESC has played a historic role. From my experience, IESC has set the stage for a winding down of the Cold War, defusing the Soviet threat, and in opening new vistas to the Soviet old timers. That's the best part, because they are basically good people who deserve a better system."

The new deputy prime minister of Russia, Boris Nemtsov, who had been governor of Nizhny Novgorod, wrote the following to the U.S. embassy in Moscow: "Despite the occasional appearance here of other sources of technical assistance, IESC's efforts offer an unmatched mixture of knowledge of our people and region; knowledgeable Russian staff with invaluable data on Russian enterprises to assist potential investors; and evidence of understanding the importance of long-term strategies and relationships."

IESC operates efficiently. We just finished surveying the companies we helped in 1995. According to these studies, every dollar that IESC spent on business assistance projects in 1995 increased sales for our overseas clients by almost $6, generated $2 in new financing, and almost $4 in capital investments—all in just the first year after IESC assistance. IESC also helps American business. During that same period, in the first year after we worked with them, those companies bought $38 minion worth of U.S.-made goods and services—more than the total cost of IESC assistance that year.

IESC itself operates "lean and mean." Last year we reduced our headquarters payroll by 15 percent without reducing the number of projects. We employ for ourselves the same good business practices that we urge for our business clients. In fact, we recently received recognition from Independent Sector and AID for our cutting-edge approach to quantitative measurements of our effectiveness. IESC is the leader among business volunteer organizations in tracking the performance and developmental impact of our programs.

IESC is a people-to-people program. Our major resource is the 13,000 industry experts who have registered with us, offering to go abroad on one of our projects for up to three months of intense management and professional assistance. They don't get paid—in money. They do get paid in the satisfaction of helping those who need it—and appreciate it. The value of these donated services has been estimated at over half a billion dollars over the life of the organization.

In summary, IESC is good for the United States, is good for American business, and is good for people around the world who are struggling to make better lives for themselves and their children. It is efficient and effective. It supports American foreign policy objectives and extends America's commercial reach. It shows America's real self to the world—its knowledge, experience and generosity. It is a balanced approach to business—not just for profit, but for human development.

PREPARED STATEMENT OF JOHN H. COSTELLO, PRESIDENT, THE CITIZENS NETWORK FOR FOREIGN AFFAIRS

OVERVIEW

Mr. Chairman, I am John H. Costello, President of The Citizens Network for Foreign Affairs. I appreciate the opportunity submit this written testimony on the U.S. foreign assistance program.

The Citizen's Network for Foreign Affairs is a unique international economic development organization dedicated to stimulating economic growth and policy reform in the world's emerging economies. Founded in 1985 on the idea that global economic growth is critical to future American prosperity and that American private enterprise is essential to promoting it effectively, CNFA champions the catalytic role of investment and technical assistance as one of the most potent and sustainable engines of development.

Through innovative partnerships CNFA creates market-oriented, economically-viable enterprises where none or few existed before. Public-private partnerships match U.S. firms interested in market expansion with local organizations that want to increase capacity and production, improve technologies and expand the number of jobs. Volunteer partnerships match Americans with technical know-how and practical experience to emerging country organizations in need of business, association and agricultural expertise. Taken together, CNFA's partnerships strengthen the economic well-being of both emerging country and American citizens. As vehicles for delivering American foreign economic assistance, there is no other idea or mechanism as powerful.

Working with leading American agribusiness firms, CNFA manages programs on behalf of the U.S. Agency for International Development to innovatively create private enterprise as a means of restructuring outdated, inadequate, and inefficient food and agricultural systems. Its results-oriented win-win projects combine the goal of achieving economic development in emerging economies and new democracies with the private sector's desire to expand markets. Since the public-private partnership program's ground-breaking inception in 1993, CNFA has leveraged more than $150 million in direct private investment and technical assistance from U.S. agribusiness with $45 million from public sources to replace aging and inefficient state-owned communist-style enterprises with privately-owned and operated joint ventures. CNFA's latest project is expected to leverage an additional $100 million in private sector assets, with $30 million of appropriated development assistance funds. The participating American agribusinesses two-thirds of which are small businesses say their anticipated long-term return has the potential to justify their continued commitment to the business they have helped create in the target countries.

Equally important is the role CNFA plays in generating a governmental policy and legislative environment that is fostering private enterprise by linking policy reform to the incentives of substantial new investment and technology. At the request of U.S. firms with operations in the target countries, CNFA undertakes a range of initiatives to encourage government at the local and national levels to pursue legal, bureaucratic and regulatory policies that are conducive to private farming and that encourage foreign trade and investment. Nowhere has this been more important than in Ukraine.

FOREIGN ASSISTANCE IN THE POST COLD WAR ERA

The end of the Cold War and dismantling of state-managed economies across the globe has ushered in a new era of democratic regimes and economic expansion, one based on less government intervention and greater reliance on the marketplace. It has emerged from the convergence of two powerful forces in the post World War II period: a transportation revolution that has made the world's geographic barriers irrelevant and an information revolution in terms of computers and other forms of communications that has contributed mightily to breaking down repressive political barriers. Together they have done much to accelerate the pace of economic growth, even among the world's poorest peoples. And today's market liberalizing multilateral and regional trade pacts, which are rapidly expanding the world's middle class, are doing much to ensure that future economic growth is widely shared.

The Citizen's Network recognizes the critical significance of these changes. As the federal government ponders over how to reinvent its traditional role in delivering foreign assistance in the absence of the Soviet menace, CNFA has forged ahead, in effect, creating a new model in the post Cold War period. This model recognizes the crucial role of U.S. assistance as the catalyst in persuading the U.S. private sector to invest, trade and form joint ventures to achieve economic development more rap-

idly and sustainably. In the end this is arguably the best way to put and keep dollars in the pockets of people. Government neither has the expertise nor the capacity to go it alone in assisting the world's less developed economies. Long lasting economic and per capita income growth occurs best when government and the marketplace work in partnership to achieve mutual goals.

But for the past twenty years, indeed as far back as President Truman's Point Four Program, U.S. economic development has largely left American business out of the economic development process. While universities, non-governmental organizations and other development specialists have practiced "development," we have largely excluded the energy, capital and creativity of the American enterprise sector from the development process. It is not that private voluntary organizations and universities do not have an important role to play in economic development. It is not an either orscenario. However, if we are interested in achieving a significant, sustainable impact in promoting economic opportunity for millions of people everywhere, poor and rich alike, then there is an overwhelming case for linking trade and development.

The last decade has witnessed unprecedented change. We have seen the collapse of communism, and the failure of centrally planned economies. The free market is in ascendancy everywhere and the results are striking. A recent series detailing the importance of trade and investment and its links to economic development in The Washington Post said it plainly: "More than any other government program, more than any aid agency or any international bank, the rapid spread of free trade, free markets and investment across borders by private companies and investors a phenomenon economists are calling globalization is proving to be an effective weapon against poverty in many nations around the world and, in some places, arguably the most effective anti-poverty measure ever known."

Between 1987 and 1994, according to the World Bank, the number of poor people in China decreased by more that 50 million. Today investment flows into the developing world represent 72 percent of all financial flows dwarfing aid flows which have fallen from 53 percent in 1984 to 28 percent in 1995. In 1995, the flow of private capital into the third world totaled more than $170 billion, a 200 percent increase in just five years!

This concept not only results in real and sustainable "development," it is an idea that the American public understands. It produces win-win partnerships. If we are to see any change in reversing the shrinking "development pie" we must find creative ways to link development resources, trade, and investment by leveraging the dwindling public resources with private capital. Aid, trade and investment results in real and sustainable development. It works.

The win-win approach also challenges the zero-sum opinion of aid. Many Americans believe that aid even when they support it takes something off the American balance sheet. It is often viewed as a cost which provides little or no economic return to Americans. Until we clearly appreciate that investing in development is effective and results in an economic returns to the United States we will be faced with a fading horizon of resources and opportunities. Also, investing in development and leveraging the creativity, energy and capital of the enterprise sector increases economic opportunity for American workers. The new economy is global and it is competitive. The emerging markets are the most dynamic potential opportunity for growth for just about every sector of the U.S. economy from corn flakes to sneakers. It is a factor of demographics. We will add an additional 12 billion people by 2025 just 28 years away. This is not a zero sum game; we need economic development to provide economic opportunity jobs for Americans.

The ingredients for development, technology, capital and trade are readily available from our allies in the G–7 and from the Asian tigers. It is our choice. We can win and the emerging economies can win. But we must be a player.

CNFA MODEL IS THE RIGHT APPROACH FOR FOREIGN ASSISTANCE IN 21ST CENTURY

We believe the CNFA model has broad, fundamental indeed historic implications for how foreign assistance should be delivered and measured in the post Cold War era where the ubiquitous ascendancy of the global marketplace is transcending geopolitical concerns and redefining our notions of national security. Put simply, the model's bottom-up, public-private cooperative approach brings together the public interest and the profit-motive of the marketplace to leverage investment, technology transfer and income-generation quicker and stronger than if the same resources were tendered by the public sector alone.

At the end of the day we have found nothing to match the creativity, entrepreneurial spirit and tenacity the private sector whether its companies or individuals who volunteer their expertise brings to bear on achieving rapid and sustainable

developmental change. We at the Citizens Network are proud of our role in creating win-win private-public partnerships in emerging economies countries that link trade, investment, technology and know-how to create long-lasting, financially viable private sector food and agricultural systems. The fact is, economically-viable partnerships that require a financial stake in ventures by all potential beneficiaries Western firms that wish to establish new markets, emerging-country organizations that want to increase capacity and production, improve technologies and expand the number of jobs, and the helping hand of U.S. assistance programs will yield extraordinary results.

The CNFA partnership model is a proven and effective way to strengthen economic systems, quality of life, and the prosperity of citizens everywhere in emerging countries as well as in America. Thank you.

PREPARED STATEMENT OF IHOR GAWDIAK, DIRECTOR, WASHINGTON OFFICE, UKRAINIAN AMERICAN COORDINATING COUNCIL

The following statement is submitted on behalf of the Ukrainian-American Coordinating Council by Ihor Gawdiak, its Director of the Washington Office. The UACC is one of two Ukrainian-American umbrella organizations and represents the two largest Ukrainian-American fraternal organizations, the Ukrainian National Association and the Ukrainian Fraternal Association, with a total membership of over 75,000, as well as a number of the most prominent civic, social, charitable, and cultural organizations in the Ukrainian-American community nation-wide. Our constituents are very active in and support both the Democratic and Republican parties.

Recently, significant attention has been given in the House of Representatives to some of Ukraine's most pressing problems. Likewise, there has been much press attention given to Ukraine's difficulties in implementing economic reform and overcoming public corruption.

The Ukrainian-American community is also disappointed in the lack of progress in these areas and is much aware of the need for Ukraine to solve quickly pressing problems. We share our American government's frustration over the continuing corruption and the slow pace of reforms in Ukraine. We also share the sense of frustration with Ukraine's own reformers who face daily the task of overcoming the legacy of Soviet Communism and its systemic corruption.

Like you, however, we see an independent and democratic Ukraine as vital to American interests and expect Ukraine to develop into a truly democratic, law abiding, stable, and economically strong nation. We believe, therefore, that it is critical for the United States to show its support for Ukraine by continuing the "strategic partnership" begun only in the last few years. Such a partnership must include aid to Ukraine at current or increased levels. Frustration with the difficulties experienced by American businesses, while of critical importance and the proper subject for diplomatic intercession, must not overwhelm the vital interests the United States has in encouraging the growth of independent and democratic Ukraine.

We believe that in your discussion of aid to Ukraine you should consider carefully many factors in the evolution of Ukraine, successes and failures. Corruption is endemic not only to Ukraine, but to the entire region. The pace of reforms has been excruciatingly slow throughout the region. Ukraine, unlike Russia and some of the other INS countries, faces particular difficulties—the enormous burden of the Chornobyl catastrophe cleanup, extensive dependence on Russian oil for its energy needs, an entrenched communist dominated bureaucracy, and constant pressure from Russia to rejoin it in some sort of a Russian dominated union. Nevertheless, Ukraine has made remarkable strides in maintaining its international obligations and advancing domestic reforms. Ukraine has voluntarily given up its arsenal of nuclear weapons, has participated very closely with NATO in its Partnership for Peace program, has joined the European Union and has promised to end the death penalty, has by far the best record on human rights issues of any NIS country, and its treatment of minorities has won praise throughout the world. On the domestic front, Ukraine, despite tremendous difficulties, has been making slow but steady progress as well. It has had a peaceful transfer of power in two presidential elections, it has enacted a new constitution, it has introduced a new and stable currency, it has reduced inflation by almost 10,000 percent, and it has privatized almost 50,000 enterprises.

In spite of great political pressures against it, Ukraine's President Leonid Kuchma has steadfastly maintained a course of developing close ties with the West and strengthening the strategic partnership with the United States. He has been equally firm, despite a strong leftist opposition in the Parliament, in promoting reforms in

Ukraine. There are presently a number of bills before the Parliament that if passed would go a long way to create a better climate for investment in Ukraine and would make it possible to more effectively fight crime and corruption. Only in the last few days, President Kuchma has created an agency akin to our FBI with specific instructions to combat crime and corruption.

Ukraine is unique in its importance to European security, and the international self interest of the United States. It is not unique, however, in the hurdles of economic reform and public corruption it faces. Of all the countries in the region, Ukraine should not be singled out for discipline because of such shortcomings.

Cuts in U.S. foreign assistance to Ukraine at this point would critically undermine President Kuchma's efforts and the efforts of other, less well known but equally dedicated, reformers in Ukraine. Withholding aid would send the wrong message to reformers and would give comfort to the very interests responsible for many of the problems. In the next two years Ukraine faces two critical elections, parliamentary elections in March 1998 and presidential elections a year later. The President and the pro-Western, democratic forces must convince voters across Ukraine and especially a skeptical pro-Russian electorate in Ukraine's eastern and southern oblasts (provinces) that their pro-Western, reform and market oriented policies are in the best interest of Ukraine and all its citizens. They can do so only with U.S. help, including substantial and well-thought out foreign aid. A victory of the leftist, communist forces in the next parliamentary elections would significantly delay further meaningful reforms in Ukraine, would drastically change its pro-Western, pro-NATO foreign policy, and could push Ukraine into a Belarusian-type union with Russia. The United States and the West would lose a pivotal strategic partner in Eastern Europe, and peace and security in the region could be greatly endangered.

While we must work to help Ukraine reform, the U.S. Congress and the Executive Branch must show greater patience and understanding toward Ukraine. The development of a law-abiding citizenry and a society and governmental infrastructure that does not operate on graft and corruption takes a long time under the best of circumstances. It is not a process that can be easily legislated, especially not from abroad. It must evolve gradually and over time. Let us not forget our own American experience with the "robber barons" of the 1890s, Prohibition era crime lords, and subsequent recurring episodes of corruption in public life. While we must encourage and push reform, we cannot expect Ukraine to achieve developments in five years that took many decades in our own country. The systemic evil and corruption that permeated Soviet society cannot be swept away overnight. The United States called for the "strategic partnership" with Ukraine. We must have a commitment to that partnership and to those in Ukraine fighting to build democratic institutions and the rule of law.

The people of Ukraine, by and large, have shown a desire to live in a democratic lawful society, and they are capable of democratic governance. Withholding or cutting aid to Ukraine could result in a disastrous economic regression, would punish the segments of Ukraine's society and government who are most committed to reform and cooperation with the United States, and, worst of all, could possibly force Ukraine toward a political course that is the least desirable for the national interests of the United States.

PREPARED STATEMENT OF JOSEPH LEMIRE, PRESIDENT, GALA RADIO & TV COMPANY, OLYMPIC CHAMPIONS, LTD., KIEV, UKRAINE, AND ON BEHALF OF THE SEVERAL MEMBERS OF THE AMERICAN CHAMBER OF COMMERCE IN UKRAINE

SYNOPSIS

On July 18, 1996, three thugs broke into the studio of Kiev's Gala Radio, the first Voice of America (VOA) affiliate in Ukraine, to steal the station's equipment, its music library of CDs, Gala's sign-on and jingles. The men threatened to hurt employees who tried to stop them. Less than an hour later, the same men broke into my private residence and repeated the action. Within two hours these same men were broadcasting as "Gala Radio" and have continued to this day to broadcast with the full support of the Ukrainian government, working in conjunction with the son of the personal advisor to the President of Ukraine.

On January 17, 1997, Ukrainian police walked into Ukrainian Olympian Oksana Baiul's Beauty Salon in Kiev and padlocked the door. They provided no explanation for their actions other than that we had refused to pay a "questionable payment" a few days before.

Our company, the Gala Radio and TV Company, is an American-Ukrainian joint venture with more than $1 million in direct U.S. investment, which was the basis

for what was to become a Gala Radio network in 12 Ukrainian cities. The Gala Radio FM station in Kiev was expropriated in July 1996 by the Ukrainian government a month after Gala Radio turned its first profit. Our plight has been reported in a number of newspapers, including the Wall Street Journal, New York Times, International Herald Tribune, and Los Angeles Times. We decided to invest in Gala Radio because of its VOA affiliation.

Retrieving only part of our investment in Gala Radio (and the retrieval is tenuous) has entailed nearly 100 pages of reports from the American embassy in Kiev (the reports can be consulted for details); one Supreme Court of Ukraine decision in our favor that has been ignored by the Ukrainian government; innumerable meetings in Kiev among embassy officials, my company representatives, and Ukrainian government officials; and more than 30 trips in the last year on my part to the United States to talk with officials from the U.S. Congress, the White House, the State Department, the World Bank, the Ukrainian embassy, and other institutions.

Our other company, Olympic Champions, Ltd. (OCL), is a wholly owned subsidiary of our American company with ownership interest by Oksana Baiul, Viktor Petrenko, and other Ukrainians involved in the Olympics. Half a dozen Ukrainian Olympians hoped to become investors in the Gala Radio network, which in turn would have employed several hundred wage-earning, tax-paying Ukrainian citizens.

Our OCL Beauty Salon investment in Ukraine was expropriated in January of this year after we refused to pay a "questionable payment" which was outside of our legal lease to purchase agreement. Shortly thereafter, the Ukrainian government literally walked in without notice and padlocked the entrance, refusing us access. The government then moved our equipment out and has moved another company into the location. We have invested more than $200,000 in this venture.

After the considerable attention our matters have received, several high level Ukrainian officials are now saying our matter has been resolved when in reality, and as setforth in the detail Chronology of Events, it has not been resolved. The following problems continue to exist:

1. The Ukrainian Government allows another company to broadcast and to use our name, stolen equipment, jingles and signon.
2. The Ukrainian government refuses to issue the other 11 broadcast licenses we had paid to be allocated to us and were the basis of our investment.
3. The Ukrainian government refuses to honor our damage claim based on the Ukrainian Supreme Court decision.
4. The Ukrainian government refuses to honor our agreement on the Oksana Bauil Beauty Salon and return the location and our equipment.

These problems are similar to problems being encountered in Ukraine on a daily basis by small companies like R&J Trading and Perekhid Media Enterprises, to large companies like Dupont, Motorola, Monsanto and Luscent Technologies. These are not isolated instances nor are they the result of a "few bad Ukrainian partners." All these problems exist because of the Ukrainian government's refusal to honor contracts, establish a rule of law and enforce their own law and court decisions.

CRIMINAL COMPLAINTS

Individuals have been identified who unlawfully and forcibly took property belonging to the Gala Radio Company, including equipment, its jingles, sign-on, and much of its CD library. Affidavits and criminal complaints have been filed with the Kiev police, and the American embassy has officially requested that these matters be investigated by the procurator's office. We have filed other criminal complaints as well. Yet all the complaints have been dropped or ignored by the procurator general of Ukraine. In addition, the procurator general refused to enforce the Supreme Court decision in our case, which was in his power to implement.

I have received intermittent death threats over the phone since August 1996. In November 1996 I was stopped in my car at gunpoint by off-duty police officers in uniform, who demanded that I accompany them. I refused. I was told in that same month, by a member of the Ministry of Internal Affairs, in the presence of American Embassy officials, that the ministry could not guarantee my safety.

At present, an elite police unit is keeping a presence in the vicinity of my Kiev residence and radio studio. I am assuming that they are there to protect me and my employees. Perhaps their presence is to provide Gala Radio with protection against retaliation in light of impending action by the government of Ukraine to resolve our matter. I have no idea.

Also at present, the procurator general is preparing to visit the United States at U.S. taxpayer expense. This is wrong. He first should be held accountable for his actions—or lack thereof—in the Gala Radio case and other matters, such as the case of the U.S. company R&J Trading, which also has numerous court rulings in its

favor that are not being enforced. I believe a number of you ladies and gentlemen are familiar with R&J's problems in Ukraine.

THE MENDACITY OF THE UKRAINIAN GOVERNMENT

Even though the high court in Ukraine ruled last December in favor of the Gala Radio Company regarding one area of our investment problems, the court's ruling was long ignored while we continued to fight the Ukrainian government's breathtaking mendacity at all levels. When Vice President Gore broached the Gala matter with Ukrainian President Leonid Kuchma last December, the vice president was not told the truth. When Secretary of State Albright broached the Gala matter with Ukrainian Foreign Minister Hennadiy Udovenko in March, she was not told the truth. When Ambassadors Richard Morningstar and William Green Miller have broached the Gala matter with various Ukrainian officials over past months, they were not told the truth.

Believe me when I say that this account of Gala's difficulties is far from exhaustive, but this narrative alone should give you ladies and gentlemen some idea of the effort required to stay on top of this situation. The government's bad faith runs so deep, mendacity and distortions are so pervasive, that any U.S. official trying to resolve this matter would need to be familiar with more than 100 pages of documentation to set straight the continuous onslaught of Ukrainian excuses. Thankfully, our Ukrainian attorneys are tremendous, and have been very diligent.

This behavior on the part of the Ukrainian government is far from an isolated event. Many foreign companies cite "changing conditions," "telephone law," lack of contract sanctity in Ukraine, enabling Ukrainian officials to change the story when they are pinned down on violations of their own laws. The so-called "grain ban" of last year is a case in point. The government expropriated grain slated for sale to countries around the world, affecting the U.S. firms of Monsanto, Dupont, and Kiev Atlantic Ukraine (an EBRD backed venture), to say nothing of what the ban did to the farmers of Ukraine and other international buyers. Incredibly, a recent statement from the Ukrainian Cabinet of Ministers published on April 18 in Kiev, responding to a New York Times story of April 9, stated that there was no proof of the alleged "grain ban." Denying the existence of the grain ban, which affected a vast portion of Ukraine, is not unlike denying the explosion at Chornobyl—a refutation tried and abandoned by the Soviets in 1986. But if changing the story does not work, then documents may be changed and backdated, as happened in the cases of Gala Radio and R&J Trading.

CURRENT INVESTMENT SITUATION IN UKRAINE

Other American investors in Ukraine are fighting similar battles, while some of the largest U.S. companies, such as Marathon Oil and Motorola, have come to Ukraine, surveyed the business landscape, and gone elsewhere. Smaller companies, attracted to Ukraine several years ago by favorable investment laws that have since turned sour, find themselves in protracted, messy, and expensive predicaments. I am not the only investor who has reason to be concerned about his safety in Ukraine. As a result of Ukraine's treatment of foreign investors, that nation's total foreign investment after nearly six years of independence is a paltry $1.4 billion—in a country with 52 million citizens that is the largest country in Europe after Russia. Both large and small investors are needed in Ukraine on a massive scale, but the government of Ukraine is impeding its development. Ukraine, at $25 per person, has the lowest foreign investment per capita of any former Soviet Union country other than Belarus. Yet the Ukrainian government declares it needs foreign investment at the same time it forces foreign companies out of the country. The adage among investors in Kiev is, "Ukraine wants foreign money all right—minus the foreign investors."

PROBLEMS OF OTHER U.S. COMPANIES

On April 18, 15 U.S. companies met at the American Chamber of Commerce (AmCham) to discuss problems in Ukraine. Some of these wish to go on the record today; their statements are contained in attachments or have been provided to your staff. In addition, several multinational companies provided background material for the AmCham to present to this committee. These companies are Dupont, Monsanto, Arthur Andersen, PME, R&J Trading, Grand Hotel, and several others.

Bill Sinkew, managing partner of Arthur Andersen Ukraine, recently noted that in Ukraine "it is not three steps forward and two steps back in Ukraine. It is 101 steps forward and 100 steps back—and that is considerable effort for just one step." He went onto to say that the biggest obstacles for business in Ukraine are retroactivity of tax laws, arbitrary licensing and quotas, lack of respect for any laws—

theirs or international laws, excessive penalties, and the lack of accounting reform and a reasonable tax system.

Luscent Technologies noted that it participated in a tender to modernize a telephone network in Ukraine. After properly following tender rules and actually being announced the winner, President Kuchma himself announced another tender with new rules. Luscent has been working on this tender for almost one year.

Several multinationals are saying "this is a make-or-break year" for them in Ukraine. One multinational said it is "surprisingly difficult to work with the Ukrainian government to promote our enterprise and create the business environment we need to be successful. We deal every day with stonewalling by government officials, from high levels right on down to the last man in customs. We see constantly changing legislation, which rarely seems to change in favor of promotion of industry. And as for existing rules and regulations, the ability to have an Ukrainian official interpret these rules and regulations logically seems to be tied to the amount of money one is willing to put into the official's pocket." Many multinationals are afraid to go on the record for fear of their employees' safety, among other reasons. Nonetheless, they have provided us with considerable background material.

Finally, I remind the Senate that every failed U.S. investment in Ukraine—from Motorola to Marathon Oil to Gala Radio and R&J Trading—is more American assistance in the form of tax write-offs, which cost the U.S. Treasury millions of dollars in indirect subsidies sacrificed to unlawful and unethical business practices in Ukraine. Every successful venture is good for the United States and the foreign partner. A multinational communications company has five investment projects in Russia and one in Belarus, but it can't get one investment project off the ground in Ukraine. Am I pleased to report these facts? Not at all because this investment climate makes return of our investment near impossible.

THE MESSAGE IS NOT GETTING TO WASHINGTON

On April 19, during a visit to Kiev, Harvard economist Jeffrey Sachs said, "I meet more foreigners leaving Ukraine than I do coming into Ukraine right now. There are too many bribes, too many taxes, and too much instability" (Reuters, April 19). It is unclear to businessmen why Washington is not getting this message. During a meeting with American businesses in February 1997 in Kiev, members of a congressional delegation headed by Sen. Roth and Rep. Solomon noted their dismay at learning of U.S. business problems in Ukraine only after the delegation had met with Ukrainian officials. The businessmen raised issues of nationalization by the Ukrainian government of a telephone investment by an American multinational, expropriation of a TV contract, threats of violence, and other matters. The Wall Street Journal on April 23 noted that 24 of 34 companies that are registered with the American Embassy in Ukraine are having "serious difficulties" in Ukraine.

While business problems were flaring up in Ukraine last summer and fall, a concurrent resolution was passed on September 4, 1996 in the U.S. Congress congratulating Ukraine on its progress pursing economic reforms. Ironically, on that date, U.S. embassy officials were meeting with Gala Radio representatives and the Ukrainian Cabinet of Ministers on the illegal actions taken against my company. At that time, the grain ban was at its peak. Other U.S. investor problems were mounting.

In the Gala case, there have been more than 10 official letters from the U.S. administration and its embassy in Kiev to President Kuchma and other high level officials of the Ukrainian government. But there has not been one written response involving Gala Radio or Olympic Champion's Beauty Salon.

ALL WE ASK IS A LEVEL PLAYING FIELD

A level playing field for business is not achieved when special treatment is allowed to Ukrainian companies in violation of tender rules, local laws, or when the Ukrainian government fails to prosecute criminal violations. It is worse when U.S. assistance goes to support the old system. For example, U.S. assistance helped train Ukrainian tax inspectors. This practice assisted a venal, corrupt tax system, the vindictiveness of which can be attested to by any American or other foreign company operating in Ukraine. Instead of first using U.S. assistance to improve the tax code, tax inspectors were out harassing and auditing businesses (in some cases resorting to 10 audits per year).

THE U.S.-UKRAINE BILATERAL INVESTMENT TREATY

Gala and Olympic Champions have made a decision at present to go forward with an action under the U.S.-Ukraine Bilateral Investment Treaty (BIT) to pursue our additional claims. With little news on the regional licenses, another company using

our name, and the Ukrainian government refusing to return our Beauty Salon location we are left with limited alternatives. This expropriation is near criminal according to our lawyers.

Based on our prior experience with enforcing a Ukrainian court decision we will immediately be pursuing these matters pursuant to the BIT if they are not resolved prior to President Kuchma's visit to Washington next week. We are working with the U.S. Administration to resolve these matters prior to that date and hope they will be. However we have been promised resolution by the Ukrainian government for almost one year and we are not hopeful. However we are hopeful that our message will get to Washington and at a minimum help other American and foreign investors in Ukraine.

WHAT HAPPENS IF THE FREE MONEY STOPS FLOWING?

Last year the U.S. Congress appropriated $225 million in assistance for Ukraine with no strings attached, while there is a litany of American investor problems that has been ignored by the Ukrainian government. We need an oversight mechanism to connect American assistance to Ukrainian progress.

As one company put it, "as long as the United States pays lip service to reform and continues to dump money in Ukraine, there is no incentive to develop the infrastructure of the country. There is only incentive to continue to misdirect money to buy the new Mercedes automobiles, build the dachas, and siphon excess cash out of the country. The continued flow of Western assistance, especially when coupled with weak admonitions to reform, has not encouraged the kind of restructuring that Ukraine needs. It never will. Not until the officials who are supposed to nurture Ukraine to health are forced to rely on Ukraine's own resources, and this means forced to create an environment in which there is incentive to develop the industrial bases that must be the foundation of the economy, will there be any reason for officials to change their old Soviet ways or get out of the way so that those who do want to help Ukraine may have the chance to do so."

U.S. assistance to Ukraine should therefore be conditional. So should the assistance offered by the World Bank, EBRD, IMF, and other multilateral financial organizations. To quote a recent Kiev Post editorial, "If the [Ukrainian] economy needs any help reforming, that is the task for multilateral lenders like the International Monetary Fund and the World Bank. To the degree that these have any real calling it is to ease the pain of real economic change. Quietly, the United States can and should stop arm-twisting the multilaterals into issuing loans Ukraine does not merit. Let it compete for the IMF's goodwill with regimes genuinely interested in the welfare of their subjects."

Conditions on U.S. and Multilateral Assistance:

1. U.S. assistance to Ukraine should be tied to demonstrable progress against corruption and resolution of American investors' problems.

2. The United States should use its influence to condition IMF, World Bank, and EBRD loans to similar progress in Ukraine.

3. An efficient reporting system needs to be set up to inform Washington expeditiously of problems being faced by American investors in Ukraine.

4. A mechanism should be funded immediately to address the 20 or so American investor problems in Ukraine. At present such a mechanism does not exist at the U.S. embassy in Kiev, while the Gore-Kuchma Commission has not yet proved to be the answer.

In closing, I would like to thank you for the opportunity to present these matters on behalf of Gala Radio, Olympic Champions, Ltd., and other U.S. companies under the auspices of the American Chamber of Commerce.

CHRONOLOGY OF EVENTS INVOLVING THE GALA RADIO COMPANY

In July 1995, U.S. and Ukrainian investors bought out the previous Ukrainian shareholders in a VOA-affiliate radio station in Kiev, which had a 24-hour broadcast license. The U.S. investors had a maximum 30 percent interest in Gala Radio by law, though they provided the lion's share of capitalization, with an initial contribution of nearly $200,000 and subsequent investment of more than $1 million.

On July 18, 1995, the Ukrainian government's National Council for Television and Radio Broadcasting (Ukraine's version of the FCC) issued an order instructing that to facilitate foreign investment, Gala Radio would receive a license for a frequency in Kiev and a regional license for frequencies in 11 Ukrainian cities. Gala had paid money to help clear the frequencies in these cities. In the same month of July, Gala Radio began broadcasting in Kiev from 5:30 a.m. to midnight. In October 1995, the National Council issued Gala a letter with permission to broadcast 24 hours per day on a lower band frequency, similar to an AM frequency. Things looked promising.

But on July 29, 1995, unbeknownst to the U.S. investors, the National Council proposed that it would issue 12-hour broadcast licenses at a cost of $12,000 each and has proceeded to sell multiple and even overlapping licenses to stations on the same frequencies. The licenses often do not give specific broadcast hours but allow only for various numbers of hours of "unspecified broadcast time."

In September 1995 Gala Radio paid $30,000 for a 24-hour broadcast license for its FM frequency. The National Council insisted on payment because Gala's previous license had been issued by a state agency preceding the existence of the National Council. However, Gala Radio was given a license for only 12 hours of unspecified broadcast time. Gala Radio demanded that the license be changed to reflect its payment for 24 hours. The National Council told Gala that the license would be changed in January 1996, when more hours would be allocated to broadcasters. In the meantime, the National Council told Gala that it needed the money that Gala was paying for the 24-hour license, and that if Gala did not pay for the additional 12 hours now, those hours would be sold to someone else.

In January 1996, Gala Radio began broadcasting from 5:30 a.m. to 3:30 a.m with the agreement of the National Council. The Ukrainian government, however, did not change Gala Radio's license to reflect payment for 24 hours, despite Gala Radio's repeated requests.

In February 1996, unbeknownst to Gala Radio, the National Council allowed the registration of a radio station called "Leader" by one of Gala Radio's employees, who was also Gala Radio's representative to the National Council. The National Council two months earlier had refused to allow anyone but this employee to represent Gala Radio at the National Council. The Leader company is apparently connected to high-level officials in the Ukrainian government. He showed up at my personal residence at 2:00 am one morning with the son of the personal advisor to the President of Ukraine. The son demanded 30 percent of Gala Radio otherwise "we were to have problems". We refused to bow to such extortion.

Five months later, in the beginning of July 1996, also unbeknownst to Gala Radio, the National Council issued a 12-hour broadcast license to Leader Radio on Gala Radio's frequency.

On July 18, 1996, Gala Radio's accredited reporter at the Atlanta Olympic Games was preparing for direct remote coverage of the games for Gala Radio's Kiev audience. Gala Radio was an official sponsor of the Ukrainian Olympic Team and had spent considerable sums to support the team and to advertise its coverage. But on that same day—a month after Gala Radio turned its first profit—the Ukrainian government terminated Gala Radio's prime-time broadcasts, giving the most lucrative hours of 8:00 a.m to 8:00 p.m. on Gala Radio's frequency to Leader Radio. After breaking into Gala's studios to steal equipment and its music library, Leader Radio immediately began broadcasting as "Gala Radio," using Gala's jingles and sign-on in violation of international copyright and trademark conventions.

Within several weeks, Gala Radio went from revenues of $27,000 per month to $0 dollars per month and is suffering losses of approximately $1 million and loss of a regional radio network estimated to be worth $15 million.

Myriad Ukrainian government officials, including the prime minister, continually promised that our problems would be resolved shortly. But weeks dragged on into months; promises turned into refusals to meet with us. And then, right in the middle of a visit by Ambassador Richard Morningstar to Kiev in October 1996, Gala Radio was taken off the air completely on the FM and lower bands. Ambassador Morningstar and U.S. Ambassador to Ukraine William Green Miller met with Ukrainian officials, including Ukrainian President Leonid Kuchma, to resolve the Gala Radio matter. No resolution was achieved other than promises to look into the issue. Only on November 15 was Gala returned to the air with the intervention of the American embassy, while we had suffered tremendous financial losses. And we continued to suffer losses when we returned to the air, since the Leader company continued to broadcast on our frequency during the most lucrative 12 hours of the day.

On or about December 2, Vice President Gore raised the Gala issue with President Kuchma in Lisbon. President Kuchma said he was under the impression that Gala Radio owed taxes to the Ukrainian government. Immediately after President Kuchma's remarks, tax inspectors descended on Gala Radio only to discover that Gala Radio was not the entity that owed taxes; in fact, the government of Ukraine owed Gala Radio $12,000 in excess VAT paid by the company in 1996. Gala Radio was informed by President Kuchma's office on December 26 that the president had been "misinformed" during his meeting with Vice President Gore.

On December 9, 1996, the Supreme Arbitration Court of Ukraine ruled in Gala Radio's favor, stating that the National Council had violated Ukrainian law by granting a license to Leader Radio and by allowing Leader to broadcast on Gala's

frequency. The decision also allowed Gala to pursue damages against the government of Ukraine. On December 17, 1996, the National Council appealed the court's ruling and also rejected the court's jurisdiction.

In January 1997, U.S. Commerce Department Ombudsman Jan Kalicki raised the Gala issue with President Kuchma per a letter from Vice President Gore. In February 1997, a U.S. congressional delegation in Kiev, headed by Sen. William Roth and Rep. Gerald Solomon, gave a press conference, during which Rep. Herb Bateman noted that though the delegation was not expert in the details of the Gala Radio case, it was nonetheless inconceivable to the delegation that the court order in the case was being ignored by the Ukrainian government.

On February 26, 1997, the Supreme Arbitration Court of Ukraine rejected the appeal of the National Council and left all elements of its December 9, 1996 ruling in place. Subsequent to this ruling, pressure was applied to the Ukrainian government, and after the Gala Radio matter was raised at a Congressional hearing, Gala on March 11 returned to 24-hour broadcasts on the FM band.

But in April 1997, the Leader company with the backing of the Ukrainian government began broadcasting on another FM frequency in Kiev using the Gala Radio name, jingles, and stolen equipment. Although Leader's use of our company name is also a violation of Ukrainian law, the Leader company broadcasts its own telephone number to call for the purchase of advertising on "Gala," noting that "no other telephone number for Gala Radio exists." Leader is also duplicating Gala's programming and is advertising itself throughout the city on billboards and in promotional material as the "new" Gala Radio. These actions have materially damaged my company's efforts to recoup the near million dollars lost over the past 10 months by wreaking havoc among advertisers and listeners. My company recently lost a $30,000 advertising contract negotiated a month ago due to the existence of two FM stations in Kiev calling themselves "Gala Radio." The government of Ukraine has actually managed to accomplish expropriation on top of expropriation.

The National Council also informs us that despite a court ruling allowing us to pursue damages, the National Council is not liable for them. Further, the National Council refuses to issue the Gala Radio Company licenses for frequencies in the other 11 cities in Ukraine that were to make up the Gala Radio network.

PREPARED STATEMENT OF EUGENE T. ROSSIDES, ON BEHALF OF THE AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE, INC.; THE HELLENIC AMERICAN NATIONAL COUNCIL; THE CYPRUS FEDERATION OF AMERICA, INC.; THE PAN LACONIAN FEDERATION OF U.S.A. AND CANADA; THE PAN CRETAN ASSOCIATION OF AMERICA; AND THE PAN KARPATHIAN EDUCATIONAL PROGRESSIVE ASSOCIATION

Chairman McConnell, Senator Leahy and Members of the Subcommittee: I am pleased to present testimony to the Subcommittee on behalf of the organizations listed above on the Administration's foreign aid proposals.

We stand at a diplomatic crossroads in the Aegean and Eastern Mediterranean. The Clinton Administration's support of Berisha in Albania, Gligorov in FYROM and the appeasement of Turkey have proven a failure. It is past time for the United States to reevaluate its policies in the region. The United States must now ensure that the policies it follows will advance American interests. Specifically, the U.S. should work with the sensible, moderate, pro-American governments of Greece and Cyprus to promote its regional interests.

The appeasement of Turkey by the White House and the State and Defense Departments is the main obstacle to the settlement of the Cyprus problem and tensions in the Aegean.

Greece is the strategic and economic key for the U.S. in the Balkans and Eastern Mediterranean to bring peace, stability, economic progress and democracy to the region.

In the interests of the United States:

1. We oppose all military and economic aid to Turkey because of its horrendous violations of internationally recognized human rights, its violations of the rule of law, its threats against Greece and Cyprus, its unreliability as an ally and its minimal strategic value to the United States.

Turkey, as demonstrated by the record, was an unreliable ally before Prime Minister Erbakan took office. Since Necmettin Erbakan became Prime Minister, Turkey has more openly opposed the U.S. particularly in its relations with Iran, Libya and Iraq. Turkey's deals with Iran and Libya are in violation of U.S. laws, including the D'Amato Act. Turkey is the cause of the tensions in its region, not the solution.

We particularly oppose any military or economic aid to Turkey at this time of diplomatic tension in the region. U.S. military sales would exacerbate the tension and set back efforts for reaching a solution to the region's long standing problems.

Turkey is highly militarized and U.S. military aid simply adds to the arms build-up by Greece and Turkey to the detriment of the people of Greece, Turkey and Cyprus.

Where is the threat to Turkey? There is none. Who is threatening Turkey? No one.

As a matter of law, Turkey is presently ineligible for foreign aid under Sections 116 and 502B of the Foreign Assistance Act of 1961, as amended, because of its "consistent pattern of gross violations of internationally recognized human rights" in Turkey and in Cyprus.

Turkey is the destabilizing country in the region with its massive ethnic cleansing amounting to a genocidal war on its Kurdish citizens, its violations of human rights in Turkey generally, including the widespread use of torture, its irredentist threats against Greece, its illegal occupation of Cyprus (now in its 23rd year), its illegal economic blockade of Armenia, its supplying of arms to Azerbaijan and its maneuvering in the Balkans.

In considering aid to Turkey, the U.S. Government report released last week titled, "U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II," should be taken into account. The report documents that Turkey held $44 million in Nazi assets and $5 million in looted gold, but made no restitution. The report also documents Turkey's collaboration with Nazi Germany by supplying Hitler's armaments industry with the vital alloy, chrome. Albert Speer, Hitler's armaments chief, provided Hitler a memorandum in November, 1943 on "Alloys in Armaments Production and the Importance of Chromium Imports from the Balkans and Turkey," which stated that the loss of chromium supplies from Turkey would end the war in about 10 months. (A. Speer, Inside the Third Reich 316–17, 405, 550 n.10 (1970)). It has been estimated that Turkey's supplies of chromium to Nazi Germany prolonged World War II by seven months.

2. We support military aid for Greece as long as Turkey keeps its illegal 35,000 man army of occupation and its 80,000 illegal colonists/settlers in the occupied territory of Cyprus, and maintains its 125,000 man Army of the Aegean aimed at Greece's Aegean islands.

We condemn Turkey's threats on Greece's national sovereignty over the islets of Imia in the Aegean, Turkey's threats of war against Greece in the Aegean regarding Greece's internationally recognized right to extend its territorial waters from 6 to 12 miles (see infra, section on Aegean) and Turkey's threats of military action against Cyprus regarding the purchase by Cyprus of defensive anti-aircraft missiles.

Turkey is the main security threat to Greece. For anyone to this is to deny reality.

3. We support the amount of $15 million in humanitarian aid for Cyprus and the demilitarization of Cyprus. We are dismayed at the Clinton Administration's condemnation of the purchase by the government of Cyprus of anti-aircraft defensive missiles, the refusal of the U.S. to sell such equipment to Cyprus, and the Administration's refusal to support the immediate demilitarization of Cyprus. The appeasement of Turkey by the White House and the State and Defense Departments is the main obstacle to the settlement of the Cyprus problem.

4. The current crisis in Albania has created a dangerous situation. Greece has been particularly helpful in trying to bring order, stability, and humanitarian aid to Albania and its efforts have been recognized and commended by the U.S. and European governments. Greek peacekeeping troops are presently in Albania alongside Italian troops. They are part of a 6,000-member multinational force sent to safeguard aid shipments to Albania.

The Berisha government has been discredited and practically all parties and groups want him removed from office. Elections are scheduled for June 29, 1997. The current crisis highlights the errors in U.S. policy in Albania. The Executive Branch backed Berisha, a hardline communist and brushed aside Greece's concerns for the minority and human rights of the substantial Greek minority.

5. We oppose any sale of advanced U.S. weapons to the Turkish Government as contrary to the best interests of the U.S. (see infra, Arms Sales to Turkey).

6. We oppose any assistance to Turkey, of whatever nature, until the Turkish Government:

—(a) removes all Turkish troops including Turkey's illegal occupation forces from Cyprus;

—(b) removes all illegal Turkish colonists from Cyprus and authorizes a census of the illegal Turkish colonists under UN auspices;

—(c) restores to their original condition the churches illegally converted to mosques in violation of the 1949 Geneva Convention;
—(d) returns to the government of Cyprus under United Nations auspices the occupied areas of Famagusta/Varosha and Morphou for the immediate resettlement of displaced persons.
—(e) releases, returns, or accounts for the 5 American citizens who were abducted by the Turkish invasion forces in 1974 and the 1,614 Greek Cypriots who have been missing since the Turkish invasion; (See infra, Denktash statement on missing Americans and Greeks);
—(f) ensures the proper protection and safety for the Patriarchate, the Ecumenical Patriarch, the Patriarchate and its personnel, and establishes conditions to ensure that the Patriarchate is free to carry out its religious mission, and provides for religious freedom generally for all Christians and Jews residing in Turkey;
—(g) authorizes the reopening of the Halki Patriarchal School of Theology; and
—(h) stops its state terrorism (massive ethnic cleansing amounting to genocide) against its 20 percent Kurdish minority and grants them full minority and human rights.

7. We believe the Congress should consider economic sanctions against Turkey.

8. We support the brave Turkish citizens struggling for human rights and the rule of law. Our dispute is not with the Turkish people, but with the Turkish military, political and diplomatic leadership.

9. We call on the Senate Foreign Relations Committee to hold hearings on a critical review of U.S. policy towards Turkey. Such a review should deal with:
—(a) Turkey's violations of law and human rights;
—(b) U.S. violations of law regarding Turkey and the failure to apply the law to Turkey's actions;
—(c) the myth and reality of Turkey's alleged value and reliability as an ally;
—(d) the right of the Kurdish citizens in Turkey to human rights, the rule of law and autonomy;
—(e) Prime Minister Erbakan's deals with Iran and Libya which violate U.S. law;
—(f) the anti-Christian and anti-Semitic rhetoric of Erbakan's supporters;
—(g) the actions of those brave Turkish citizens and human rights activists who are struggling daily for human rights and the rule of law for all Turkish citizens;
—(h) a re-examination of the lifting in 1978 of the rule of law arms embargo on Turkey; and
—(i) Turkey's retention of $44 million in Nazi assets and $5 million in looted gold with no restitution, and Turkey's extensive collaboration with Nazi Germany.

The Clinton Administration's failure to apply the rule of law in international relations to Turkey will come back to haunt us elsewhere in the world. Instead of supporting the basic American values of democracy, the rule of law, protection of minority and human rights, the Clinton Administration is supporting the law of the jungle by Turkey.

Following this statement is a memorandum on Greek American Policy Statements which is submitted to the Subommittee as part of my testimony as Exhibit I. These policy statements were prepared by the American Hellenic Institute and approved by the Order of AHEPA and the Hellenic American National Council. These organizations are the three major Greek American membership organizations. Other organizations approving the Policy Statements are listed in the memorandum.

I also refer the Members of the Subcommittee to my testimony of May 1, 1996 before this Subcommittee which extensively documents the positions stated herein. The table of contents to that testimony is attached hereto as Exhibit II.

There have been and there are currently in progress congressional investigations into potential unlawful conduct by Administration officials regarding domestic matters.

We urge the Congress to investigate the failure of Administration officials to apply the rule of law in international matters regarding Turkey.

The following are several examples of the United States not applying the rule of law to Turkey, all to the detriment of U.S. interests:
—(1) the failure to apply U.S. and international law to Turkey's ethnic cleansing and genocidal war against its 20 percent Kurdish minority;
—(2) the failure to apply U.S. law and international law to Turkey's several invasions of northern Iraq, including a massive invasion with 35,000 troops;
—(3) the periodic bombing of Kurds in Iraq;
—(4) the failure to apply international law to the Aegean Imia islets crisis;
—(5) the failure to apply the D'Amato Act to Turkey's deals with Iran and Libya;

—(6) the failure to apply U.S. and international law to Turkey's violations of religious freedom against Christians and Jews in Turkey, including the illegal closing of the Halki Patriarchal School of Theology;
—(7) the failure to denounce Turkey's anti-Christian and anti-Semitic policies and actions;
—(8) the failure to apply international law to Turkey's illegal embargo on Armenia;
—(9) the failure to apply U.S. and international law to Turkey's continuing occupation of 37.3 percent of Cyprus with 35,000 troops;
—(10) the failure to apply the Geneva Convention of 1949 to Turkey's 80,000 illegal settlers;
—(11) the failure to apply the terms of the NATO Treaty to Turkey for its invasion of Cyprus;
—(12) the failure to condemn Turkey's violation of the UN Charter by Turkey's threats of war against Greece in the Aegean regarding Greece's internationally recognized right to extend its territorial waters from 6 to 12 miles.

Ms. Elaine Sciolino, the distinguished diplomatic correspondent of The New York Times and former chief of its United Nations bureau, authored The Outlaw State, Saddam Hussein's Quest for Power and the Gulf Crisis (1991) stemming from Hussein's invasion of Kuwait and the conflict that followed. Ms. Sciolino could just as easily have written a book titled Turkey-The Outlaw State dealing with Turkey's invasion of Cyprus and violations of law and human rights in Turkey. Turkey's violations of law exceed those of Iraq under Saddam Hussein.

Thank you Mr. Chairman.

EXHIBIT I.—GREEK AMERICAN POLICY STATEMENTS

The following Policy Statements were prepared by the American Hellenic Institute (AHI) and approved by the Order of AHEPA and the Hellenic American National Council (HANC). AHEPA, HANC, and AHI comprise the three major Greek American membership organizations. Also approving the Policy Statements are the Cyprus Federation of America, Panepirotic Federation of America, Pan Cretan Association of America, Pan-Macedonian Association, Pan Laconian Federation of U.S.A. and Canada, the Pan Karpathian Educational Progressive Association, and a number of Greek American leaders. These statements were also reviewed at three Legislative Policy Conferences held in New York City, January 11; Los Angeles, January 25; and Chicago, February 11, 1997.

MAIN THEMES

Greece

Greece is the key to stability and peace in the Eastern Mediterranean and the Balkans. We call upon the United States to develop a "special relationship" with Greece commensurate with this reality.

Cyprus

The continuation of the Cyprus problem is an affront to international law and to U.S. values, as well as a threat to regional stability. We call upon the United States to intensify efforts to reach a fair settlement based on democratic principles that respect the rights of all Cypriots.

The Aegean

The territorial disposition of the Aegean Islands and islets as between Greece and Turkey has been settled in a series of treaties and agreements, including the 1923 Lausanne Treaty, the 1932 Italy-Turkey agreements, and the 1947 Paris Peace Treaty. We support adherence to these treaties and call upon the United States to recognize and uphold them. We call upon the United States to oppose any unilateral challenge to these documents.

Turkey

We believe that Turkey's continuing violations of international law, its unreliability as an ally, its destabilizing actions toward Greece and Cyprus, and its recent anti-western foreign policy initiatives require a critical review of United States-Turkey relations.

LIST OF ISSUES

The following issues facing the United States are of particular concern to Greek Americans: 1. Aegean; 2. Albania; 3. Armenia; 4. Arms Sales; 5. Cyprus; 6. Ecumeni-

cal Patriarchate and the Halki Patriarchal School of Theology; 7. Former Yugoslav Republic of Macedonia (FYROM); 8. Greece; 9. Kurds; 10. Turkey; 11. NATO

POLICY STATEMENTS

The policies set forth herein are based in each case on the question of what is in the best interests of the United States.

Aegean

1. We support the adherence to internationally recognized law, treaties and agreements regarding the territorial integrity and sovereign rights of a state, including the United Nations Charter and the NATO Treaty. Regarding the Aegean, we specifically refer to the 1947 Paris Peace Treaty, under which the Dodecanese Islands and adjacent islets were ceded by Italy to Greece, the 1932 Italy-Turkey agreements which delineated Turkish and Italian borders, the Lausanne Treaty of 1923, and the Law of the Seas Convention.

2. We call upon the U.S. Government to recognize and uphold the aforementioned treaties and agreements, specifically in regard to Turkey in the Aegean.

3. We condemn Turkey for its numerous and continuous threats on the territorial integrity of Greece, including the January 30–31, 1996 incident over the islets of Imia in the Aegean (see below) and the May 31, 1996 Turkish dispute of Greek sovereignty over the island of Gavdos (see below).

4. We call upon the U.S. Government to recognize the islets of Imia as Greek sovereign territory in accordance with the 1947 Paris Peace Treaty under which the Dodecanese Islands and adjacent islets were ceded by Italy to Greece, the 1932 Italy-Turkey agreements which clearly state that Imia belonged to Italy, the Lausanne Treaty of 1923, and international law. On February 15, 1996 the European Parliament passed a resolution (342 to 21 with 11 abstentions) stating the islets of Imia belong to Greece and condemned Turkey's aggressive threats to established sovereignty in the Aegean. In a February 1, 1996 statement to Greece, Italy supported the Greek legal position regarding the 1932 Italy-Turkey Protocol. Also, on February 7, 1996 France stated that it unequivocally recognized Greece's sovereignty over the Imia islets.

5. We call on Congress to pass a joint congressional resolution stating that the islets of Imia are Greek sovereign territory based on the aforementioned treaties and agreements.

6. We condemn Turkey's threats of war against Greece in the Aegean regarding Greece's internationally recognized right to extend its territorial waters from 6 to 12 miles, and note that Turkey itself has exercised this right by extending its territorial waters from 6 to 12 miles in the Mediterranean Sea and Black Sea despite the fact that it is not a signatory of the Law of the Seas Convention. The United States has also extended its territorial waters to 12 miles. The Turkish Grand National Assembly passed a resolution on June 8, 1995, authorizing the Turkish government to use force if Greece extends its territorial waters to 12 miles.

7. We note that Turkish threats of war and the June 8, 1995 Turkish National Assembly resolution are violations of the United Nations Charter, article 2 paragraph 4, and the NATO Treaty preamble and article 1. The U.N. Charter, article 2 (4) states: "All members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations."

The NATO Treaty contains similar language.

8. We call on the U.S. Government, in its own self interests and as the world's leader, to make a formal protest of Turkey's threats of war (causa belli) regarding the Aegean, made on a number of occasions.

9. We refute the Turkish claims concerning the application of the Law of the Seas Convention to the continental shelf and territorial waters, and questions pertaining to national air space. Turkey is free to go to the International Court of Justice at the Hague, if it thinks it has a supportable case.

Albania

1. We are concerned with the campaign of the Albanian government to drive out of the country the Greek Orthodox community by denying and restricting the full legal, educational, religious, and employment rights guaranteed to the minority by international agreements signed by Albania.

2. We condemn the efforts of the Albanian government to persecute Greek Orthodox Christians in the country by restricting the Orthodox Autocephalus Church of Albania and denying its leader, Archbishop Anastasios, legal status. We call on

Tirana to return to the Church all property, sacred religious articles and records seized and still being held by the former Stalinist regime.

3. We denounce the Albanian government for trying to restrict the right of ethnic Greeks in Albania to learn and study their mother tongue, and we call on Tirana to authorize the establishment of minority schools, both public and private, and to offer Greek language instruction in existing schools at all grade levels and in all areas where Greek communities exist, not just in arbitrarily designated "minority zones."

4. We condemn the harassment and forced resignations of ethnic Greeks in public service, and call on Tirana to offer equal opportunity in the armed forces, the police, the judiciary, and in public administration to all minorities.

5. We call on the Albanian government to seriously engage in the democratization process so as to allow equal access to state media by the Greek minority.

6. We call on the United States government, in its own interest and the interest of maintaining peace and stability in the southern Balkans, to halt all assistance to Albania, of whatever nature, until all issues of the rule of law and human rights cited above are resolved.

Armenia

1. We support the Humanitarian Aid Corridor Act which was passed by the Congress and signed into permanent law as part of the 1997 Foreign Aid Bill. The act calls for a halt in U.S. economic and military assistance to any country blocking U.S. assistance to another country, which consequently includes the Turkish blockade of U.S. assistance to Armenia. The Turkish embargo on aid to Armenia includes U.S. humanitarian and pharmaceutical aid.

2. We believe it is in the interests of the United States to insist that the Turkish government lift its blockade of Armenia.

3. We strongly disagree with President Clinton's waiver, on national security grounds, of the Humanitarian Aid Corridor Act as it applies to Turkey. The application of this waiver is contrary to the national security interests of the United States. We urge Congress to pass legislation removing economic aid from the President's waiver authority.

4. We believe it is in the interests of the United States to commemorate on a regular basis the Armenian Genocide of 1915–23 and to strongly urge Turkey to recognize this tragic historical event it its past.

5. We support legislation similar to H. Con. Res. 47 in the 104th Congress and other efforts which commemorate the Armenian Genocide, and call for the recognition of the Genocide by the Government of Turkey. This includes initiatives which place sanctions on U.S. aid to Turkey until the Turkish Government takes all appropriate steps to acknowledge and commemorate the Genocide committed against the Armenian population of the Ottoman Empire from 1915 to 1923.

Arms sales

1. We oppose any sale of advanced U.S. weapons to the Turkish Government as contrary to the best interests of the United States and to order in the region.

2. We believe the continued sale of advanced U.S. weapons to the Turkish Government jeopardizes the balance of military power between Greece and Turkey and threatens regional stability.

3. We oppose the sale of any U.S. arms to the Turkish government as such sales violate U.S. laws because of Turkey's massive human rights violations in Turkey and Cyprus and the continuing illegal occupation of 37 percent of Cyprus, now in its 23rd year.

4. U.S. arms deliveries to Turkey have stimulated an arms race between Greece and Turkey to the detriment of both nations and to regional stability. We deplore this and call upon the United States to do everything possible to halt the arms race.

5. We support the reintroduction of S.326 and H.R. 772, "The Code of Conduct on Arms Transfers Act" introduced by Senate Appropriations Committee Chairman Mark Hatfield (R–OR) and Representative Cynthia McKinney (D–GA), respectively, on February 1, 1995. This legislation would condition arms exports on certain minimum good behavior: basic respect for human rights; non-aggression; democratic form of governance; and participation in the U.N. Register of Conventional Arms.

6. We congratulate the congressional and grassroots efforts against the sale of 10 U.S. "Super Cobra" helicopters to Turkey due to the documented evidence by the U.S. State Department, Human Rights Watch, and Amnesty International of the use of these helicopters by Turkey against its Kurdish citizens (including the loss of civilian life and destruction of villages) in Southeastern Turkey. Turkey cancelled its purchase of these attack helicopters. The Washington Post reported that Turkey rescinded its bid to purchase the helicopters, citing frustration by the Turkish General

Staff with the "months-long stalling" of the sale. Wash. Post, Nov. 28, 1996, A40. However, the grassroots community must remain alert to any Turkish attempts to revive the purchase of such helicopters, or any other advanced weapons systems beyond the amounts stipulated by U.S. laws.

We oppose the sale of four U.S. Navy Sea Hawk helicopters to Turkey;

8. We congratulate the efforts of Senator Paul Sarbanes (D–MD) and the Greek American community for their successful opposition to the delivery of 3 U.S. Navy "Perry" class frigates to Turkey. The issue still remains however, as Turkey is continuing its efforts to obtain these ships. We call on the Greek American community to remain vigilant on any action to move this sale forward.

Cyprus

1. We support the unity, sovereignty, independence and territorial integrity of the Republic of Cyprus.

2. We support a settlement for the Republic of Cyprus based on a constitutional democracy with key American principles of majority rule, the rule of law, and the protection of minority/human rights, as called for by former President George Bush, and the provision for and implementation of the three basic freedoms, namely, freedom of movement, of property and of settlement. A constitutional settlement in Cyprus should be based on democratic principles that respect the rights of all Cypriots. AHI supports efforts by the international community to reach a practical formulation of these principles.

3. The Cyprus problem is fundamentally a question of invasion and occupation by Turkish armed forces with the illegal use of American-supplied arms and equipment. There is no legal difference between Turkey's invasion and occupation of Cyprus and Iraq's invasion and occupation of Kuwait.

4. We call for: the removal of all Turkish troops including Turkey's illegal occupation forces from Cyprus; the removal of all illegal Turkish colonists from Cyprus and a census of the illegal Turkish colonists under UN auspices; the restoration to their original condition of the churches illegally converted to mosques in violation of the 1949 Geneva Convention; the speedy return to the government of Cyprus under United Nations auspices the occupied areas of Morphou and Famagusta/Varosha for the immediate resettlement of displaced persons.

5. We support the introduction of legislation similar to S. Con. Res. 11, introduced by Senator Olympia Snowe (R–ME), and H. Con. Res. 42, introduced by Congressman Elliot Engel (D–NY), known as "The Cyprus Demilitarization Bill," which calls for the complete demilitarization of Cyprus. We support the use of NATO forces for security purposes in Cyprus upon the demilitarization of Cyprus.

6. Pending demilitarization we support the fundamental right of the Republic of Cyprus to acquire arms to defend itself. We condemn the State Department's condemnation of the Republic of Cyprus for purchasing defensive anti-aircraft missiles. We call on the U.S. to supply sufficient arms and equipment to the Republic of Cyprus to deter any potential attack by Turkey.

7. We call on President Bill Clinton and the U.S. Congress in the interests of the United States to halt all assistance to Turkey, of whatever nature, until the issues cited above are resolved, and to consider sanctions if Turkey fails to cooperate. We support the introduction of legislation similar to S. 578 introduced on March 20, 1995 by Senator Al D'Amato and the companion bill in the House H.R. 1274 introduced on March 21, by Congressman Rob Andrews (D–NJ) for himself and representatives Bilirakis (R–FL), Maloney (D–NY), Manton (D–NY) and Zimmer (R–NJ), which call, among other things, for conditions on all aid to Turkey.

8. We applaud the European Court of Human Rights for its December 18, 1996 decision which found Turkey accountable for the continuing violation of human rights by its 1974 invasion and present day occupation of 37.3 percent of Cyprus. The 11 votes to 6 ruling in the case of Loizidou vs. Turkey stated that the denial of access to the applicant's (Loizidou) property and consequent control thereof is imputable to Turkey, and amounts to a violation of the applicants property rights under Article 1 of Protocol No. 1 of the European Convention on Human Rights.

9. We strongly condemn the four murders and the actions of the illegal Turkish Cypriot regime, the Turkish military commander in Cyprus, and the Turkish Government and military leadership, for their illegal and barbaric recent actions in Cyprus. The incidents include: October 13, 1996, Turkish troops shot and killed Mr. Petros Kakoullis, 58, a Greek Cypriot who accidentally wandered into the zone illegally occupied by Turkey while collecting snails with his son-in-law. According to eye-witness reports, Mr. Kakoullis was observed standing stationary and with his hands up. He was shot by two Turkish soldiers. After he fell to the ground he was shot again. August 11–14, 1996—Turkish Cypriot security forces, led by the Turkish military, murdered two Greek Cypriots during a peaceful demonstration at the

Green Line. Tassos Isaac was beaten to death on August 11 by a ravenous gang of Turks, the Grey Wolves, with Turkish security forces looking on. Solomos Spirou Solomou (Isaaks cousin) was shot to death, also by Turkish Cypriot security forces on August 14. June 3, 1996—Turkish troops shot and killed an unarmed Greek Cypriot guardsman inside the U.N. buffer zone.

10. We call on the U.S. government to publicly condemn the recent murders of the four Greek Cypriots and call for the apprehension and trial of the perpetrators.

11. We note the statement by Turkish Cypriot leader, Rauf Denktash, that members of the Turkish Cypriot militia, which was and is today under his control, in 1974 killed all the missing 1614 Greek Cypriots and 5 Americans in their custody. We call on the U.S. Government to thoroughly investigate the validity of the Denktash statement and determine the whereabouts of the 5 missing Americans who were abducted by the Turkish invasion forces and the Turkish Cypriot militia in 1974 and the 1614 Greek Cypriots who have been missing since the Turkish invasion.

12. We condemn Turkey's attempts to hinder the negotiations concerning accession of the Republic of Cyprus into the European Union, and further condemn the Turkish threat of annexation of the occupied part of Cyprus with Turkey if such accession transpires.

Ecumenical Patriarchate and the Halki Patriarchal School of Theology

1. We condemn the chronic persecution of Orthodox Christians in Turkey, the harassment of the Ecumenical Patriarch and the attacks on the Patriarchate in Istanbul, including the: September 29, 1996, hand grenade explodes in the early morning, damaging the physical structure of the grounds, most notably the Agios Georgios Church. May 28, 1994, three bombs discovered in the living quarters of the Patriarch, subsequently diffused; March 30, 1994, molotov bomb thrown by unknown perpetrators inside the back court-yard of the Patriarchate.

2. We condemn the desecration of Orthodox Christian cemeteries in Istanbul.

3. We condemn the recent concerted effort by Islamic politicians to step up the rhetoric against the Patriarchate. On September 12, 1996, Ahmet Jamil Tudc, Turkish Minister to the Prime Minister, made promises that the Agia Sofia Byzantine cathedral would be converted into a mosque. These threats are a clear attack on the religious freedom of and basic respect for Orthodox Christians worldwide.

4. We condemn the inflammatory remarks of the fundamentalist Mayor of the Fatih District of Istanbul where the Patriarchate is located, who declared to the press on March 31, 1994 following his election, that under his mayorship all "activities" of the Patriarchate will stop. He also announced his intention to enter the Ecumenical Patriarchate through its main gate under which, in 1821, the Ecumenical Patriarch Gregorius V was hanged and which remains closed since then.

5. We condemn the restrictions imposed by the Turkish Government on the celebrations of the Saint Nicholas Festival, a saint worshipped by Christians throughout the world.

6. We call on the U.S. government to protest these actions and to call on the government of Turkey:

—(a) to ensure religious freedom in Turkey;

—(b) to provide for the proper protection of the Patriarchate and the Ecumenical Patriarch;

—(c) to establish conditions which would prevent the recurrence of threats against the Patriarch and "to ensure that the Patriarchate is free to carry out its mission;" and

—(d) to permit persons to work at the Patriarchate without being Turkish citizens.

7. We condemn the illegal closing by the Turkish Government in 1971 of the Halki Patriarchal School of Theology, which closing is also in violation of Turkey's obligations under the UN Charter and other international agreements, and call on the U.S. Government to make a formal request to Turkey to reopen the Halki Patriarchal School. We call for the halt of all aid to Turkey until the Halki Patriarchal School is reopened.

8. We support the introduction in the 105th Congress of H. Con. Res. 6 on January 9, 1997 by Congressman Mike Bilirakis (R–FL), which calls on the United States to use its influence with the Turkish government and as a permanent member of the United Nations Security Council to suggest that the Turkish government:

—(A) ensure the proper protection for the Patriarchate and all Orthodox faithful residing in Turkey; reopen the Halki Patriarchal School of Theology; provide for the proper protection and safety of the Ecumenical Patriarch and the Patriarchate personnel; establish conditions that would prevent the recurrence of past terrorist activities and vandalism and other personal threats against the Patri-

arch; establish conditions to ensure that the Patriarchate is free to carry out its religious mission; and do everything possible to find and punish the perpetrators of any provocative and terrorist acts against the Patriarchate.

—(B) the Administration should report to the Congress the status and progress of the concerns in subsection A on an annual or semi-annual basis.

H. Con. Res. 6 is similar to legislation introduced in the 104th Congress; H. Con. Res. 50 introduced on March 28, 1995 by Congressman Michael Bilirakis (R–Fl), and S.Con.Res. 25 introduced by Olympia Snowe (R–ME) and Carol Moseley-Braun (D–IL) on August 11, 1995.

9. We call for legislation similar to S. 578 introduced on March 20, 1995 by Senator Al D'Amato, and the companion bill in the House H.R. 1274 introduced on March 21 by Congressman Rob Andrews (D–NJ) for himself and Representatives Bilirakis (R–FL), Maloney (D–NY), Manton (D–NY) and Zimmer (R–NJ), which call, among other things, on the United States to halt all assistance to Turkey, of whatever nature, until Turkey removes official restrictions on Christian churches and schools, and protects Christian clergy and property from acts of violence.

10. We support the introduction in the 105th Congress of legislation similar to S. Con. Res. 71, introduced by Senator Don Nickles (R–OK) for himself and Senators Sam Nunn (D–GA), Dan Coats (R–IN), John Ashcroft (R–MO) and Jesse Helms (R–NC), on September 17, 1996 regarding the persecution of Christians worldwide.

Former Yugoslav Republic of Macedonia (FYROM)

1. We support the introduction, in the 105th Congress, of legislation similar to H. Con. Res. 31 introduced in the House by Congresswoman Carolyn Maloney (D–NY) and Michael Bilirakis (R–FL) which expresses the sense of Congress that the U.S. should support the efforts of Greece in its negotiations with the FYROM, to find a solution which promotes a solid, cooperative relationship between these two neighboring countries.

2. We call on the United States, in its own self interest, to support a name for this Former Yugoslav Republic which does not include the word "Macedonia."

3. Classical Macedonia's Hellenic Heritage is well documented by archaeological evidence and the writings of internationally known historians. Since antiquity, the name Macedonia has referred to a geographic region and not to a specific nationality.

Greece

1. We call on the United States to develop a "special relationship" with Greece as it has with the U.K. and Israel. The United States and Greece share common interests in the Eastern Mediterranean and Balkans. Greece is the key source of stability and peace in the Eastern Mediterranean and the key nation in the Balkans for the advancement of U.S. strategic, democratic, economic and stability interests in the Balkans.

2. Greece, a proven ally since WW I, played a crucial role in the defeat of Hitler in World War II and an historic turning point role in the defeat of communism in the Greek civil war (1946–49) with U.S. aid under the Truman Doctrine but no U.S. combat troops. Greece, Great Britain and France are the only nations which were allies of the U.S. in the four wars in this century.

3. The main security threat to Greece is Turkey. Foreign military aid to Greece should be sufficient to deter aggression from Turkey and, at a minimum, to ensure a military balance in accordance with congressional policy and the U.S.-Greece Defense Cooperation Agreement.

Kurds

1. We believe the United States should support greater cultural autonomy, political freedom and the right to self determination for the Kurds in Turkey and Iraq

2. We believe it is in the best interests of the United States and to stability in the region, to support the political rights of the Kurdish minorities in Turkey, Iraq, Syria and Iran. If the popular will of the Kurds call for a federal solution to their problem, the U.S. government should honor that decision. Such a decision will bring stability to a volatile region, and help establish the foundations of the civil society and economic progress. We note that Turkey refuses to give minority rights and human rights to its 20 percent Kurdish minority, while claiming equality for the 18 percent Turkish Cypriot minority.

3. We call for the immediate halt by the government of Turkey of its military and paramilitary operations (with the use of U.S. designed and produced weapons) against the Kurdish minority and its massive violations of the human rights and ethnic cleansing of its Kurdish minority which is genocidal in nature.

4. We cite the recent reports by the U.S. State Department, Human Rights Watch, and Amnesty International which highlight Turkey's use of U.S. weapons in committing human rights violations against its Kurdish citizens.

5. We call on the United States Government to stop supplying arms to the government of Turkey based on the stated reports.

6. We call on the United States in its own self-interest to halt all assistance to Turkey, of whatever nature, until Turkey ceases its military and paramilitary operations and its massive human rights violations against its Kurdish minority. Turkey's actions against its Kurdish minority is "state terrorism" on a massive scale.

Turkey

1. We believe that Turkey's continuing violations of international law, its unreliability as an ally, and recent foreign policy initiatives, require a critical review of United States-Turkey relations. Such a review is long overdue.

2. We call on the U.S. Government to conduct: a reassessment of the thesis that Turkey's strategic value to the U.S. is such that the U.S. must acquiesce in all aspects of Turkish policies; a reassessment of the U.S. policy of appeasing Turkey in current issues of dispute between Turkey and Greece and between Turkey and Cyprus.

3. We offer the following recent actions by the Turkish government as reasons for such a review: In January 1996 Turkey sought to provoke hostilities with Greece over Aegean territories that are overwhelmingly accepted by the international community as Greek. (See section on Aegean); In August 1996 Foreign Minister Tansu Ciller claimed that the green line between the Government controlled area of Cyprus and the illegally occupied northern zone represented one of Turkey's international boundaries; From August to December 1996 Turkey concluded significant commercial contracts with Iran and Libya in violation of U.S. laws and policy; and concluded a trade agreement with Cuba in opposition to U.S. policy; In September 1996 Turkey refused to assist the U.S. in its operations against Iraq. In October 1996 shoot-to-kill policies by Turkish troops in Cyprus claimed another Greek Cypriot civilian life. (See section on Cyprus).

4. Turkey's numerous and continuing violations of United States laws, the United Nations Charter, the North Atlantic Treaty and international law by its continuing aggression in and occupation of Cyprus, its illegal shipment of arms to the Azerbaijanis and to the Balkans, its threats against Greece in the Aegean and Western Thrace, its massive and horrendous human rights violations against its Kurdish citizens and its policy of torture nationwide, must not be tolerated or condoned any longer. The appeasement of Turkey's violations of the rule of law and the application of a double standard on the rule of law and human rights to Turkey must end. Turkey is the source of tension in its region, not the solution.

5. Turkey has publicly stated that its goal is to be the "regional superpower from the Adriatic to the Wall of China." It is not in the interests of the United States, Israel and the Arab countries in the Middle East to have Turkey, or anyone else, as a regional superpower in the Middle East.

6. We oppose the U.S. plan to allow Turkey to lead the equip and train mission to the Bosnian Muslims. Foreign affairs expert Katherine A. Wilkins, in a commentary titled, "A New Balkan Blunder—Turkey Shouldn't Be Training the Bosnian Army" (Wash. Post, Feb. 11, 1996, p. C2) strongly argues against such a plan. In her analysis, Ms. Wilkins states that "The current plan to let Turkey lead the 'equip and train' mission is a badly misguided one and should be scrapped immediately * * *. Handing the training and arming of the Bosnian army over to Turkey could be likened to putting Germany in charge of training the Palestinian police force."

As support she offers (1) the historically "provocative nature" of the Turks in the Balkans, (2) the open support of the Bosnian Muslims by Turkey throughout the war, (3) the recent Anti-Western Islamic party victory in the Turkish elections, (4) "Turkish nationalism" i.e. Cyprus, Aegean, etc., and (5) continued and "rampant" human rights abuses by Turkey.

7. We call for the introduction of legislation similar to S. 578 introduced on March 20, 1995 by Senator Al D'Amato and the companion bill in the House H.R. 1274 introduced on March 21, by Congressman Rob Andrews (D–NJ) which would call for a halt on all aid to Turkey and economic sanctions against Turkey until:

—Turkey allows free and unfettered monitoring of the human rights environment within its territory by domestic and international human rights monitoring organizations, including but not limited to the Turkish Human Rights Association, the Conference on Security and Cooperation in Europe, Amnesty International, and Human Rights Watch;

—Turkey recognizes the civil, cultural, and human rights of its Kurdish citizens, ceases its military operations against Kurdish civilians, and takes demonstrable steps towards a peaceful resolution of the Kurdish issue;
—Turkey takes demonstrable steps toward the total withdrawal of its military forces, and illegal Turkish settlers from Cyprus and demonstrates its support for a fair settlement recognizing the sovereignty, independence and territorial integrity of Cyprus with a constitutional democracy based on majority rule, the rule of law and the protection of minority/human rights;
—Turkey completely lifts its blockade of U.S. and international assistance to Armenia;
—Turkey lifts official restrictions on Christian churches and schools, and offers sufficient protection against acts of violence and harassment against the clergy and vandalism against church and school property; and
—is in compliance with the United Nations Charter and relevant UN resolutions, the North Atlantic Treaty, the Helsinki Final Act of the Conference on Security and Cooperation in Europe, the UN Universal Declaration of Human Rights, the European Convention on Human Rights and is not engaged in a consistent pattern of gross violations of internationally recognized human rights (within the meaning of sections 116 and 502B of the United States Foreign Assistance Act of 1961, as amended).

NATO

We call on the U.S. Ambassador to NATO to propose the suspension of Turkey from NATO until the government of Turkey is in compliance with the clear and unambiguous language of the NATO Treaty.

PREPARED STATEMENT DR. RICHARD L. BERNAL[1] ON U.S. FOREIGN ASSISTANCE AND SUSTAINABLE GROWTH IN JAMAICA

Thank you for providing this opportunity to submit testimony highlighting Jamaica's views on the Clinton Administration's fiscal year 1998 Request for Latin America and the Caribbean.

I. INTRODUCTION

Over the years, the United States and the Caribbean Basin nations have developed an important economic partnership, partly as a result of U.S. assistance and trade programs. Since the 1980's, U.S. foreign aid to the region has averaged about $200 million. At the same time, during this period, U.S. exports to the Caribbean have expanded by over 150 percent and Caribbean exports to the United States have climbed by more than 100 percent. The Caribbean Basin now comprises the tenth largest market for the United States, and it is one of the few regions where the United States consistently posts a trade surplus. With combined trade exceeding $30 billion in 1996, United States/Caribbean commercial links support more than 317,000 jobs in the United States and countless more throughout the Caribbean and Central America.

For Jamaica, the United States is an important economic partner and supporter of its development program. Indeed, over the past decade, Jamaica has been a major recipient of U.S. foreign aid to the Caribbean region. The United States has been a vital source of funding for the following programs:
—facilitating economic liberalization and private sector-led growth;
—promoting institution-building and public sector efficiency;
—supporting debt reduction;
—providing assistance to the social sectors to cushion the effects of economic adjustment on the poor;
—improving natural resource management;
—assisting in efforts to combat the international narcotics trade; and
—funding environmental protection.

Ultimately, Jamaica is seeking to reduce its traditional reliance on official assistance and to finance development through a combination of domestic and foreign private capital flows. However, this long-term goal can only be achieved with continued United States support for Jamaica's comprehensive economic reform and development programs.

Jamaica is acutely aware of the budgetary constraints in the United States. Furthermore, given the end of the Cold War and pressing domestic concerns, Congress

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and the American public opinion favor a reduction in foreign assistance programs. The Government of Jamaica welcomes the refocusing of the U.S. aid program towards sustainable development, with an emphasis on entrepreneurial development, assistance to the social sectors and popular participation in the development process. Nevertheless, while the rationale for this new approach is clearly understood, a reduction in assistance resources to be a phased process which is sensitive to Jamaica's development needs. Sudden and drastic foreign aid cuts would adversely affect Jamaica's structural transformation efforts.

II. SUPPORT FOR SUSTAINABLE ECONOMIC GROWTH

During the past few years, the United States has supported the process of economic reform and trade liberalization in Jamaica. The Jamaican Government is now implementing a comprehensive and uncompromising economic reform program which has brought positive results and which has created private sector-led, market-driven economic growth. U.S. assistance—principally in the form of Economic Support Funds, which now have been totally phased out—have helped Jamaicans make that adjustment by providing the government with budgetary allotments to facilitate economic reform. It should be noted that, as the economy has expanded, so too has our ability to import from the United States, our largest trading partner. Jamaica currently imports 70 percent of its goods and services from the United States and since 1985, annual growth of U.S. exports to Jamaica has averaged 13.6 percent.

Development Assistance (DA) has also played an important role in sustaining Jamaica's economic growth and reform programs. DA has helped Jamaica undertake critical social programmes in areas such as education and public health, and economic programs, through the promotion of micro-enterprise development. Jamaica has collaborated with USAID to improve financial management in the Ministry of Health, to establish better and more widely understood family planning practices, and to prevent the transmission of AIDS and other deadly diseases. U.S. funding has also contributed to the construction of low-cost housing and provided low-income families with access to potable water. Currently, USAID is assisting the government to address the problem of unemployed youth through an "Upliftment of Adolescence" project.

Food aid to Jamaica through the PL480 program has been a tremendous success, benefitting vulnerable and disadvantaged groups. Since the 1970's, Jamaica has graduated from the Title II grant program and now receives a combination of Title I (the soft loan program) and GSM, the credit guarantee program administered by USDA and guaranteed by the Commodity Credit Corporation.

III. SUPPORTING PRIVATE SECTOR DEVELOPMENT: THE MULTILATERAL INVESTMENT FUND

The United States has been an important supporter of private sector development via the Multilateral Investment Fund (MIF). In fact, Jamaica was the first country to receive funding from the MIF. The $1.5 billion development facility is being used to support micro-enterprise and human resource development and strengthen private sector activities in Jamaica and other activities throughout the region. In fact, the first MIF project provided $1.8 million to support the establishment of an Employee Share Ownership Plan (ESOP) to expand the participation of Jamaica's labor unions in Jamaica's privatization program. Additional projects in Jamaica have included:

—$1.27 million to establish an Office of Utilities Regulation.

—$3.5 million to fund a human resource development pilot project—a unique collaboration between organized labor and employers to expand private sector capacity to retrain displaced workers and improve labor market exchange mechanisms.

—$1.9 million for institutional strengthening of the Jamaican Cooperative Credit Union League.

—$1 million for computer-aided technology and training in rural Jamaica—an extension of a private sector initiative: Jamaica 2000.

The United States' leadership in the MIF has played an important role in guaranteeing matching contributions from other donor governments, including the Japanese, thereby ensuring the success of this program. The Government of Jamaica supports the President's commitment to request continued U.S. contributions to the MIF, both in fiscal year 1998 and in the coming years.

IV. SUPPORTING PRIVATE SECTOR DEVELOPMENT: PRIVATE SECTOR INVESTMENT FUNDS

In the face of aid cuts, the government is also looking to private sector sources and foreign direct investment to generate additional capital to finance Jamaica's development needs.

U.S. Government support has been instrumental in facilitating private investment in Jamaica, strengthening a complementary partnership that ultimately generates U.S. jobs and exports. The Overseas Private Investment Corporation has supported dozens of projects in Jamaica—to the amount of $835 million—since it opened for business there in 1963. OPIC provided more than $40 million in political risk insurance during 1996 alone. Moreover, over the past ten years, the Section 936 program generated more than $2 billion in investment throughout the Caribbean, one quarter of which was in Jamaica. Combined, these programs have supported much of the foreign direct investment targeted for Jamaica over the past decade. Regrettably, however, the Section 936 window was closed by the Congress last year while the future of OPIC remains in doubt.

Several programs may provide a mechanism to help the Caribbean fill this funding gap. First, OPIC itself may provide a solution through the creation of an OPIC Equity Fund for the Caribbean Basin. OPIC currently supports 4 sector-specific funds as well as 24 regional funds operating in virtually every region of the world. Conspicuously absent is an OPIC-supported regional fund for the countries of Central America and the Caribbean Basin. Several investor groups are already petitioning for the creation of such a fund as a way to help accumulate sufficient capital to invest in the region. This fund would help attract the risk-averse investors to the Caribbean Basin economies while strengthening OPIC's portfolio in the region—a fact that may also benefit OPIC, given the widespread constituency of support for regional trade links.

A related concept is the creation of an Enterprise Fund, which has recently been suggested by House Foreign Operations Subcommittee Chairman Sonny Callahan (R–AL). Although enterprise funds have posted mixed records in Eastern Europe, they have provided an important mechanism to encourage the development of a viable private sector in the former communist countries. Such a model could be replicated in Jamaica to encourage the development of a vibrant private sector among micro-entrepreneurs and the sectors of society traditionally overlooked by other development programs. Moreover, an enterprise fund could provide a structured way for Jamaicans living throughout the United States to participate in the development of their homeland.

V. THE PROMOTION OF TRADE EXPANSION

In the context of the foreign aid debate, Congress should also give due consideration to the strengthening of our mutually beneficial trading partnership. In the long-term, as foreign aid is phased out, it can only be replaced by a sound, and commercially viable, trade and investment relationship. Jamaica has long recognized the importance of such a relationship with the United States. Bilateral trade flows have expanded by more than 10 percent a year since the mid-1980's. Moreover, U.S. investors are playing an active role in Jamaica's growing private sector.

The Caribbean Basin Initiative (CBI) has formed an important basis for the United States/Jamaican and United States/Caribbean partnership to flourish. The Administration is currently developing a proposal to strengthen this CBI framework to help CBI countries cope with trade and investment diversion from Mexico under the NAFTA and prepare a road-map for their full participation in the FTAA. In this regard, Jamaica is ready and committed to further cementing that partnership by undertaking the obligations of a free trade agreement with the United States. Indeed, in the past two years alone, Jamaica and the United States have taken steps in that direction by signing a Bilateral Investment Treaty (BIT) and an Intellectual Property Rights (IPR) agreement. Jamaica has also led the Caribbean in negotiating tough textile anti-circumvention language with the United States.

VI. DEBT REDUCTION

Jamaica continues to face heavy debt service obligations, owed primarily to bilateral donors such as the United States. Recently, the United States. has made valuable concessions which have provided important debt relief to support reform efforts. This debt relief frees scarce foreign exchange resources for crucial imports and reduced debt servicing helps to lower fiscal expenditure, thereby contributing to Jamaica's growth. The program has also channeled local currency debt repayments into environmental management funds, building a sustainable environmental framework for development. Ultimately, because of debt relief, Jamaica has been one of

the few countries to reduce its stock of external debt and debt servicing. The stock of debt currently totals approximately $3.23 billion, down from $4.5 billion in 1990. U.S. Treasury Department figures report that about $683.1 million is currently owed by Jamaica to the United States—about half of which includes concessional USAID obligations.

Nevertheless, debt service obligations remain high and currently absorb approximately 49 percent of the Government's annual budget. By comparison, in the United States, where public debate has highlighted the burden of the U.S. Government budget deficit, debt service is roughly 14 percent. As Jamaica allocates such a high percentage of the public sector budget for debt servicing, it is unable to pursue other on-going development priorities. In this regard, Jamaica welcomes the enactment in recent appropriations bills of a new mechanism to effect debt reduction through buybacks and swaps, based on the Enterprise for the Americas Initiative (EAI). Jamaica endorses efforts to renew this program for fiscal year 1998, and has engaged in discussions with the Administration about how this program can be deployed to assist in reducing Jamaica's debt burden while providing the mechanisms to sustain the mutual development efforts of both Jamaica and the United States.

VII. COUNTER-NARCOTICS SUPPORT

The Jamaican government is irrevocably committed to maintaining a comprehensive anti-drug campaign based upon a two-pronged approach, focusing both on supply and demand reduction. To curtail the supply of drugs, the government is engaged in a campaign to eradicate marijuana growing in the remote mountainous regions of the country and to strengthen capabilities to interdict and punish drug offenders. Already Jamaica has succeeded in reducing marijuana production by nearly 75 percent since 1990. Jamaica has also recently passed legislation on asset forfeiture and money laundering, implemented a Mutual Legal Assistance Treaty (MLAT) with the United States, and is now preparing to consider legislation to prevent trade in pre-cursor chemicals. The United States has made an important contribution through the support of economic and security assistance, training, and other material and assets, and we are actively working with U.S. government agencies to strengthen cooperation across a range of activities.

Jamaica also recognizes that without a demand for illegal drugs, there would be no industry. To stem demand for drugs in Jamaica, critically acclaimed programs are being funded that focus on rehabilitating former drug addicts and on providing drug education to vulnerable groups. These supply and demand-related programs place considerable pressure on the Jamaican government's budget, particularly at a time when there is considerable effort to fund other social programs while curtailing the growth of fiscal expenditure. With continued U.S. assistance, Jamaica can maintain its aggressive efforts, both to stop the harmful flow of drugs into the United States and to provide viable alternatives for Jamaicans to induce them out of illegal narcotics activities.

While we understand the U.S. domestic debate regarding counter-narcotics assistance, our fear is that reduced counter-narcotics funding may be interpreted as a signal to international drug cartels that Jamaica has a reduced capability to effectively engage in international narcotics interdiction. Similarly, such reductions would put additional financial burdens on the Jamaican Government at a time when it is undertaking critical economic reforms. U.S. assistance sustains an important partnership in the effort to combat international narcotics trafficking.

VIII. CONCLUSION

Jamaica is now moving decisively to promote economic growth—both by attracting foreign investment and mobilizing domestic savings. In March 1996, the Jamaican Government finalized and issued a National Industrial Policy that outlines a framework under which different sectors of the economy—government, private firms, and organized labor—can work together to ensure growth and prosperity in Jamaica through the 21st century. This policy provides an important long-term blueprint for Jamaica's economic development, focusing on growth through investment and export promotion.

U.S. assistance is making an important contribution to Jamaica's development. USAID—Jamaica has been particularly effective at the grassroots level, funding programs which seek to incorporate the poor into the economic growth process. This is crucial for sustainable development, which in turn will further stimulate trade and investment with the United States.

The U.S. foreign assistance program in Jamaica, should be viewed as an investment in the economic well-being of the United States, not as outflows of money. The mutual benefits of foreign assistance are well-documented and need to be clearly

recognized in order to forestall any further cuts in aid programs. If aid must be reduced, it must be done in a phased and orderly manner. One way to ensure this is through the creation of a Development Fund for Latin America and the Caribbean, which can offset aid cuts while providing a comprehensive policy vehicle for new types of assistance in the future. Strengthening our common economic relationship will provide an additional framework through which aid flows can be replaced by advantageous commercial linkages.

NUMBER OF U.S. WORKERS DEPENDENT ON TRADE WITH THE CARIBBEAN BASIN NATIONS

Year	Total number of U.S. workers [1]	Number of New U.S. jobs created per year
1985	118,840	.....
1986	127,240	8,400
1987	138,120	10,880
1988	153,800	15,680
1989	165,800	12,000
1990	191,380	25,580
1991	200,260	8,880
1992	225,262	25,002
1993	248,552	23,290
1994	268,814	20,292
1995	306,120	37,306
1996	317,400	11,280
Average annual job creation		18,051

[1] Assuming that $1,000,000,000 in U.S. exports creates 20,000 U.S. trade-related jobs.

Source: U.S. Department of Commerce and U.S. International Trade Commission. Updated: April 2, 1997.

UNITED STATES/JAMAICAN TRADE STATISTICS (1985–96)

[Millions of United States dollars]

Year	Annual United States—		Percent of export growth	Trade balance
	Imports	Exports		
1985	$267	$404	.....	$137
1986	298	457	13.1	159
1987	394	601	31.5	207
1988	441	762	26.8	321
1989	527	1,006	32.0	479
1990	564	943	−6.3	379
1991	576	963	2.1	387
1992	599	938	−2.6	339
1993	720	1,113	18.7	393
1994	747	1,066	−4.2	319
1995	847	1,421	33.3	574
1996	839	1,491	4.9	652
Average annual U.S. export growth			13.6	

Note: U.S. trade surplus in 1996 is the 12th straight year of trade surpluses.

Source: U.S. Department of Commerce and U.S. International Trade Commission. Updated: April 2, 1997.

U.S. FOREIGN ASSISTANCE TO JAMAICA (FISCAL YEAR 1985–FISCAL YEAR 1998) [1]

[In millions of United States dollars]

Year	ESF	DA	Public Law 480 [2]	MIL	Narc	Peace Corps Prog	Total
1985	$81.0	$34.3	$40.1	$7.6	.....	$2.4	$165.6
1986	58.6	26.1	37.6	8.0	$1.5	2.6	134.3
1987	26.0	18.1	39.9	3.4	3.3	2.5	93.1

U.S. FOREIGN ASSISTANCE TO JAMAICA (FISCAL YEAR 1985–FISCAL YEAR 1998) [1]—Continued

[In millions of United States dollars]

Year	ESF	DA	Public Law 480 [2]	MIL	Narc	Peace Corps Prog	Total
1988	.5	39.2	35.7	.3	1.9	3.0	80.7
1989	12.9	51.8	47.1	3.8	1.0	3.0	119.6
1990	13.2	14.0	44.2	1.3	1.0	2.3	76.6
1991	10.0	17.2	44.7	1.9	1.4	2.4	77.6
1992	15.9	22.3	32.6	3.2	1.0	2.1	77.0
1993	2.0	13.7	30.0	.4	1.3	2.3	49.7
1994	.....	8.9	14.0	.5	.6	2.2	26.2
1995	.....	10.5	.....	.2	.6	1.9	13.2
1996 [3]	.....	7.8	2.2	.5	.7	1.9	13.1
1997 [3]	.....	11.2	.....	.5	.8	1.9	14.4
1998 [3]	.....	11.1	.....	.5	.8	1.9	14.2

[1] 1998 request levels equal 9.6 percent of 1985 actual levels.

[2] Public Law 480 includes titles I, II & III.

[3] Figures for fiscal year 1996 represent obligations, for fiscal year 1996 represent actual appropriations. Figures for fiscal year 1998 are based on request levels.

Note. Figures may not total exactly due to rounding.

Source: USAID, Obligations and Loan Authorizations fiscal year 1946–fiscal year 1992. Congressional Presentation, fiscal year 1995, fiscal year 1996, fiscal year 1997, fiscal year 1998. Last Updated: April 2, 1997.

PREPARED STATEMENT OF REV. J. BRYAN HEHIR, COUNSELOR, CATHOLIC RELIEF SERVICES, ON BEHALF OF THE U.S. CATHOLIC CONFERENCE AND CATHOLIC RELIEF SERVICES

I present this testimony on behalf of the U.S. Catholic Conference (USCC), the public policy agency of the Catholic bishops of the United States, and Catholic Relief Services (CRS), the development and relief agency of the bishops presently working in over eighty countries throughout the world.

Today, I address the topic of U.S. foreign assistance and development policy. At the General Meeting of the National Conference of Catholic Bishops in November 1996, the bishops voted to address both President Clinton and the Congress on the steady decline in the 1990's of the U.S. foreign aid budget. The bishops are concerned that this pattern of declining U.S. involvement in aid to the world's poor fails to meet even minimal moral obligations of a country of our stature and resources. In addressing this vital issue of the role of foreign aid in the 1990's, I seek to share two of our own resources with the committee: the perspective on international relations and foreign aid found in Catholic social teaching, and the experience of CRS in its half-century of service to the poor beyond our shores.

In my testimony I will address three themes: (1) a moral vision about international society; (2) a perspective on the choices U.S. policy faces on foreign aid; and (3) specific comments on foreign aid policy.

I. THE WORLD OF THE 1990'S: FRAMING A MORAL ARGUMENT

All analysts of international relations agree that in the 1990's the world is passing through a fundamental moment of change and realignment. The last comparable period was fifty years ago as the world emerged from a global war and struggled to put in place institutions which would prevent a third global conflict in this century. The consequence of the policies put in place in the 1940's has been the creation of the first truly global international order. A convergence of factors over the last fifty years—decolonization, the rise of modern means of transportation and communication, the emergence of economic and financial ties in a global market—has transformed the fabric of world politics. Today in the 1990's, as we struggle to understand and respond to both the end of the Cold War and the process of socio-economic globalization, we are writing another chapter in a story begun five decades ago.

It was also in the 1940's, in the midst of World War II, that Pope Pius XII (1939–1958) grasped the depth and degree of change sweeping the world and recognized the need to address the moral structure of international relations required if states and individuals are to understand and assume their appropriate roles in a world

order profoundly different from the past. In a process inaugurated by Pius XII but continued by every pope through John Paul II, Catholic social teaching has sought to develop ideas, principles and values which can provide moral direction to the political, military and economic forces shaping the post-war world. The moral vision thus developed has three characteristics: (a) while rooted in a religious community, it is shaped by concepts and principles which can be used in a pluralistic society; (b) it is a form of a "realist" moral vision in the sense that it takes seriously the dominant features of world politics: the lack of a center of political authority and a fragile legal structure; but, (c) it is not confined to a "realist" answer in addressing the needs of a world divided by politics and ideology, but increasingly united by transnational linkages and institutions. Rather, it is based on the conviction that moral values and principles must guide the political order, particularly at the level of international relations.

This moral teaching invites states and citizens to recognize three fundamental moral principles. First is the human dignity inherent in each person, a value which is the basis for a complex fabric of human rights and duties that creates responsibilities and relationships across national borders (Pius XII). Second is the existence of an international common good, a set of shared interests, values and obligations which sovereign states can recognize and should pursue despite differing political systems (John XXIII). Third is a bond of solidarity—both an attitude toward others and a sense of duty—which makes it impossible to consign part of the human community to a status beyond our care and compassion when they are faced with threats to their life and dignity (John Paul II).

These three principles—human rights, common good and solidarity—are the foundation of the work which the bishops of the United States, through the United States Catholic Conference and Catholic Relief Services, seek to do in the world; we are an institutional expression of a church which teaches and is committed to these ideas. But we believe the scope of these truths extends beyond religious communities and organizations. We are convinced that, precisely because the still developing status of the international community leaves an increasingly interdependent world in the hands of interdependent states, a vision of how we are related to each other and responsible for each other is an essential requirement for a peaceful world.

In 1967, Pope Paul VI said that "development is the new name for peace." That phrase causes debate among students of international affairs, but it expresses a profound truth, however complex its implementation. The truth is that peace and stability, elusive but necessary objectives in the world, cannot be built upon a world marked by radical inequality and injustice. There are undoubtedly multiple sources of conflict in the world, but none more troubling than an international order where everyone knows the benefits which science, technology and economy can provide, yet only a fraction of the globe has any real prospect of experiencing these benefits. The threat from that kind of world (dis)order is not only to our hope for peace but to our human decency.

What do these ideas of human dignity, common good and solidarity say to the U.S. role in the 1990's? The argument of this testimony is that sustainable human development, grounded in a conception of human dignity, structured by an understanding of human rights and accepted by citizens and states as an obligation of the international community, should be a principal objective of U.S. foreign policy. The U.S. foreign assistance program is the primary way for the United States to express its commitment to this obligation. Hence, I seek to make the case that this program deserves not only consistent support but a more central role in U.S. foreign policy. That role can only be created by clear policy choices. It is to those choices that I now turn.

II. THE UNITED STATES IN THE WORLD: OPTIONS FOR FOREIGN AID

The U.S. foreign aid program was conceived and initiated in the context of the Cold War. The program always had a double objective: to respond to poverty, hunger and disaster and to be an instrument of U.S. policy in the struggle against communism. These objectives coexisted in a fragile alliance which guaranteed funding for foreign aid, but often corrupted its first goal of meeting human needs. Few doubted that there had to be a foreign aid component to a successful policy of countering communism, and most doubted that such a program could primarily be a humanitarian policy.

The collapse of the Cold War swept away the foundation and framework in which U.S. foreign policy (including foreign aid) was conceived and conducted. The new setting of world politics in the 1990's opens new possibilities for foreign aid, yet it

also presents substantial challenges to sustaining a commitment to any foreign aid program.

On the one hand, there now exists the possibility of establishing a truly moral rationale for U.S. foreign assistance, one directed by clear purpose and sufficient means to meet basic human needs among the world's poorest people. Such a program would not only clarify U.S. purpose; according to recent polling data it is also the only basis on which to regain public support for foreign aid. Once the idea of such aid is clearly stated as direct assistance to people in dire need, U.S. public opinion solidly supports it. In one recent study conducted by the University of Maryland and the Center for the Study of Policy Attitudes, 80 percent of Americans polled said they support foreign aid directed toward "those in the world who are in great need." [1]

Such public support is critical because the Cold War rationale—that we need a foreign aid program to ward off threats to basic U.S. interests—has now been substantially eroded. That erosion is the product of new forces at work in the international system. The Cold War system had the artificially imposed character of a unified arena of competition in which the two superpowers engaged in multiple forms of conflict across the globe. The end of that competition has produced a much more fragmented pattern in world politics, which in turn poses quite different challenges and choices for U.S. foreign policy.

Some U.S. policy choices are not in doubt; they concern issues which remain demonstrably linked to U.S. national interests. These issues cut across two broad dimensions of world politics: first, what might be called "great power politics;" second, foreign economic policy. The major powers of the post Cold War era (China, Europe, Russia, Japan and the United States) will clearly attend to the issues which either unite or divide them. These include the future of Russia and China, the role of a uniting Europe, the future role of NATO, the problem of proliferation of weapons of mass destruction and relationships with the United Nations. In addition, the G–7 states will continue to pursue the ever growing agenda of international economic issues which are now so central a part of foreign policy. While there are multiple policy decisions to be made in these two areas, there is no doubt that the choice to engage them is a foregone conclusion.

The choice which remains quite open, however, is whether there will be a sustained, coherent, generous and just policy of the United States to engage countries which fall outside great power politics and beyond the pale of the economic interests of the advanced industrial democracies. More specifically, will there be a sustained interest in and engagement with those nations which represent the poorest 25 percent of the global population? In the Cold War era, some resources were guaranteed for these nations because they fitted into the overarching framework of East-West competition. Today that "strategic location" is gone, but the United States' direct moral obligation to help rebuild societies where it had interests during the Cold War remains.

There are a substantial number of states and people today who can neither threaten us in any classical sense of that term nor demand our attention—yet the human conditions of their existence lay claim to our conscience. The clearest example of this phenomenon is found in the poorest of the African states, and—to some degree—the African continent as a whole. Clearly I do not want to describe Africa only in terms of massive problems. Such a view, too common today, overlooks the complex reality, within states and in the continent, containing also success stories of people struggling against overwhelming odds to guarantee a future for their children. In spite of this fact, however, it is dramatically clear that Africa is a continent where human life and dignity is mortally threatened each day. The threats are multiple—some are military, some political—but the economic devastation is pervasive, cutting across governments of different orientations, intensifying civil conflict and stunting any effective strategy development. Except for South Africa, the African states which have been most visibly in the media in the 1990's have been "the failed states" of Somalia, Rwanda, Burundi and now the collapsing colossus of Zaire. These failed states pose no direct security threat to the United States, and they contain few attractive economic possibilities at this time. Hence, responding to their needs will require a clear choice on the part of the United States. We will be neither compelled nor constrained to expend time, treasure or talent on their behalf.

Only a conscious choice, supported by both moral and empirical reasons, will sustain a long-term U.S. commitment to foreign aid as part of a broader commitment to human development. Hence, in the 1990's foreign aid should not be debated sim-

[1] Steven Kull, "Americans and Foreign Aid: A Study of American Public Attitudes" (Washington: Program on International Policy Attitudes and College Park, MD: Center for International Security Studies at Maryland, 1995, p.3.

ply as a line item in the budget. Such an approach will consign it, over time, to death by diminishment. The fundamental foreign aid question of the 1990's resembles the Marshall Plan debate of the 1940's. It is a question about the U.S. conception of its role in the world. The U.S. role will be shaped by multiple factors, but a capacity for moral vision, expressed in an effective commitment to the poorest members of the global community, should be a visible part of the U.S. understanding of its role in the world. From this fundamental vision, policies and programs will follow. To ask the foreign aid question in terms less expansive than this is to do us all a disservice. It is not a foregone conclusion that the United States will support and sustain a well conceived, carefully developed, coherently structured and generously motivated foreign aid program. But we should neither forsake the program nor simply extend its marginal existence without a serious public debate about its political significance for U.S. foreign policy and its moral significance for our conception of a common humanity—a humanity we share with those beyond our shores and beyond a narrow definition of what constitutes U.S. interests.

Such a broad-ranging public discussion is properly located in the first instance with the President, as it was fifty years ago. The future of a vigorous foreign aid program resides fundamentally with presidential commitment to a specific form of U.S. leadership in the world. It also resides, as it did in the 1940's, with the Congress. The congressional leadership supporting both NATO and the Marshall Plan is today remembered as having made a lasting contribution to the stability and peace of the world.

The choices of the 1990's are not the same as those of the 1940's. While a strong foreign assistance program is certainly still in the U.S. national interest, the foreign aid choice today no longer is seen having the same imperative role for U.S. policy as was obvious in the 1940's. To some degree, however, this means that the kind of vision needed to sustain a policy choice today is more demanding. When persons or states are not compelled to act, the reasons and motivations for their choices are more clearly tested and displayed.

Finally, a choice to sustain a generous foreign aid program rests with the American public. Clearly the impression is abroad that foreign aid has few friends among policy elites or the electorate. But a hasty impression may overlook the documented fact that a reservoir of public support does exist for a foreign aid program with three characteristics: it meets the needs of the poor, it works, and it is a shared effort with other countries. Our experience as a church and in CRS, where we must depend in part every year for our work in the poorest countries on the voluntary contributions of American Catholics, convinces us that an approach can be made to the American public for a more expansive foreign aid program. In coming before this subcommittee, we call for a morally grounded conception of U.S. capabilities and duties in the world today, and we promise the support of our religious leadership to sustain a renewed effort for the foreign aid program.

III. FOREIGN AID AND HUMAN DEVELOPMENT: CONCEPTS AND CHOICE FOR THE 1990'S

The perspective of this testimony is that the U.S. foreign aid program now stands at a juncture similar to its founding moment in the 1940's. Then as now, a basic systematic change in world affairs presents new opportunities and challenges; the Marshall Plan's response to the post-war world is recognized as a moment of creative genius and political courage. The quite different challenges of the post Cold War world invite us to a choice rooted in comparable vision and courage.

A. The Nature of Development.—The process of development is a multi-dimensional reality. The concept of development found in recent Catholic teaching, in the encyclicals of Paul VI and John Paul II, emphasizes the moral character of development. This view roots the idea of development in its subject, the human person, possessed of rights and duties and in need of a social system which protects rights and facilitates the fulfillment of duties in society. Placing development policy within a moral framework leads to the distinction between economic development and human development. The economic dimensions of development policy are a means to a broader end; human development addresses the spiritual, material and social needs of the person. Catholic social teaching supports economic development and sees it contributing to, but not substituting for, human development. Economic growth, therefore, is one element of successful development strategy. Its primary objective should be poverty reduction within the context of an equitable growth strategy.

In Catholic teaching, the fundamental criteria for evaluating development policy are the dignity of each person and the principle of the option for the poor. Within a strategy directed toward the dignity, rights and duties of all, there should be a specific priority given to the basic needs of the poorest and most vulnerable sectors of the population. The option for the poor should shape policy choices of nations to

be assisted, as well as development policies within countries. With this framework in mind, the bishops continue to seek a refocusing of attention and resources away from military and trade objectives and toward the goal of eliminating poverty and promoting human development. Specifically, foreign assistance should be redirected away from military and export promotion assistance and toward humanitarian and development assistance.

Around the world, as in our own country, women and children are disproportionately and increasingly the victims of poverty. Solving the problem of poverty among women and children is essential to the elimination of poverty in the world, and reduction in foreign aid will have the greatest detrimental impact on women and children. It is not only important to focus development programs on women and children, but policies and programs should empower women to improve the quality of their lives and those of their children. At the same time we need to listen to the concerns of women; they should be involved in the decision making processes.

While some have invoked concern for women as a basis for giving priority to population control efforts, we hold that the contrary is true: developed nations' efforts to control population in poorer nations ought not substitute for real solutions to the problems of the poor. As the U.S. bishops said in 1966, "it is the positive role of government to help bring about those conditions of family freedom which will relieve spouses from * * * material and physical pressures to limit family size."

B. The Elements of Development Policy.—Foreign assistance must be seen as part of a broader policy of measures to reduce poverty and assist growth and development. Several concerns should work together: (1) the protection and promotion of human rights; (2) securing peace processes and supporting democratic transitions; (3) trade policy; (4) a comprehensive strategy of debt relief; (5) U.S. participation in multilateral development institutions; (6) U.S. bilateral assistance; and (7) support for the United Nations. It is the coherent integration of these elements which yields effective development. U.S. policy should reflect a commitment in principle and allocation of resources to these dimensions of human development.

1. Human Rights.—A strong consistent human rights policy should be the foundation of U.S. development policy. The protection and promotion of human rights (political-civil and socio-economic) is one of the fundamental elements of a moral conception of development policy. For this reason, U.S. foreign military aid should be conditioned on human rights criteria, and governments demonstrably involved in gross and systematic patterns of human rights violations should not be recipients of such aid. At the same time, the United States must maintain its ability to reach the poorest of the poor in special circumstances through humanitarian and development assistance programs even in countries where there is no effective government or where governments do not meet human rights criteria.

It is necessary to distinguish two kinds of criteria as a condition for foreign assistance, namely, human rights and democratization. The United States should pursue both in its foreign aid policy, but it should not forsake the people of some of the very poorest countries which are still years away from meeting standards of democratization. Countries receiving U.S. foreign assistance should uphold internationally recognized human rights norms. Criteria which hold countries to standards of democratization set a higher goal; it is an altogether desirable goal, perhaps the best guarantee that human rights will be observed. But, I suggest, the democratization standards must be implemented with great prudence. If aid is conditioned on standards that are set too high or too early, they could have a perverse effect on the lives of the poorest populations in the world. I say this because it seems likely that some countries are capable of enforcing basic human rights policy and the rule of law but may be years away from the more complex task of creating democratic institutions.

Human rights policy should respect the most basic human rights, especially the right to live, throughout the spectrum of human life. The USCC and CRS therefore favor reinstatement of the "Mexico City" policy barring population assistance to organizations which perform abortion as a method of family planning. The United States should also refuse to be part of any effort to repeal other nations' laws protecting human life at its most vulnerable stage.

2. Peace and Democracy.—Support for democratization is tied in several key countries to support for a multidimensional effort to move from war to peace. In view of the current impasse in the Middle East peace process, the need to sustain U.S. credibility, and the importance of building trust between the parties, it is vitally important that development aid to the Palestinians be allocated and released. Likewise, in Central America and Southern Africa, peace processes have been impaired by a lack of funding and insufficient political will. To succeed, these efforts demand the U.S. financial support and diplomatic assistance they were promised.

3. Trade.—In the U.S. policy debate some contrast trade vs. aid as alternative strategies for responding to the problems of poverty and injustice in developing

countries. This testimony advocates a correlative conception of trade and aid. The significance of trade policy and assuring market access for developing countries is critical. But it is clear that while expanding trade is a highly relevant possibility for some countries, others, particularly the poorer countries of Africa, Latin America, and Asia, will find very marginal improvement, or even decline, in the immediate future. Export promotion assistance mainly benefits upper-middle income countries and corporations whose primary interest is not human development. Trade policy should be crafted to assist the poorest countries to develop in a way economically most beneficial to them. A just international trading system should create economic benefits that enhance the life and dignity of all people. Trade agreements must respect the rights of workers and protect the environment, particularly in countries with few legal protections for either. Development policy without a substantial component of fostering trade is defective; development policy without aid as an essential element fails to address the needs of some of the most vulnerable populations in the world today. In the short term, some of today's poorest countries will need the support of aid before they can compete successfully in the world of trade.

4. Debt Relief.—Foreign assistance without attention to debt relief simply gives with one hand and takes with the other. The burden of external debt for many developing countries is an obstacle preventing progress toward development goals. In many of the poorest countries of the world, particularly in Africa and Latin America, the debt burden forces governments to use scarce financial resources, including external aid, on debt repayments rather than on critical investments in health, nutrition, or education. Many indebted countries have already paid back the principal on their outstanding loans but are unable to pay the interest which grows larger over time. The international financial institutions and bilateral creditors have recognized the need for debt relief but have not yet committed sufficient financial resources to finance it. We urge the international financial institutions, particularly the World Bank and International Monetary Fund, to expand eligibility for debt relief to the full range of heavily indebted poor countries, to provide more substantial debt relief than currently projected, and to shorten the time frame for debt relief. We urge the United States to use its leadership within the international financial institutions to convince other governments to do the same. I would also like to emphasize our support for lenders holding governments accountable to investing in their people through education, health, nutrition, and other programs that support human development, but we do not favor conditions that force radical restructuring of economies in ways that cause short or long-term harm to the poor. Still less should debt relief or other foreign assistance be conditioned on programs of population control.

5. Multilateral Assistance.—Assistance provided through multilateral institutions has a double benefit. On the one hand, it facilitates burden-sharing for development. On the other hand, it enhances the role of those institutions which are essential for an interdependent world. Multilateralism is no threat to the United States. As a world leader, we are obligated both morally and practically to participate in multilateral institutions. The fabric of global interdependence must be given structure, purpose and methods for enhanced cooperation. Interstate policies alone are not adequate to the challenge of development today. In particular we wish to support full funding for U.S. commitments, including payment of its arrears, to the International Development Association (IDA). As the loan fund of the World Bank designated for the poorest countries of the world, IDA provides essential funding for rural health facilities, primary schools, sanitation and transportation systems, and other programs integral to human development. IDA meets two crucial objectives of development policy: it is directed to the poorest populations and it facilitates an international covenant of collaboration in support of the poor. We urge you to support the full scheduled payment of $800 million for IDA–11 and $234.5 million overdue from IDA–10, a total of $1.035 billion. We also urge congressional support for continued U.S. leadership role in the multilateral institutions.

6. Bilateral Assistance.—We support full funding of the President's request for bilateral assistance. The cuts in both multilateral and bilateral assistance over the last four years have been crippling. Without U.S. foreign assistance many organizations, including CRS, would have to change the scope and content of their programs drastically. Indeed cuts in the U.S. foreign aid budget of the 1990's have already substantially affected CRS's work. Reductions in the PL 480 Title II food assistance programs have had a direct effect on our service to the poor. From orphanages in West Africa to Mother Teresa's work in India and Ethiopia, CRS has had to discontinue programs and other activities in support of mothers and children. The President's request this year should be seen as a first step back toward a U.S. policy of assistance which corresponds to our position of leadership in the world. The experience CRS has had with both the Child Survival Program and Microenterprise Initiatives leads us to support full funding for these programs. USAID is funding only

one of every four applications for child survival grants, turning down agencies with proven track records in places such as Kenya and Tanzania. We request that $40 million be set aside in fiscal year 1998 and $60 million in fiscal year 1999 for the child survival programs of citizen-supported private voluntary organizations. In both program areas, CRS is prepared to expand collaboration if more funds—beyond those requested—can be appropriated. Our hope is that both programs will grow in the future.

Migration and Refugee Assistance.—Similarly we wish to highlight and support the need for generous support to migration and refugee programs. The USCC Office of Migration and Refugee Services (USCC/MRS) can attest to the critical needs of refugees in an age when internal conflict, generating huge flows of refugees and internally displaced persons, has become the most visible example of war in the world. The series of failed and failing states since the end of the Cold War have resulted in recurring complex emergencies that have sharply challenged the ability of the international community to respond. The cost in treasure has been immense and in human suffering even greater. Further, the international community has yet to learn how to deal effectively with such emergencies. Far better to deal first with their root causes, but once the emergency is upon us, we must learn how better to ameliorate its cost and suffering. As ever, U.S. leadership is critical to this effort and without adequate resources, effective leadership will be severely hampered. Like CRS, Migration and Refugees Services is both funded from church resources and yet enormously expanded in its outreach by collaborative engagement with U.S. Government programs. Of first importance in this respect is the admission and resettlement of refugees to the United States. USCC/MRS is the largest of the private agencies assisting in the domestic resettlement of refugees in the United States. In recent years, refugee admissions have dropped sharply from 130,000 in fiscal year 1992 to about 75,000 this year. Many, including concerned members of Congress, believe that these numbers have fallen too low, especially in light of ongoing requirements to complete the Indochinese refugee program and growing needs for the resettlement of Bosnian refugees. We believe that admission numbers should be restored to pre-1995 levels of 100,000–110,000 persons. We recognize that refugee admission numbers are set by the President in consultation with the judiciary committees but urge that adequate funds be available to fund needed admissions. We urge that you allocate at least $700 million for Migration and Refugee Assistance and $100 million for Emergency Refugee and Migration Assistance.

7. U.S. Support for the United Nations.—The President's request to the Congress for funds adequate to address both present U.S. commitments and unfulfilled U.S. debts deserves support. Recent polling data indicate that the U.S. public supports foreign aid only if the U.S. bears a "fair share" with others.[2] Such burdensharing, however, requires institutions which can facilitate and implement a shared policy vision. This is one reason why U.S. policy should support the role of the United Nations. From a broader perspective, Catholic teaching has endorsed an expansive role for the United Nations since its inception. Three times in the last twenty years, Popes have come to the United Nations to attest in person to the essential moral and political role this institution plays in an increasingly interdependent world still governed by independent states. It is both possible and necessary to affirm the indispensable role the United Nations plays as well as call for reform of how it plays that role. The Holy See has differed with UN policy in specific instances, but never eroded its fundamental support for this institution. Our hope is that U.S. policy can strike a similar balance. Specifically, this testimony supports: (1) payment of U.S. arrears to the United Nations; (2) support for UN peacekeeping activities; (3) support for funding international organizations and programs, and in particular, increasing the contribution to the United Nations Development Program to $100 million and the International Fund for Agricultural Development to $20 million; and (4) cessation of funding for the UN Fund for Population Activities so long as it supports China's coercive family planning and abortion programs.

In closing, I wish to mention the USCC's and CRS's appreciation for the positive comments often heard in congressional debate about the role of faith-based organizations in directly meeting the needs of the poor. As a church committed to the ideas outlined in this testimony, we will always be involved in relief and development efforts. But I can assure you today that the legislation you are considering makes a dramatic difference in how we and other citizen-supported private voluntary organizations function in a world of expanding human needs and declining budgets.

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[2] Steven Kull and I.M. Destler, An emerging Consensus: A Study of American Public Attitudes On America's Role in the World (College Park Maryland: Center for International Security Studies at Maryland, 1996) pp. 3–7.

The President's request for a higher level of foreign assistance than we have seen in several years gives us hope that a new discussion of the U.S. role in the world might begin on this fiftieth anniversary of the Marshall Plan. Only the combined effort of a creative foreign policy and renewed public support for it will be sufficient to reverse the damaging decline foreign aid has suffered in the 1990's. The Catholic Church in the United States was privileged to be part of the post-war reconstruction of Europe; we wish now to be part of a wider effort to shape a development process in the service of the human community and in response to basic American values.

PREPARED STATEMENT OF REED HERTFORD, PRESIDENT, ASSOCIATION FOR INTERNATIONAL AGRICULTURE AND RURAL DEVELOPMENT

Mr. Chairman, my name is Reed Hertford. I am submitting this testimony in my capacity as President of the Association for International Agriculture and Rural Development. AIARD is a 33 year old association of professionals who represent universities, private commercial firms, private voluntary organizations and other national and international organizations from both the public and the private sectors. Our members are from every state in the Union and have dedicated their careers to alleviating world hunger and advancing agriculture and rural development around the world.

Request for Action.—Mr. Chairman, the purpose of this testimony is to submit our association's urgent request that the United States renew public investment in international agriculture and rural development to a level that: (1) accurately reflects the impressive economic benefits realized by the United States as a result of these programs, (2) is adequate to address the daunting challenge of feeding a world population projected to double in 20 years, and, (3) reflects the fact that the agriculture sector is predominant in developing nation economies—helping agriculture is key to stimulating overall developing country economic growth. Specifically, the Association for International Agriculture and Rural Development, in coalition with other public and private sector partners who will testify separately before your committee, requests Congressional action to:

—Support the U. S. Campaign for Global Leadership's effort to increase the 150 (International Affairs) account;

—Designate at least $500 million for international agriculture and rural development, in the USAID appropriation for fiscal year 1998, continued annually at not less than this amount (in inflation adjusted funding). This should include calling for a minimum of five senior agriculture officials appointed at USAID;

—Encourage multilateral development banks to strengthen international agriculture and rural development efforts dedicated to broad-based economic growth, poverty reduction and environmentally sustainable development, which serve U.S. interests and international stability. The U.S. obligation to the International Development Association (IDA) should be fully funded and used as a vehicle for agriculture and rural development in the poorest areas of the world;

—Support lowering of trade and investment barriers internationally, inducing renewing fast track trade agreement authority.

Rationale for Investment.—In response to pressures to re-prioritize and reduce U.S. foreign operations expenditures, resources must be re-dedicated to programs that are clearly in the best interest of the United States and yield a high return on investment. Public investment in international agriculture and rural development has a proven track record in meeting both criteria. And yet, paradoxically, U.S. involvement and leadership have fallen precipitously. This must be reversed so that the United States can accelerate economic growth in developing countries that will produce more exports, more jobs and more income here at home; help poor nations increase their readiness for private investment alleviate food insecurity, and subsequent demands for U.S. disaster and famine relief; and meet the World Food Summit commitment to help halve the number of undernourished people by 2015.

Why should grassroots constituencies care?—You might ask "who cares?" The answer is simple: international agriculture has become an important local issue in cities and rural communities across America. As barriers to trade have come down, and the free flow of commodities, inputs, technologies and information has expanded, what happens in countries around the globe can have an economic impact on most any town in Kentucky, or any other state in the union.

In 1995, U.S. agricultural exports were valued at $55.8 billion, representing fully one quarter of total U.S. gross farm income. These agricultural exports produced a total economic boost to our economy that has been estimated at $132 billion. About 17,300 jobs are now being created for each $1.0 billion of agricultural exports, with four fifths of these export-linked jobs being created off the farm in upstream or

downstream agricultural industries. Mr. Chairman, in your own state of Kentucky, according to Economic Research Service data, agricultural exports grew from a total of $863.2 million in 1992 to well over a billion dollars in 1996.

In addition to addressing the humanitarian concerns of Americans and our desire to alleviate human suffering, helping developing countries is key to our own economic future. About 52 percent of U.S. agricultural export sales are to developing countries. Sales there spurted by 84 percent between 1988 and 1994—more than twice the growth rate of exports to developed regions of the world. Most demand growth will occur in developing countries in the future because they have more room to grow than do we here at home, or than do other industrialized nations. As the United States helps to "grow" those developing economies through agriculture and rural development programs, we invest in creating our future customers.

What should the United States do?—On January 23rd, the Association for International Agriculture and Rural Development sponsored a Forum on Capitol Hill to begin a policy dialogue in the United States and to entertain concrete proposals for innovative future action in international agriculture and rural development. Over 200 people attended—testimony to a growing interest in world food and agriculture issues. Drawing on results of the Forum, materials emerging from the World Food Summit, the World Bank's new vision for agriculture and rural development, and the reports of the National Center for Food and Agricultural Policy's Commission on International Trade, Development, and Cooperation, our Association has worked with a broad-based coalition of institutions to achieve agreement on the areas of emphasis required for future efforts in international agriculture and rural development.

Overall economic growth emphasis.—The economic growth goal must be emphasized more strongly in all development programs. Only when countries have more income in hand can poverty be abolished, the environment protected and children nourished and cared for so they will survive and thrive. Because of the pivotal role of agriculture in most economies around the world, achieving growth requires getting the rural sector moving.

That challenge cannot be met by a U.S. development assistance budget which assigned only 8.0 percent of its resources in fiscal year 1996 to agriculture and rural development, down from 16 percent just six years earlier. The agriculture community views this sharp decline—to say nothing of the meager budget share now assigned to agriculture—with deepest alarm. The recommended $500 million for fiscal year 1998 would partially rectify this disturbing trend and modestly raise the percentage that agricultural and rural development programs comprise of the total to 13 percent (based on USAID fiscal year 1996 figures).

We believe that, to maximize the impact of the additional resources, three programs should be emphasized: agricultural technology, trade liberalization and reform, and human and institutional capital.

Agricultural technology.—Earned rates of return on investments in international agriculture research and technology development are documented to exceed 100 percent annually and 40–50 percent consistently. I challenge you to find better payoffs on public investment. Furthermore, research conducted overseas consistently provides economically-important benefits to U.S. agriculture. By raising the productivity of each unit of land, agriculture technologies also conserve the natural resources upon which the future of agriculture depends. Yet, U.S. government investment in international agricultural research has dropped by two thirds in the past ten years.

The United States, once the leader in international agricultural research and technology development, is underinvesting in agricultural research at home, in the global network of international agricultural research centers and in national research systems in developing countries. U.S. investment must be expanded to leverage stronger links between the United States public and private sector agricultural research system and the global agricultural research system. Targeted cooperation is necessary to assure full access to global plant and animal genetic resources and to information on new technologies and management systems.

A major increment of funding, involving new public and private partnerships in the United States, as well as between this country and foreign advanced and developing nations, should be provided. The initiatives should reflect the complex challenges at hand of achieving growth and increased competitiveness, while preserving the natural resources on which the future of agriculture depends.

Trade liberalization and reform.—Efforts by the United States to support an open, globalized food system, with reduced trade and investment barriers, should be continued and reinforced. The future prosperity of the U.S. food and agricultural sector will be increasingly dependent on the growth of markets in the developing nations and on our access to those markets. However, freer trade may impact some groups in some countries adversely, and the United States should be prepared to deliver

expertise and resources that will help alleviate the adjustment costs that impact these disadvantaged groups. Core examples of cooperation in this field include establishing phytosanitary control procedures, improving trade policy and analytical capacity, strengthening market systems, creating mechanisms for coping with extreme price fluctuations, modernizing communications and transport, and creating private credit and accessible legal institutions necessary for private sector growth.

Human and institutional capital.—Long-term U.S. investments in improving human and institutional capacity are a proven means of helping poor nations develop their economies. Successful U.S. efforts have strengthened people and institutions essential for private sector growth, international trade and participatory governance. The United States has earned a world leadership role in education and training programs related to agriculture and rural development. Expanding U.S. investment in human and institutional development would bring the strengths of this country to bear on (a) raising the quality of life and providing a foundation for economic growth and private investment in developing countries, (b) expanding markets for U.S. export sales, and (c) improving agricultural technology through research.

In conclusion, I would like to underline the fact that, due to the nature of our work, the need for action and investment is urgent. The World Food Summit's major commitment, joined by the United States, is to halve the number of undernourished people by 2015. We know it takes 10–15 years for new agricultural technologies to be fully developed and adopted. Therefore, action is urgently needed if we are to feed a population projected to double in 20 years and satisfy higher living standards.

Thank you, Mr. Chairman, on behalf of AIARD for the opportunity to provide this testimony.

PREPARED STATEMENT OF ROBERT KARL MANOFF, DIRECTOR, CENTER FOR WAR, PEACE, AND THE NEWS MEDIA

I very much appreciate the opportunity to provide testimony to the Senate Foreign Operations, Export Financing, and Related Programs Subcommittee of the Senate Appropriations Committee.

The comments I am offering here are presented as the result of more than a decade of work with the media in Russia and the former Soviet Union. In fact, I have been working with the media in the former USSR since 1985, when the New York University Center for War, Peace, and the News Media (which I co-founded and head) began conferencing with and training Soviet journalists in order to encourage them to push the boundaries of press freedom which Mikhail Gorbachev was just beginning to expand under his policy of glasnost. In 1992, in order to provide nationwide assistance on a wide variety of media issues, the Center founded the Russian-American Press and Information Center, which is now one of the two principal media assistance organizations in Russia.

The NYU Center now has the longest continuous track record of providing media assistance of any organization operating in Russia. By profession, I myself am a journalist (for example, as Managing Editor at Harper's) an academic (having taught journalism and/or Russian/Soviet studies at several universities and authored books and articles on the same subjects), and director of the NYU Center.

It is against this background that I would like to touch briefly on four issues: First, the overall future of American assistance to Russia; second, the importance of assistance to the media within this overall program; third, the centrality of the print media to a successful media effort; and, lastly, the contributions that the Russian-American Press and Information Center (RAPIC) is prepared to continue to make to the success of the overall American effort in Russia.

1. AMERICAN ASSISTANCE TO RUSSIA

It may easily be construed as self-serving for the person in charge of an American program in Russia to urge support for the increased levels of funding for Russian assistance requested in the fiscal year 1998 Appropriations bill. Indeed, as I note below, we do hope that the Russian-American Press and Information Center, which has been created through a partnership between the U.S. government and private foundations, will continue to be the recipient of Federal support.

But I would like to note that the NYU Center had been providing assistance to the media in Russia for nine years before it received any U.S. Government funds and that its commitment to working with the media in Russia is, in fact, a generational one that we expect to sustain well after Federal assistance has come to an end under even the most long-term scenario. Our commitment to this activity,

in other words, is driven by our own sense of the importance of this mission, not by the availability of Federal dollars.

Indeed, it is the importance of this mission that I would like to emphasize here. There are experts on both sides of the aid-to-Russia debate, and there is little I can contribute to this complex geopolitical, budgetary, and realpolitik issue in a paragraph or two. Except, perhaps, to emphasize one point: The dozens of staff members of the six RAPIC Centers are on the ground across Russia day-in, day-out, and have been so for years. Together with the members of the RAPIC nationwide Media Assistance Network, we are working intimately with thousands of Russian managers, journalists, advertisers and business people of all description, almost hour-by-hour in many instances. I can report two things as a result of this work.

First, a half-decade ago not even the most foolhardy optimist would have dared predict the extent of the changes that have since taken place in Russia. In our daily work with the Russian people all over the county we see the vibrant pulse of economic life in places where not long ago homo economicus was moribund. We see entrepreneurs who seem to have mastered the disciplines of hard work, creativity and management almost overnight and as though by instinct. We see tens of thousands of citizens' groups and independent organizations springing to life as individuals join together to take back control of their lives from the state. And among scores of millions of Russians we see a thirst for political and economic freedom that is literally unquenchable.

Second, extraordinary obstacles remain on the path to full democracy and functioning markets. We see these, too, every day. We see political figures who bully their constituents and enrich themselves from the public trough, Russian organized-crime kingpins who terrorize the business community and deform the market system, and angry and fearful citizens inclined to accept all too readily the desperate programs tabled by ultranationalists and communists. Most important, we see how fragile the successes are, and how important it is to continue to nurture and protect them.

Amidst such victories and such defeats, our daily on-the-ground experience everywhere in Russia has taught us that continuing, ambitious (and therefore costly) American engagement is an absolute necessity: Over the last half-decade, the U.S. and our allies in Russia have established numerous beachheads for democratic politics and free markets, and it is in the national interest of the United States that we continue to protect, consolidate, and expand them.

2. ASSISTING THE INDEPENDENT MEDIA IN RUSSIA

One of the most important beachheads we have established is with the media. As a result, a mere six years after the collapse of the Soviet Union, the Leninist vision of the media as the "mass propagandist" and "mass organizer" lies in shambles. The Russian press is no longer a party press; journalists have become increasingly professional, and have begun to master the task of truly informing readers and citizens; and media managers have begun to learn the complexities of the business side of publishing as the press everywhere becomes subject to market forces. The media have become just another product vying for the attention of Russia's new consumers.

And yet, the media are not merely another commodity. In all mature industrial democracies, the press is an institution central to both democratic governance and free markets. Media may make money for their proprietors, but they make democracy possible, as well. Modern industrial democracies, in fact, can neither be created nor sustained without a free press.

Despite the progress they have made, however, the Russian media are still for the most part neither economically viable nor up to the demands that democratization is making of them. Continuing government subsidies, undercapitalization, management failure, government control of monopolistic providers of services such as printing and distribution, direct and indirect political pressure, and inadequate journalistic and business practices are among the conditions that still cripple the development of the free and viable press that Russia's democracy and markets will require.

Few Russian publications or broadcasters make money. As a result, most are still dependent on the state directly or indirectly. The government still dominates the flow of information and the terms of government debate. Journalists are being killed in alarming numbers: almost three-dozen have died violently in Moscow since the fall of Communism; the same number died countrywide in 1996 alone.

American policymakers have recognized the fact that a free press is critical to the development of political democracy and free markets. Assistance to the independent media has been a top priority in the past. We believe it should continue to be a top American priority in the future.

3. INCREASING AMERICAN SUPPORT FOR THE PRINT MEDIA

It is important to point out that most American media-assistance dollars have been spent supporting Russian television stations and related projects. Television is important, of course. But a media development program that does not devote significant resources to the print media will neither accomplish the democratization of the news media as such nor be able to establish the vibrant public realm that is a prerequisite for a vital civil society, real democratic politics, and an open and informed public policy process.

For this reason, even though the Russian-American Press and Information Center is a sector-wide media development program, we have devoted particular attention to the print media over the last several years and intend to continue to do so. In fact, we feel it is critical for the American government to support a far greater emphasis than previously on assistance to the print media, for the following reasons, among others:

—Recent surveys have shown that most Russians get their local news primarily from newspapers. As the economic and political decentralization of Russia continues, local newspapers have become the locus of exchange of key economic, social, political, and other information necessary for the regional development on which Russia's future depends.

—Studies have repeatedly shown that Russians trust their local newspapers more than any other source of information, a finding with important implications for all those interested in the development of democratic politics in the country.

—The print media remain the only significant source of in-depth news and analysis for Russia's political, business, and intellectual elites. As a result, newspapers are where debates of major policy issues take place and the quality of their coverage can have a major impact on the public policy process.

—Given the influence of the government over the major television networks, only newspapers support the pluralism of views and diverse policy viewpoints that are essential for informed decision-making in a democratic society. Newspapers have also become the principal vehicle for legitimate political opposition on all sides of the issues.

—In Russia, as elsewhere, television media take their cue from print coverage. It is the print media that set the news agenda. In fact, local news broadcasting very often consists of an announcer reading selections from the local press.

—The quantity and quality of television news and public affairs programming is and will continue to decline as television is integrated into the market (as has been the case in every major democratic market economy) and the need for high ratings drives stations to feature the most popular entertainment programming. This makes the print media all the more important to the process of economic and political transformation.

4. THE ROLE OF THE RUSSIAN-AMERICAN PRESS AND INFORMATION CENTER

RAPIC works to promote democratic politics, free markets, and the free expression on which both ultimately depend, through a complex of economic, political, professional, and legal initiatives that promote the political and economic independence of the entire media sector.

Overall, RAPIC plays a unique role as the only media-sector-wide assistance program in Russia, promoting foreign investment, improved management practices and business development, and legal guarantees to ensure political independence and economic sustainability. We are also working to break the Russian government's monopoly over printing and distribution, as well as its domination of the information Russian citizens receive about such critical issues as the enlargement of NATO or Russian strategic, economic, or environmental policies.

As noted above, within this media-sector-wide strategy, our particular focus on the print media makes us the only organization working on a nationwide basis with Russia's thousands of newspapers. Since 1992, RAPIC's efforts to help the Russian media have led to more than 2,000 consultancies, training workshops, conferences, and briefings with an aggregate participation of more than 100,000. More than 5,500 outside experts have taken part in over 40 cities. Managers from over 700 regional newspapers have gone through RAPIC's management training programs. Over 30,000 searches of on-line information sources have been conducted by RAPIC's Information Services both to strengthen the reporting of specific issues and to promote the virtues and techniques of fact-based journalism.

But numbers do not tell the story. They cannot reflect the fact that RAPIC has now become a central fixture in the developing Russia-wide media sector—an institution run by Russians for Russians around which clients, participants, and colleagues have increasingly rallied. With program facilities in six cities, a Russian

staff and nationwide Media Assistance Network of dozens, RAPIC has developed and refined a comprehensive sector-wide program that addresses economic, institutional, legal, professional, and educational issues. Among RAPIC's recent accomplishments:

—RAPIC recently installed the first modern printing press to be owned by an independent regional newspaper in Russia. A landmark project established under the USAID-funded Media Development Program (MDP) for Gorodskie Vesti in Volgograd, the project also includes important production management training for sustaining the press. The project was publicly hailed by USAID as "historic."

—Thousands of journalists throughout the country have benefited dramatically from RAPIC's newspaper management programs and direct, hands-on consulting. Evidence of success is abundant: For example, Gubernskie Vedomosti, in Stavropol, reported a 30 percent increase in advertising revenue; for Rezhevskaya Vest in Perm Oblast, a RAPIC seminar on advertising was the turning point in the newspaper's dramatic transformation from a heavily subsidized local mouthpiece to a dynamic and fully independent news organization. There are numerous similar stories.

—RAPIC's Freedom of Information Standing Commission has led the way in promoting free access to government-held information and educating journalists on exercising their information rights. President Yeltsin has publicly endorsed FOI Commission recommendations.

—Through regional seminars, workshops, conferences, and consulting, RAPIC has provided mid-career training to thousands of journalists on topics ranging from coverage of nuclear security issues to election campaigns to the media's role in the prevention of ethnic and national conflict.

—RAPIC paired Moscow's Skate Press with the American company Bloomberg LP to create a Russian news service devoted to providing the first detailed corporate profiles of publicly traded Russian companies—a significant contribution to the transparency which is essential for the creation of free markets.

—RAPIC has worked with hundreds of American community-based organizations, commercial enterprises, experts, and citizens. For example, it has established partnerships between Russian and American newspapers to promote improved management and profitability of the papers in Russia. Among the American newspapers participating in just this one RAPIC project are 14 publications in Alaska, Arkansas, California, Florida, Indiana, Michigan, North Carolina, Pennsylvania, and Washington.

Through the wide geographic and substantive reach of these and many other programs, RAPIC has earned a reputation as one of the leading media NGO's in Russia, and the only one implementing a comprehensive sector-wide approach. Against the background of this significant record of accomplishment, RAPIC is now preparing for its transformation into the National Press Institute of the Russian Federation (NPI), a Russian NGO pursuing the same comprehensive media-development agenda, but now in partnership with American journalism organizations and community-based news media.

Animated by its nationwide media-sector strategy, RAPIC/NPI will become a permanent institutional mechanism for the continuing development and consolidation of Russia's independent media organizations, its newspapers, and other print media. RAPIC/NPI has been created over the past half-decade through a partnership between the American government and private foundations with this agenda in mind. It is now poised to become an important legacy of the American assistance effort as this effort evolves into a framework for meaningful, sustained, and mutually beneficial bi-national cooperation.

Contributing to the establishment of such a permanent NGO in the Russian media sector would be an important American contribution as assistance becomes focused on ensuring a sustainable American legacy. As a Russian organization working in close partnership with a huge number of American and Russian media companies, NGO's, and educational institutions, RAPIC/NPI is ideally suited to play such a role. Specifically, RAPIC/NPI will continue to pursue work in the following critical areas in the media sector:

—Promoting Equity and Debt Financing, Leasing, and Other Mechanisms to Capitalize the Media Industry. Printing presses, facilities, and delivery vehicles are the key building blocks of economic and, ultimately, editorial independence, but the media are starved for the capital to acquire basic production and distribution assets. For this reason, business development, and specifically media debt and equity financing, will be the highest RAPIC/NPI priority, along with a program to promote the importation of American printing presses.

—Developing Media Management Capacity. RAPIC/NPI has pioneered a system of intense management consulting that is addressing the concrete needs of struggling independent newspapers across Russia. Over the next years, RAPIC/NPI will continue this successful Targeted Consulting Team (TaCT) program, considered the gold standard among media management assistance initiatives in the country. In addition, RAPIC/NPI will develop a CD-ROM-based newspaper management simulation that will enable RAPIC/NPI to train virtually every senior newspaper manager in the country within several years groups at a low marginal cost.

—Participating in the Development of the Legal and Administrative Infrastructure. Legal barriers to media independence and sustainability include lack of access to information, legislative obstacles to business development, the violation of civil rights, and ignorance or unwillingness to enforce the rule of law when it comes to the mass media. RAPIC/NPI will continue to work aggressively in all of these areas.

—Fostering the Development of a Mature Information Culture. To undertake and coordinate its future work in this arena, in which RAPIC/NPI has long been a leader, it will establish a Center for Cyberjournalism in Moscow. The first of its kind of Russia, the RAPIC/NPI Cyberjournalism Center will offer training in computer-assisted reporting, will develop an Internet Media Service for industry professionals, will promote and instruct in on-line publishing, and will inaugurate distance-learning programs on journalism and publishing issues.

—Promoting Industry-Wide Trade Organizations and Professional Associations. Accustomed to working in isolation, and mistrustful of the top-down control connected with associations and other forms of group coercion, media professionals do not now have the mechanisms to exhibit the strength in numbers that industries must develop in order to play a role in resource allocation through the political process. As a result, RAPIC/NPI will be helping to organize the trade and professional associations that can help the media industry pursue and protect its economic, legal, and professional interests.

—Overcoming Government Domination of Information. Governmental domination of information and the terms of public debate must be overcome for two fundamental reasons. First, the accountability of state institutions must be established in principle and in fact. Second, the actors who constitute civil society must be able to communicate with each other and their government by means of the media if a democratic polity is to be established. Numerous RAPIC/NPI programs have been and will continue to be devoted to achieving these ends.

—Raising the Level of Journalistic Professionalism. Journalistic professionalism is a civic issue: corrupt, poorly trained, or uninformed journalists short-circuit the information flow that is the lifeblood of democratic politics. But journalistic professionalism is also an economic issue because, first, markets must have information to function, and, second, because journalistic professionalism ensures the marketability of the product which media organizations must sell in order to survive. With this in mind, RAPIC/NPI will be increasing both its mid-career training and university journalism education programs.

—Establishing the RAPIC/NPI Far East Program. The Russian Far East has been a RAPIC priority since 1992, and it has conducted many programs in the region. Now that the Far East has been identified under the Partnership for Freedom as one of the three priority regions in the country, RAPIC/NPI is seeking to establish a program, based in Vladivostok, that will serve the media throughout the region, where newspapers are subject to significant political pressure, prey to corruption and crime, and hobbled by the continuing state control of capital assets.

As American policy toward Russia enters a new stage, RAPIC is an ideal American legacy to leave behind. In fact, RAPIC's strategy has been developed to enable it to take root as a permanent, self-sustaining NGO promoting the free market and democratic politics through the media for decades to come.

PREPARED STATEMENT OF THE HUMANE SOCIETY OF THE UNITED STATES

The Humane Society of the United States (HSUS), this nation's largest animal protection organization, on behalf of its more than 4.1 million members and constituents nationwide, thanks the members of the Subcommittee for considering our testimony on funding appropriations for the U.S. Agency for International Development (USAID).

Although we recognize that USAID can play a constructive role in international development assistance, The HSUS is strongly opposed to USAID programs that, in

the interest of pursuing development, encourage consumptive use of wildlife for international markets. Specifically, we strongly oppose the use of American tax dollars to support programs that promote or enable international trade in, or trophy hunting of, endangered or threatened species.

Over-exploitation of wild plant and animal species for international commercial trade is becoming an increasingly important factor contributing to the loss of global biodiversity. Each year, thousands of species of plants and animals and their products are traded internationally in a marketplace worth billions of dollars. Many plants and animals in trade are taken from wild populations. Two familiar examples are the rhinoceros and African elephant. Over the last two decades alone, 90 percent of the world's rhinos and half of Africa's elephants have been killed to satisfy demand for rhino horn and ivory. For some species, including parrots, orchids, cacti, lizards, fishes and other species, unsustainable trade constitutes the chief threat to their survival.

The HSUS has learned that USAID funds a number of programs, all in southern Africa, that encourage and enable consumptive use of wildlife for international markets. One such program is the Communal Areas Management Programme for Indigenous Resources (CAMPFIRE) in Zimbabwe, which is funded through USAID's Natural Resources Management Program. The program received over $7 million dollars from USAID between 1989 and 1996, and USAID plans to provide another $20 million between now and August 1999. Through extensive research, made more difficult by USAID's poor response to our request for documents under the Freedom of Information Act, The HSUS has learned the following facts about the CAMPFIRE program:

—CAMPFIRE is based primarily on trophy hunting of African elephants, a species considered threatened with extinction under the U.S. Endangered Species Act. A 1995 USAID audit of CAMPFIRE acknowledged that one of the purposes of the program is the "establishment of viable wildlife management schemes to encourage income generation from safaris and hunting." USAID has also acknowledged that they used tax dollars to provide assistance to two Zimbabwe government officials to attend the an annual meeting of Safari Club International, where they represented the Zimbabwe trophy hunting industry. 84 percent of Americans oppose elephant trophy hunting and the same number oppose taxpayer dollars being used to promote or enable elephant trophy hunting. These were the results of a December 1996 nationwide poll conducted by Penn & Schoen Associates, Inc. Yet, through USAID, taxpayer funds are being used to promote and enable elephant trophy hunting.

—CAMPFIRE advocates the resumption of the international ivory trade. The ivory trade caused the continental African elephant population to plummet by more than 50 percent between 1979 and 1989. In 1989, the ivory trade was banned by the Parties to the Convention on International Trade in Endangered Species of Wild Fauna and Flora. The U.S. has opposed the resumption of the ivory trade since 1989. Yet, through USAID, taxpayer funds are being used by CAMPFIRE implementing agencies to lobby for the ivory trade, in opposition to U.S. policy.

—CAMPFIRE has lobbied to weaken the U.S. Endangered Species Act to make it easier for endangered and threatened species to be imported to the U.S. for commercial purposes. CAMPFIRE implementing agencies have misused taxpayer dollars to facilitate this lobbying.

—CAMPFIRE is environmentally unsound. The methodology used to monitor wildlife populations is questionable and there a lack of quantitative assessment of the potential impacts on wildlife resulting from the project. More elephants are being killed on CAMPFIRE lands than can be sustained by the population.

—CAMPFIRE implementing agencies, notably the Zimbabwe Department of National Parks and Wild Life Management as well as the Campfire Districts are plagued by corruption and mismanagement.

—CAMPFIRE funds have been poorly managed by USAID-Zimbabwe which, according to a USAID auditor, did not always ensure that project commodities were properly accounted for and used as intended. As a result, commodities valued at about $470,000 were not being used effectively.

—CAMPFIRE provides more financial benefits to the implementing agencies than it does rural villagers.

—CAMPFIRE is not socio-economically sound and has not successfully involved local people in wildlife management. CAMPFIRE is driven from the top-down by the Zimbabwe government and the implementing agencies, not from the villagers themselves. A consulting firm, hired by USAID to provide a mid-term evaluation of the program said that such an approach is subject to collapse once donor funding is withdrawn.

—CAMPFIRE is a waste of taxpayer dollars. Since 1989, USAID has invested approximately $7 million dollars in trying to make CAMPFIRE work. For every taxpayer dollar USAID has spent on CAMPFIRE, CAMPFIRE itself has earned only 52 cents, of which only five cents reached village households. With no hope for self-sufficiency, and with villagers receiving comparatively little financial benefit from the program, CAMPFIRE is a waste of taxpayer dollars.

—One CAMPFIRE implementing agency, Africa Resources Trust, has been granted approximately $600,000 per year in American taxpayer dollars by USAID to open offices in several important capital cities around the world, including in Washington DC, to influence national and international policies (including, apparently, to weaken the U.S. Endangered Species Act and to lobby CITES Parties for resumption of the international ivory trade), to produce lobbying documents, to challenge environmental protection organizations and causes, and to promote trophy hunting of threatened species in Zimbabwe. USAID should not be using taxpayer dollars to fund anti-environmental lobbying activities.

In summary, the HSUS strongly recommends that the Subcommittee ensure through report language that taxpayer dollars are not used to promote or enable consumptive use of wildlife for international markets, specifically for trophy hunting of or wildlife trade in endangered or threatened species.

In addition, The HSUS believes that the CAMPFIRE program cannot be reformed to address the concerns we have raised in this testimony. CAMPFIRE is not environmentally, socially, or economically, or ethically sound. It is a program that subsidizes trophy hunting, promotes the ivory trade, and uses taxpayer dollars to lobby for changes in U.S. laws and regulations. Therefore, HSUS recommends that funding for the CAMPFIRE program should be immediately terminated. The HSUS certainly has no objection to helping impoverished people in Zimbabwe or elsewhere. However, such activities must not promote or enable consumptive use of wildlife for international markets or provide taxpayer dollars to anti-environmental organizations who promote such wildlife use and trade.

Across Africa, people have embraced less destructive means of living with and profiting from wildlife through well-planned, community-based ecotourism or community development programs that are based on development and enhancement of cottage industries that are unrelated to wildlife. These are the types of projects USAID should be funding. The are economically and biologically sustainable, and will help both people and wildlife in the long-term.

PREPARED STATEMENT OF DR. RAYMOND E. BYE, JR., ASSOCIATE VICE PRESIDENT FOR RESEARCH, FLORIDA STATE UNIVERSITY

Mr. Chairman, thank you and the Members of the Subcommittee for this opportunity to present testimony. I would like to take a moment to acquaint you with Florida State University. Located in the state capitol of Tallahassee, we have been a university since 1950; prior to that, we had a long and proud history as a seminary, a college, and a women's college. While widely-known for our athletics teams, we have a rapidly-emerging reputation as one of the Nation's top public universities. Having been designated as a Carnagie Research I University several years ago, Florida State University currently exceeds $100 million per year in research expenditures. With no agricultural nor medical school, few institutions can boast of that kind of success. We are strong in both the sciences and the arts. We have high quality students; we rank in the top 25 among U. S. colleges and universities in attracting National Merit Scholars. Our scientists and engineers do excellent research, and they work closely with industry to commercialize those results. Florida State ranks seventh this year among all U. S. universities in royalties collected from its patents and licenses. In short, Florida State University is an exciting and rapidly-changing institution.

Mr. Chairman, as you are aware, the major challenge facing the economies of the Caribbean Community (CARICOM) and Eastern Caribbean (OECS) States is learning to survive in the era of trade liberalization. Lawyers specializing in international trade issues are relatively few, and legal commentary relating to the general issues of trade liberalization arrangements and application of these issues to the CARICOM and OECS countries is relatively sparse.

The Caribbean States have been strengthening intra-regional trade through CARICOM and other initiatives for several decades. The Caribbean Law Institute (CLI), a joint project between Florida State University and the University of the West Indies, has played an important role in this process through its law reform efforts. CLI was formed to promote the reform and harmonization of commercial laws in the Commonwealth Caribbean. As a result of this activity, company legisla-

tion has been passed in Trinidad and Tobago, St. Vincent, Grenada, Antigua, Dominica, and St. Lucia.

Mr. Chairman, this Subcommittee has been highly supportive of Florida State University's efforts in this important area. Last year, report language supporting our discussions about our Caribbean Law Institute were most helpful in our proposal to USAID. With that proposal in its final phase for funding, and with the work of FSU's Caribbean Law Institute noted in the fact sheet and communiqué from the Caribbean Summit, I wanted to express my appreciation for this Subcommittee's efforts and support.

The Caribbean Law Institute is currently focusing on providing model legislation as a basis for harmonization of laws relating to intellectual property. Intellectual property legislation is important; not only to protect domestic products from piracy and domestic markets from unfair competition, but also to assure reciprocal protection of intellectual property internationally and to enhance the status of Caribbean countries as trace and investment partners. In addition, intellectual property protection has taken on a special dimension in the light of developments in computer and electronic technologies—both hardware and software—and in the liberalization of trade in services.

The CLI is working closely with the Caribbean and Latin American Bureau of the U.S. Agency for International Development to provide assistance to the Caribbean nations on standardizing legislation related to international trade. The areas being discussed cover three additional project areas related to international trade in the Caribbean region: trade in services, antidumping, and trade-related investment measures. In addition, the intellectual property component, which is being discussed with the Global Bureau of US AID, would provide similar legal analyses in this important area as well. It is expected that the overall goal for all four areas—producing model legislative bills—will be accomplished by December 31, 1998.

This type of international trade project—and its support by USAID—means new trade and economic opportunities for the Caribbean States and, more importantly, new trade and enhanced economic opportunities for American citizens and businesses. The ability to trade with new partners because of standardized legislation—legislation that is consistent with U.S. statutes—is a major economic benefit for the U.S. This is a very productive and effective way to utilize our tax dollars.

I commend this Subcommittee for its support of this specific project, and I strongly encourage broader support for these kinds of economically-beneficial investments by USAID. Thank you again for your continued support.

PREPARED STATEMENT OF AMBASSADOR ROBERT O. BLAKE, CHAIRMAN, COMMITTEE ON AGRICULTURAL SUSTAINABILITY

I am Bob Blake, Chairman of the Committee for Agricultural Sustainability. The Committee is a coalition of fifty American organizations working to eradicate hunger around the world, a goal which we believe is in the highest American humanitarian tradition and national interest. The failure of the United States and other countries to recognize the frightening dimensions of the fight against hunger is, in our view, truly alarming. Hunger must be attacked vigorously and quickly. We believe the most effective way to combat hunger is not principally through food aid, as important as that often is. Rather it must, in no small part, be through helping farmers in the developing countries grow more food to feed their families and fellow countrymen. This is especially important in countries that not only do not produce enough food, but also do not generate enough dollars to import the food they need. As global populations balloon, the number of countries that don't generate enough foreign exchange to cover their food production shortfall is increasing. Somewhere around 100 developing countries now fit this description—some by a large amount, some less so.

We believe that the United States has a special interest in helping these countries help themselves to combat hunger. Some such support is already being given by the United States through several development agencies—principally the United States Agency for International Development (AID), the World Bank, and the regional development banks. But much more must be done if we are to do our full part in defeating hunger. And that is why our committee urges Congress to appropriate $2.4 billion to AID for development assistance as requested by the President, and to designate at least $500 million of this sum for international agricultural and rural development. We also urge Congress to appropriate $1.04 billion to fulfill the U.S. pledge to the World Bank's International Development Association (IDA) plus $220.6 million for the regional development banks. But before I explain our reason-

ing for supporting the appropriation of these funds, I want to tell you about our committee.

The Committee on Agricultural Sustainability which I chair is made up of fifty organizations, many of which have a considerable number of members among citizens of your own state. These are scientific, religious, environmental, and educational groups with a combined national membership of some seven million people. Our committee is totally non-partisan. We concentrate on promoting global food security, agricultural sustainability, and rural development in the countries of "the South". We receive no funding from any development agency or company.

Prior to my becoming chairman of the Committee on Agricultural Sustainability, I spent thirty years in the United States Foreign Service including service as ambassador in top-level positions in the Department of State and U.S. embassies abroad. I served under seven presidents, Republican and Democrat. In several of my overseas posts I had responsibility for, and therefore saw at close hand, rural development programs, particularly those of AID and the World Bank.

WHY OUR COMMITTEE SUPPORTS COLLABORATION WITH DEVELOPING COUNTRIES

Mr. Chairman, most of what I have to say today will address how we believe the United States can help developing countries combat hunger. But first I want to explain why we should care enough about doing so to advocate spending scarce U.S. taxpayers' money for this purpose. It has no doubt become as obvious to you as it has to me that with each succeeding year, the United States and every other country in the world are becoming more interdependent. The prosperity and well-being of our friends and trading partners is becoming increasingly important to our own prosperity. Their ills—hunger, sickness, drugs—all too soon become our ills. Combating these ills must increasingly be major elements in U.S. foreign policy. But there is a brighter side to this growing interdependence: the prosperity of our friends and allies clearly promotes our own prosperity—through trade and jobs for Americans.

All this means we must pay more and more attention to the rapidly growing developing countries of Africa, Asia, and Latin America. They—not the countries of Europe—are the source of most of the problems I've just cited. They will be the principal source of illegal immigration to our country, and this can only increase if their poor and their politically oppressed cannot build decent futures in their own countries. On the other hand, their huge and growing number of consumers constitute the biggest future market for our farmers' and manufacturers' products. In the next decades ninety percent of the world's population will be in the developing countries of "the South". In ten years, developing countries' trade with the U.S. has tripled, with much of this growth in countries where successful agricultural development has through recent decades been the engine that has jump started broader economic development and in turn trade with our own country. Infinitely more opportunities for growth in U.S. trade and investment lie ahead in those countries.

But increased trade is not the only interest at stake. Why should we give special thought and priority to hunger and rural development in the developing countries? Why should we care whether the hungry of Africa, Asia, and Latin America can feed themselves? Can't they just buy U.S. corn and wheat? Of course, many do. But they are the lucky ones who have the necessary dollars or other hard currency to pay for our agricultural products. Unfortunately, too many of the countries with large numbers of hungry people don't have the dollars. For them, the options are to rely on food aid (increasingly an unrealistic option when such big food shortfalls are involved), grow most of their own food, or migrate to someplace where they can feed their families.

What I've just said, however, does not begin to capture the dimensions of the potential hunger crisis the world faces—and therefore the urgency, from the viewpoint of U.S. interests, of taking effective and early action to head it off. How does this urgency arise? First and foremost, from the world's unprecedented population growth and from the worrisome deterioration of the soils and the growing scarcity of the water needed for expanded agricultural production. Mr. Chairman, if there is one point I want drive home today it is this: it is now generally agreed that the world must double food production in twenty-some years in order to meet global population growth from 3.8 billion people to 5 billion people and in order to meet demand of the growing middle class in the developing countries for more and better food—principally meat, eggs, poultry, dairy products—all foods that require huge quantities of feed grain to produce. And not only must food production be doubled, it must be doubled on less land and with less water: on less land because very little untilled and arable land is left and because about a third of the land being presently farmed has lost much of its productivity from erosion, salinization, and water log-

ging; with less water because more and more, farmers are having to share finite water supplies with rapidly growing cities and industries. For a few decades, farmers from the United States, Europe, Canada, Australia, and Argentina can probably produce enough to cover food deficits in countries that can pay for agricultural imports. But the number of countries that can't pay is projected to increase. The situation is particularly worrisome in strife-torn sub-Saharan Africa. Already, most of these countries cannot feed their citizens from local production and are having real difficulties in filling the gap with imported food. Alarmingly, hunger is growing in Africa even in peaceful times, even in years when rainfall is good. I found this to be the case in Mali during the nearly three years I was there as Ambassador. Add bad weather and poor soils to the shocks of civil war and ethnic tension—particularly in the times for planting or harvesting—and you have the formula for famine.

Another part of the world where agricultural production is predicted to fall behind population growth unless agricultural productivity is raised very substantially is South Asia—Pakistan, Bangladesh, Nepal, Sri Lanka, and particularly India. And China—with its record for huge crop failures—could in time be in the same situation. These are countries which taken together have more than half the world's population. Experience shows that food insecurity is a root cause of both disorder and suffering. The threats from food riots that spark political instability and from mass migration arising from famine must not be taken lightly. Food insecurity has already been a major factor in several recent breakdowns of governments in Africa. We can't afford not to fight to prevent such results. In addition to our moral compulsion to fight hunger, we need the cooperation of developing countries in combating drugs and crime, and in controlling threats to the global environment.

I want to emphasize, Mr. Chairman, that as serious as these problems are, our committee does not take a "gloom and doom" approach to the possibilities of defeating hunger. The world already knows how to defeat hunger. The political cure is to mobilize the resources that can do the job. The scientific cure is to develop the technologies that will make this possible. Make no mistake, the United States—our government, our universities, our scientific institutions, and our great private organizations—can make a critical difference in bringing this about, and do so at a relatively low cost.

WHOSE JOB IS IT TO FIGHT HUNGER?

Of course, we recognize that AID, the World Bank, or any outside group can in no way do the whole job. Urgent and effective action by the governments and the peoples of the developing countries concerned is the precondition to success. They must make the political decisions, mobilize most of the investments, and take the inevitable risks. And most of all, they must support what will have to be a major reorientation of their country's agriculture.

What, then, can and should we in the United States and others in the industrial countries do to fight hunger in time to prevent avoidable tragedy? What must be done to head off the need for massive humanitarian relief to prevent starvation? I will suggest five principal areas where our committee is convinced that key developing countries and people can be given absolutely essential and locally unavailable help—help which will allow them to make the massive transformation of doubling food production on less land and with less water.

But before going into detail, I want to make two points. The first is to answer the question of why we advocate investing American money in the fight against hunger instead of leaving solutions to "the market" and private enterprise. Our answer is quite straight forward: we do believe in leaving economic solutions to the private sector whenever and wherever this is realistically possible and whenever this will lead to an equitable outcome for rural people. We recognize the need to move a maximum number of small-scale farmers (which now constitute the vast majority of the world's farmers) out of the subsistence or near-subsistence mode and into the market as quickly as possible. Poor farmers in India get their best chance to provide food—and income to buy food—when they are helped to produce to meet rising demand, then get their products to the market. But for geographical, historical, and economic reasons, agriculture in food deficit areas is largely the province of small-scale farmers. In fact, the number of places in these largely tropical countries where large or even medium-scale mechanized agriculture exists is very small. Moreover, where it does exist much of it is dedicated not to the production of food for local consumers, but to the growing of tropical products for export—coffee, tea, palm oil, pineapples, coconuts. In the view of well-informed American entrepreneurs this is unlikely to change, and for one principal reason: it's hard to realize a good enough return on investments in the production of food for relatively poor consumers, when investors can earn more elsewhere.

This inevitably leaves, at least initially, most of the improvement of small-scale agriculture to the not-for-profit sector—development agencies, international research centers, and non-governmental organizations (NGOs). American organizations like Catholic Relief, CARE, Save The Children, World Neighbors, World Vision and many others do amazing work in this field. But their experience leads them to believe they cannot be expected to expand sufficiently to help meet the rural development challenges of the dimension I've suggested with just the funds they raise from generous private givers, let alone finance all their other very worthwhile activities.

Another point that I ask you to think about is the degree to which almost everything we suggest for financing by public monies involves capacity building—training, institution-building, education, and the diffusion of technology. We want to be in the "teaching people how to fish" business, as opposed to just "giving them fish", as has been done in the past. This is an area of American strength. Our universities, our scientific organizations, are by tradition outwardly oriented and quite experienced in the communication of ideas and technologies—including very especially through the Internet. We have also been pioneers in bringing women into the development process more intimately. This is especially important in rural development, for women today make up a majority of the farmers in developing countries.

HOW OUR COMMITTEE PROPOSES THAT AMERICANS ATTACK HUNGER

How, then, does all this translate into an American agenda for the fight against hunger? As I indicated, I will suggest five areas for the concentration of American efforts directly through AID or through international development agencies: 1. expanding and improving agricultural research; 2. helping farmers apply this research in ways which will increase production and better manage their soils and water; 3. helping provide farmers with the infrastructure needed to move their products to profitable markets; 4. helping reform developing country policies that hold back rural development; and 5. helping build the kinds of democratic civil societies that will promote and politically sustain all these efforts. This is a pro-active, forward-looking, and admittedly ambitious agenda. However, it is one that our committee believes to be realistic and financially sustainable—for AID, the World Bank, the regional banks, and the other smaller development agencies and groups supported in whole or part by Congressional funding.

Of course, working in the five areas I just listed is not all that AID and the international institutions we support should be doing to fight hunger. We of course strongly support emergency food aid in places where we have not succeeded in preventing hunger; likewise, no program for increasing food production is likely to be sustainable unless the populations of the developing countries stabilize in the decades ahead. That is why our committee strongly supports investment by AID and the World Bank in voluntary family planning. In the same way we also support programs by AID and the development institutions to improve and expand educational opportunities and health services, particularly rural education and health services, and even more particularly for women and girls. Healthier and better educated rural people must be the base for not only controlling population growth, but also for realizing the technologically complex reorientation of agricultural development that will be necessary. And improvements in the lives of rural people in the developing countries will be undermined unless the total ecological health of the forest, the river basins, and the sea coasts is sustained. That is why we strongly support the environmental programs of AID, the World Bank, and the regional development banks. I will not, however, speak about any of these programs in any detail because sister organizations specializing in these areas are testifying about them.

What this short list suggests is that there are many interconnected facets in the war against hunger—the fight against rural poverty, the fight against environmental degradation, the fight for democracy and greater rural equity. They all add up to a fight to improve the well-being of rural peoples and their urban consumers. In our view, agricultural sustainability, food security, and rural welfare are links in the same chain. Why then does this testimony put so much emphasis on the importance of the farmer as the key actor in the fight against hunger? Why do we place such importance on finding ways to raise farmers' productivity and intensify food production? Because we believe this is the key stone in the arch. Because we believe that without sustainable intensification of food production, famine looms ahead for millions more poor people.

AGRICULTURAL RESEARCH

Now to the five areas that our committee thinks should have greater priority. First, agricultural research. I've already suggested that any intensification of pro-

duction and better protection of the land, water, and plants on the scale required today must be science-based and farmer-tested—science based, because the food plants and production systems available today are, by most scientists' estimates, not numerous enough and productive enough for the job ahead; farmer-tested, because farmers will accept advanced technologies only if they find them profitable and within the limitations of their labor. Past rejections of agricultural technologies developed by agricultural scientists were largely the result of farmers' unwillingness to adopt them. Today, scientists recognize that the only sure way to avoid this is to involve real farmers in the planning, testing and adaptation of their research.

Much remains to be done in agricultural research. Today's pipeline of technologies could too quickly dry up unless better nourished. Likewise, every effort must be made to preserve and better utilize the fast disappearing genetic resources on which crop improvement—in the United States as well as in the developing countries—depends. That is why we believe that in the next few years, the world must at least double its investment in agricultural research in the developing countries. This is all the more urgent because it normally takes ten to fifteen years from the planning of agricultural research to the adoption of its results by an economically meaningful number of farmers.

How does all this translate into U.S. action? First, we should increase our support for the international agricultural research centers operating under the aegis of the Consultative Group of International Agricultural Research (CGIAR) plus a few other highly successful international research efforts—the International Fertilizer Development Center in particular. The United States Government—under both Republican and Democratic presidents—and two great U.S. foundations were largely responsible for the establishment of these centers. The U.S. was formerly the CGIAR's largest financial supporter. With decreasing AID budgets, however, that has had to change. Recognizing the importance of these centers, AID is projecting increased support for them in the coming year. But that increase will be far from what is needed in the years just ahead.

Fortunately, the World Bank has been willing to take the place of the U.S. as the principal financial supporter of the CGIAR. And, more and more the Bank is integrating the CGIAR centers' research results into its rural development programs. The Inter American Development Bank and the other regional banks are playing a lesser role; we are urging them to do more for and with the CGIAR.

Another urgent need is to strengthen the national agricultural systems of the developing countries which together provide 95 percent of the developing world's agricultural scientists. The United States, formerly the leader in helping strengthen the national systems, now does much less than the World Bank. Strengthening the national research systems is necessary precisely because qualitatively and quantitatively the international centers cannot take on all the tasks of adapting successful agricultural research to all the agro-ecological situations that farmers in developing countries face. The national research systems must take on the largest part of this load. A growing number of willing not-for-profit, production-oriented non-governmental groups is beginning to do more in this regard. AID has to some extent helped to strengthen NGO capacity for this work. But it can and should do much more. The United Nations Development Programme has also supported NGOs engaged in agro-ecological research—not the least CLADES, an especially active and talented group of Latin American NGOs.

Still another tier of support for agricultural research, a largely American-financed approach, is through the American land grant universities and AID's Collaborative Agricultural Research Programs (CRSPs). As many members of your Committee know, each of the CRSPs attacks a particular area of concern—soils, integrated pest management, or sorghum and millet, for example. The CRSPs are basically teams formed by research people from several American universities and non-governmental organizations. Together they set up a program for collaborating with research colleagues in one or more developing countries, and with the international agriculture research centers and the farm communities working on the same problem. The skill and ingenuity of the CRSPs in helping developing country farmers raise their productivity is an important asset that deserves special support from your Committee and the Congress in general.

I should add that U.S. support for international agricultural research has had a high pay off for American agriculture in terms of sturdier and more productive food plants for the American farmer. If you consider U.S. investment in the CGIAR system alone, for every dollar invested by AID, American agriculture has enjoyed roughly a 40 percent, and sometimes over a 100 percent return.

HELPING FARMERS FIND BETTER WAYS TO PRODUCE AND PROSPER

The second part of the strategy to defeat hunger that our Committee supports is work to help farmers adopt—and adapt—to their own farm's plants and production systems that fellow farmers have tested and found useful. It's not enough for scientists in a lab to come up with a better way to grow corn, if the farmers don't buy into that technology. Farmers must be convinced that suggested changes proposed by others are doable and will not threaten their carefully developed "failsafe" systems designed for times of hunger. So far, none of the development institutions has as yet done enough in bringing farmers—particularly women farmers—into the adaptation process. In theory, the developing countries' "extension" services should do the job. But in practice, most are weak, under-funded, and have too little interest in the small-scale farmer. The World Bank has tried—not always successfully, we believe—to build more efficient national extension services. It is now changing its approach to build more from the bottom up. We hope they will go further.

We are also encouraging the World Bank and AID to do much more to bring the private sector—small businesses and a growing number of NGOs—into their strategies for helping the farmers adapt the best research. A number of the leading American relief and development organizations—CARE, Catholic Relief, Save The Children, World Neighbors, World Vision, to name a few—are already doing a remarkable job in helping organize farm communities for the many tasks of agricultural development. We continue to urge AID and the World Bank to seek out such organizations and their developing country allies as partners in rural development.

BETTER RURAL INFRASTRUCTURE

The third element of our strategy to defeat hunger is helping to provide farmers in the developing countries with the basic infrastructure needed to move their products to profitable markets. Increased production is to no avail if farmers cannot sell their crops profitably. This requires at least adequate rural infrastructure: primary and secondary roads; storage; market places; facilities to convert their crops into value-added products; rural credit; water and irrigation systems; and, on a different level, information about market opportunities and help in presenting agricultural products in ways that make them competitive. Some kinds of infrastructure are expensive, particularly the construction and maintenance of all-weather roads. AID is largely out of this business, except for helping with the building of some secondary roads. But appropriately the World Bank, the Inter American Development Bank, and the other regional banks are heavily involved. And interestingly, some of the big U.S.-private voluntary organizations, usually working through local sister organizations, are also beginning to help farmers build not only secondary roads, but also storage facilities and markets.

The U.S. "public foundations"—particularly Appropriate Technology, Incorporated, and the InterAmerican Foundation—have been very successfully involved in helping farmers organize to process their crops, as have NGOs like World Vision. They and their local allies deserve more support from AID, the World Bank, and the development banks.

BETTER RURAL POLICIES

The fourth pillar of the fight against hunger is reform of governmental policies and institutions hurtful to rural development and—the other side of the coin—the establishment of policies that will promote agricultural sustainability, rural prosperity and rural equity. Few indeed are the developing country governments that don't show a big anti-rural bias. There are several reasons for this: agriculture is not considered "modern"; governments decide they have higher priorities; and earlier experience with agricultural development may not have been that happy. But in my view, the most important reason is that rural people seldom have the political power to force attention to their problems. There are exceptions—India, for example. In contrast, in country after country city dwellers are usually able to command the attention of political leaders because leaders depend on them to stay in power.

Both AID and the World Bank have for over several decades been engaged in providing advice and funding for policy reform. They have with varying degrees of success helped in securing the abolition of inefficient and expensive state-run agricultural enterprises and of price controls that punish farmers. AID and the World Bank have also provided governments with useful technical advice in such areas as trade liberalization, agricultural subsidies, and land tenure. Just a few years ago, both AID and the World Bank provided a considerable amount of funding to finance reform through structural adjustment programs. The World Bank and the International Monetary Fund still do. In the past, too many structural adjustment pro-

grams tended to penalize rural people and poor people in general by cutting back the few services governments had offered them and by too quickly or too drastically cutting subsidies on fertilizers and other inputs. Fortunately, the Bank is becoming more sensitive to the need to avoid reforms that hurt the poor.

While important changes in rural policy have been made in a number of countries, rural reform still has a long way to go. AID and particularly the World Bank can and must use their leverage to bring about policies that are more equitable and more efficient for the poor and for rural people. In AID's case this largely involves technical assistance and institution building.

STRONGER AND MORE DEMOCRATIC CIVIL SOCIETIES

Our fifth priority in the fight against hunger is to encourage and help developing countries to strengthen their civil societies in ways that will promote and politically sustain attention to the needs of the poor and especially to the needs of the rural poor. We believe that in many subtle ways defeating hunger will depend on the political empowerment of rural people. It is absolutely critical to ensure that they get their fair share of government services. Rural people must also be given a voice—a deciding voice—in planning and implementing programs that affect their lives. And urban leaders must also be helped to see how their own interests will be served in helping poor rural people to realize their potential. Of course, rural empowerment should be only one part of broader programs for democratization.

All such programs can only be built by the people of developing countries and must reflect their values. Even low-key and indirect political intervention by outsiders in the governance of any country must be managed tactfully. Nevertheless, we believe that the United States must use its leverage and influence to bring autocratic and corrupt governments to change their ways. If this is not possible, neither the United States nor the development banks should waste precious resources on such governments. The World Bank for its part seems determined—-correctly we feel—-not to loan funds to corrupt governments and is, through its programs for institution building, increasingly emphasizing democratic values.

The United States has taken the lead in the fight to strengthen civil societies. For the most part these programs are modest and cost-effective. Congress established the National Democratic Institute and the International Republican Institute precisely, as AID says, to help developing countries "build stable democracies...that have an active civil society." Our committee supports the work of these institutions but urges that more attention be paid by them to promoting rural democracy.

A SPECIAL AID PROGRAM FOR AFRICA

Finally, a word about Africa, as the problems on that continent have long been of special concern to members of your Committee. Our committee urges congressional support for AID's new initiative called "Promoting Food Security: Africa & Beyond" This is planned as a ten-year program to promote African food security and to help head off costly food crises. The proposed first year budget is $30 million. It is targeted at addressing major bottlenecks in agricultural policy, technology, rural infrastructure, and human and institutional development. In the first year the funds will be used in five countries—Ethiopia, Uganda, Mali, Malawi, and Mozambique—and will be carried out by a variety of organizations, including U.S. and local private voluntary groups, U.S. universities, and the CGIAR centers working in Africa. We have urged AID to work closely with the World Bank in its African programs since the Bank's African programs are—or can be—much larger and more comprehensive. We believe this initiative is a good one and deserves your Committee's support.

THE NEED FOR GREATER COOPERATION BETWEEN AID AND THE WORLD BANK

I should note here that I have spoken of AID and the World Bank as if the two institutions were providing somewhat equal support for rural development. This is quite obviously not so. If Congress meets the Clinton Administration's funding requests, AID will at best be able to invest somewhere around $500 million in rural development. Compare that with the $2.6 billion that the World Bank, working through the International Development Association, plans to invest in rural development in the year beginning next July 1. This represents a substantial and much needed increase in the Bank's investment in agriculture (and normally results in leveraging five times as much investment by others). The Bank's president, Jim Wolfensohn, has continually emphasized that a huge percentage of the poor of developing countries are rural people. Further, this increase reflects the thrust of the World Bank's excellent rural development strategy that was recently approved by the Bank's Board of Directors. If—as we believe it will—the Bank is able to implement this strategy aggressively—in no small part due to Congress' willingness to

honor U.S. pledges to IDA—the World Bank will remain by far the largest contributor to the global fight to defeat hunger. This in no way means that AID's contribution is not important. AID and, through AID, the U.S. universities and American private voluntary organizations have unparalleled experience in rural development and continue to be leaders in breaking new ground that makes rural development more effective and more equitable.

THE URGENT NEED TO INVEST IN THE FIGHT AGAINST HUNGER

All this being said, our committee must emphasize our belief that nowhere near enough U.S. resources are being devoted to the fight against hunger. At current levels, neither the humanitarian nor the security interests of Americans are being well served by the paucity of our efforts. We must emphasize once again the urgency and the difficulty of doubling food production in two to three decades, and doing so with less land and less water. We call on your Committee—and the Congress as a whole—to take a hard look at the stark dimensions of this challenge. We recognize that the developing countries will, as we have said, have to make the most of the required investments. But most desperately need help.

The United States can and should provide much greater leadership in the fight against hunger. True, U.S. representatives along with the leaders of 181 national governments assembled at the "Food Summit" held in Rome last November did at least recognize the urgency of the fight against hunger by pledging to reduce the number of hungry people by one half by the year 2015. But while halving the number of hungry people may be a good start, it is not nearly good enough. To our committee it is shocking that world society seems willing to settle for this. What about the other half of the hungry? What about the nine hundred million people who now go to bed hungry? And how can we achieve even this lower standard, Mr. Chairman, unless every nation, every organization that has a stake in fighting hunger does a lot more—and quickly? As we have said time and again, the United States can and must be a leader in that fight. All that is why we call on the Congress, beginning with your Committee, to take a hard look at the problems of food security and to begin this year by designating at least $500 million for AID's investment in rural development, and by appropriating $1.04 billion for the World Bank and $220.6 million for the regional development banks.

PREPARED STATEMENT OF ROTARY INTERNATIONAL

The Rotary Foundation of Rotary International is grateful for this opportunity to submit written testimony in support of the polio eradication activities of the U. S. Agency for International Development.

Rotary International is a global association of 28,000 Rotary clubs, with a membership of 1.2 million business and professional leaders in 155 countries. We are the world's first service club, having been established in Chicago in 1905. In the United States today there are more than 7,400 Rotary clubs with some 400,000 members. All of our clubs work to promote humanitarian service, high ethical standards in all vocations and international understanding.

Rotary is submitting this testimony on behalf of a broad coalition of child health advocates, including the American Academy of Pediatrics, the Task Force for Child Survival and Development, the March of Dimes Birth Defects Foundation and the U.S. Committee for UNICEF, to seek your support for the global program to eradicate polio.

Rotary and our coalition would first like to express our sincere gratitude. A year ago we made the case for increased funding for the Polio Eradication Initiative. You responded enthusiastically, recommending that $25 million be channeled through the U. S. Agency for International Development for the delivery of polio vaccine and the development of the infrastructure necessary to implement the program.

PROGRESS IN THE GLOBAL PROGRAM TO ERADICATE POLIO

We would like to use this opportunity to inform you about the extraordinary progress toward eradicating polio that has been achieved during the past twelve months:

—Some seventy-five countries conducted National Immunization Days in 1996, taking extra measures to protect over 450 million children against polio—more than one half of the world's children under the age of five.

—Preliminary indications are that reported polio cases for 1996 will be only half that of 1995—from 7,000 to approximately 3,500. This dramatic one-year de-

cline is due to the tremendous success of National Immunization Days (NIDs) in South Asia and Africa.

—During its second year of NIDs, India was able to immunize 113 million children on one day in December 1996, and over 123 million on January 18, 1997—the largest single public health event in history. India's tremendous success provides more evidence that "Target 2000" is a reachable goal. Pakistan and Bangladesh coordinated their NIDs with India's to achieve the maximum effect over the entire region.

—Twenty-eight sub-Saharan African countries conducted National or Sub-National Immunization Days during 1996 and the first months of 1997, as part of the continent-wide "Kick Polio Out of Africa" campaign, reaching nearly 70 million children. Forty-nine African countries have agreed to undertake NIDs in 1997–98.

—The third year of the "Operation MECACAR" immunization campaign is currently underway. This three-year campaign is designed to virtually eliminate polio from 19 contiguous countries stretching from the Middle East to Russia.

—As a result of three years of successful NIDs, China reported no laboratory-confirmed indigenous polio cases in 1995. Reported polio cases in the Western Pacific are confined to the Mekong Delta and the region of China bordering Myanmar. The entire region has started on the process of certifying polio eradication.

THE ROLE OF THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID was one of the driving forces behind the eradication of polio in Latin America and the Caribbean. Since the certification of polio eradication in the Americas in 1994, AID has turned its attention to the polio-endemic countries of Africa and Asia, and to finding ways to use American expertise to enhance immunization services globally. A major breakthrough was the development of the heat-sensitive vaccine vial monitor, which will save $10 million annually by reducing vaccine wastage. AID developed the monitor in conjunction with a private US firm, at the request of World Health Organization and UNICEF, and it is now in place on every vial of oral polio vaccine produced world-wide.

In April 1996, with the support of the 104th Congress and in response to the strong urging of your Subcommittee, AID launched its own Polio Eradication Initiative, to coordinate agency-wide efforts to help eradicate polio by the year 2000. Congress directed $20 million for AID's polio eradication efforts in fiscal year 1996, and increased that amount to $25 million for fiscal year 1997. Here are some of the reported results of AID's Polio Eradication Initiative to date:

Fiscal year 1996

—AID's technical and programmatic expertise were critical to the success of India's 1995–96 and 1996–97 National Immunization Days. AID, through grants to UNICEF, WHO, and Rotary, has helped support India's cold chain, surveillance, training, and social mobilization efforts. Nepal and Bangladesh have benefited similarly over the past year.

—AID provided nearly $2 million for polio eradication activities in Egypt.

—In fiscal year 1996, AID allocated nearly $10 million for the polio eradication initiative in sub-Saharan Africa. AID's support, through its grant to WHO and its African Missions, was critical to the success of NIDs in 16 countries. Activities focused on three priority areas: social mobilization, planning and training, and cold chain.

—AID has supported the 1996–1997 NIDs in Russia and four Central Asian Republics by providing technical assistance to more effectively manage issues of vaccine supply, storage and delivery, improving sustainability and reducing vaccine wastage.

Fiscal year 1997

—For fiscal year 1997, AID will increase funding for the Polio Eradication Initiative in Africa to nearly $16 million. These funds will flow through WHO and UNICEF for country-level NID support and strengthening disease surveillance systems.

—In 1997, AID is programming nearly $4 million to support India's third year of NIDs and enhance nationwide surveillance.

—An additional $5 million is to be programmed through USAID's Washington office, after discussion with partner agencies to determine where needs are greatest.

ERADICATING POLIO WILL SAVE THE UNITED STATES AT LEAST $230 MILLION ANNUALLY

Even though there has not been a case of endemic poliomyelitis in the United States since 1979, we cannot be complacent. Our children are not protected from polio unless the entire world is free of polio. If we succeed in eradicating polio by the target year 2005, no child will have to be immunized against polio ever again. The United States currently spends at least $230 million annually to immunize its newborns against polio, a disease no longer occurring naturally anywhere in the Western hemisphere. This figure is expected to rise as the U.S. switches from an immunization program using inexpensive oral polio vaccine (OPV-Sabin vaccine) to one based on the higher-priced inactivated polio vaccine (IPV-Salk vaccine). Globally, over 1.5 billion US dollars are spent annually to immunize children against polio. This figure does not even include the cost of treatment and rehabilitation of polio victims, nor the immeasurable toll in human suffering which polio exacts from its victims and their families. Once polio is eradicated, tremendous resources will be unfettered to focus on other diseases.

Humankind is on the brink of a historic opportunity. Poliomyelitis is the second major disease in history that is close to eradication. The case to invest in polio eradication is compelling. We celebrated the eradication of smallpox in 1979. No child in the United States or in the world will ever suffer from smallpox again. The annual global savings of nearly $1 billion per year in smallpox disease and control costs far exceeds the approximately $300 million that was spent over ten years to eradicate smallpox. The United States was a major force behind the successful eradication of the smallpox virus, and has recouped its entire investment in smallpox eradication every 2½ months since 1971.

In 1988 and again in 1993, the member nations of the World Health Assembly, including the United States, affirmed their commitment to eradicate polio by the year 2000 and to achieve certification of eradication by the year 2005. But even with these great intentions and with the tremendous reduction of polio cases being achieved in many countries, there is concern that other more pressing demands will divert attention and funding from this program. If we hesitate in our commitment to eradication, we will lose momentum and risk substantial setbacks in the fight against the polio virus, including the risk of re-introducing the wild polio virus into North or South America. The risk of virus importation remains high, particularly when routine immunization levels are allowed to fall below acceptable levels.

ERADICATING POLIO WILL HELP DEVELOP THE INFRASTRUCTURE NEEDED TO FIGHT OTHER DISEASES

Investing in polio eradication means helping countries to develop the public health and disease surveillance systems necessary to effectively implement the WHO-recommended polio eradication strategies. Not only does a strong surveillance system help eradicate polio, but it helps to control the spread of other infectious diseases. Already, much of Latin America is free of measles, due in part to improvements in the public health infrastructure implemented during the war on polio. The campaign to eliminate polio from communities has also led to increased public awareness of the benefits of immunization, creating a "culture of immunization" and resulting in higher immunization rates for other vaccines.

RESOURCES NEEDED TO FINISH THE JOB OF POLIO ERADICATION

Although most of the costs of polio eradication efforts are borne by the governments of polio-endemic countries themselves, the World Health Organization estimates that at least $140 million in special contributions per year, for the next four years, is needed to help polio-endemic countries carry out the polio eradication strategy. We are asking that the United States continue to take the leadership role in meeting this shortfall.

The United States' commitment to polio eradication is stimulating other countries to increase their support as well. We are not requesting an increase in US funding for polio eradication this year because we strongly believe that as the developed nations of the world will gain the greatest financial benefits of polio eradication, so must they share its costs. The US commitment to meet over fifty percent of the global shortfall is sending a strong message that America cares about the health of the world's children, and is challenging other countries to follow its lead. Belgium, Canada, Finland, France, Italy, Norway, Sweden and Switzerland are among those countries which have followed America's lead and have recently announced grants for polio eradication campaigns in Africa, Eastern Europe, and South Asia. Japan and Australia have been and will continue to be major donors in Southeast Asia and the Western Pacific. And both Denmark and the United Kingdom have recently

made major grants that will virtually guarantee that India eradicates polio by the target year 2000.

Rotary International has been working for more than a decade to help eradicate polio from the world, and the end is in sight. This has been one of the largest private/public sector initiatives ever organized. By the time polio has been eradicated, Rotary International will have expended nearly $400 million on the effort, making it the largest private contribution to a public health initiative ever. Of this, $277 million has already been allocated for polio vaccine, operational costs, laboratory surveillance, cold chain, training and social mobilization in 118 countries. More importantly, we have mobilized tens of thousands of Rotarians to work together with their national ministries of health, UNICEF and the World Health Organization, and with health providers at the grassroots level in thousands of communities. Together with our partners, we have achieved some remarkable successes. The reported number of cases worldwide has decreased from over 38,000 cases in 1985 to an estimated 3,500 cases for 1996—a decline of over ninety percent! The attached chart depicts this dramatic progress.

FISCAL YEAR 1998 BUDGET REQUEST

For fiscal year 1998, we are again requesting a $25 million earmark for global polio eradication in USAID's budget, through their Polio Eradication Initiative, for the delivery of vaccine and the development of the infrastructure necessary to implement the program. This would maintain funding at the fiscal year 1997 level, and ensure that the USA remains the decisive factor in the success of the global initiative. In addition, we are seeking report language similar to that included in the fiscal year 1997 Committee report, specifying that this funding is meant to be in addition to the resources for the regular immunization program of AID, and is intended to supplement other related activities. Lastly, we would ask that the Committee again request a report, by December 1 1997, on AID's plans to fully implement this program.

Polio eradication is an investment, but few investments are as risk-free or can guarantee such an immense return. The world will begin to "break even" on its investment in polio eradication only two years after the virus has been vanquished. And the financial and humanitarian benefits of polio eradication will accrue forever. This will be our gift to the children of the twenty-first century.

Thank you for this opportunity to submit testimony.

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