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SECRETARY OF STATE

BEFORE THE

BUDGET COMMITTEE

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For further information contact:

I. OPENING

Mr. Chairman and distinguished members of this committee,

I know that we agree on the need for prudent investments abroad to enhance our national security, promote economic and political freedom, and reflect the humanitarian concerns of the American people. Foreign assistance is such an investment. Yet our foreign assistance request for FY 1986 comes before this Committee at a time when this Administration and the Congress are committed to bringing our budget deficits down. As a former budget director, perhaps I am more sympathetic than most to the immense challenge this poses and the painful choices that will have to be made.

Recognizing the overriding importance of reducing the budget deficit, we have carefully constructed our economic and military assistance programs to a level and mix that represent the minimum requirements to support our foreign policy objectives.

At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world of peace, freedom, international stability, and human progress cannot be built by the United

States alone. We need the support and cooperation of the many friends and allies around the world, who share our hopes and dreams of a better world, and who rely on us. And if we are to count on their support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner. We must be consistent in our devotion to the principles we cherish and proclaim: to promote prosperity, to defend freedom, to help build democracy and respect for human rights, to help alleviate suffering, and to protect our friends and allies against aggression.

In his State of the Union address, President Reagan noted that "dollar for dollar, our security assistance contributes as much to global security as our own defense budget." Strengthening our friends is one of the most effective ways of protecting our interests and furthering our goals. It gives them the ability and the confidence to defend themselves and to work for peace. If we are willing to pay the relatively modest cost and make the necessary sacrifices today, we can avoid far greater costs and sacrifices in the future. Foreign assistance is a prudent investment in our future, and the world's future.

I first appeared before this distinguished Committee to justify our foreign assistance programs over two years ago. I sought then, as I did last year, to show how closely linked our foreign assistance programs are to our most fundamental foreign policy goals.

The events over the past two years have convinced me more than ever before that we are on the right track. We have strengthened our relationships with our friends in the developing world against Soviet expansionism. We have seen a number of developing countries move toward free and more open economies. Increasingly, the world recognizes that statist economic systems do not work. Free market economies do. And we have witnessed extraordinary progress in the growth of democratic institutions and in the decline of dictatorships, particularly in our own hemisphere.

It is no coincidence that along with the emergence of freer societies we see more open economies. One supports and reinforces the other. People, if they have a choice, want economic growth. They want prosperity. They need only the personal security and the political and economic environment that allows them to exercise their will and use their talents. Our support for the security and territorial integrity of our friends, therefore, advances the most basic human goals of prosperity and freedom. But it also advances another goal, peace. We have seen over the years that economic progress, individual liberty, and world peace are closely related. As President Reagan said in his Second Inaugural Address: "America must remain freedom's staunchest friend, for freedom is our best ally and it is the world's only hope to conquer poverty and preserve peace. Every blow we inflict against

poverty will be a blow against its dark allies of oppression and war. Every victory for human freedom will be a victory for world peace."

Today we are seeing developments in the Third World which, if we continue to nurture them, will lead to a more secure and prosperous world. There will inevitably be occasional setbacks, but if we stay the course, I believe the emerging pattern of stable and democratic governments will slowly but inexorably grow and be strengthened.

Much remains to be done. The most effective contribution we can make to the developing world is to maintain a healthy American economy. Our economic growth rate in 1983 was a prime reason for the sharp increase in U.S. imports from the non-OPEC developing countries to $92.3 billion, some 24% over the previous year. The developing nations will reap even more substantial benefits from the vigorous growth of our economy in 1984. Moreover, many of the developing countries are benefitting from lower debt service costs as a result the progress we have made in reducing U.S. interest rates.They also gain, as we do, from our commitment to restrain protectionist forces.

More than any other factor, however, the domestic policies of these countries will determine the strength and sustainability of their economies and their political

institutions. Our foreign assistance can provide those critical incremental resources to help them achieve these objectives.

With this framework in mind, we have engaged in an exhaustive budget review process to assure that the sum of our resources and each individual component are the absolute minimum essential to implement and support our foreign policy.

Overview of 1986 Budget and 1985 Supplemental Request

The FY 1986 foreign assistance request totals $14.8 billion, a $300 million reduction from the FY 1985 Continuing Resolution level. As I will explain later, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year. Economic assistance, which includes Development Assistance, PL 480, the Economic Support Fund, and contributions to multilateral development institutions, accounts for $8.2 billion. Military assistance, which includes military grants, loans, and training, totals $6.6 billion.

The remaining $4.5 billion requested for the International Affairs Function--budget function 150--principally finances the operation of the Department of State, USIA, the Export-Import Bank, the Board of International Broadcasting, our assessed

contributions to international organizations, contributions to U.N. peacekeeping activities, and U.S. participation in multilateral international conferences.

Within the International Affairs Function--budget function 150--some appropriation accounts would receive an increase under our request, while others would decline. The function 150 total, however, is well below the FY 1985 enacted level. This will remain true even with an add-on for Israel that we may request in the coming weeks. These increases and decreases among individual appropriation accounts reflect the priorities of the Administration and the "budget freeze" philosophy that was applied to this year's budget process. They also reflect our efforts to distribute our scarce resources in a way that will maximize our foreign policy returns and help meet the pressing development and security needs of our strategic partners.

Our FY 1986 foreign assistance request contains only one modest new initiative--an enhanced economic aid package for the Andean democracies of Ecuador, Peru and Bolivia. With that one exception, our 1986 budget request by and large represents a continuity program, reflecting both the overall fiscal constraints under which we are operating and the fact that many of our earlier initiatives--especially in Central America--are now well underway and beginning to show progress.

As in the past, the largest single component of our foreign assistance request is for Israel and Egypt--twenty eight percent (28%) of the total. This percentage, of course, will be higher when include economic assistance funds for Israel. Assistance to base rights countries--Spain, Portugal, Greece, Turkey and the Philippines--accounts for an additional sixteen percent (16%), while military access and frontline states such as Korea and Thailand take up another thirteen percent (13%). Central America and the Caribbean represent another eleven percent of the request (11%). All other country programs account for only twelve percent (12%) of the total resources requested. This twelve percent, however, is spread among more than eighty separate countries and regional programs. Finally, contributions to multilateral development institutions and voluntary contributions to international organizations and programs make up ten percent (10%) of the request, with the remainder of the amounts requested going to the Peace Corps, migration and refugee assistance, international narcotics control activities and a number of smaller programs.

Turning to the specifics of our request, I would like to make the following brief observations:

-- In Development Assistance, we are requesting $2.1 billion to attack serious conditions of poverty in Africa and Asia, Latin America and the Near East, and to help establish

the basic conditions for economic progress. We place heavy emphasis on policy reform, greater use of the private sector, and on technology transfer to foster development breakthroughs. These economic programs are a critical aspect of our overall foreign policy objectives.

-- Closely related to the Development Assistance request is a request for $1.3 billion in PL 480 for food assistance and balance of payments support to friendly governments. Food aid remains the centerpiece of the American people's humanitarian response to the tragic famine conditions in Africa.

-- The $2.8 billion requested for the Economic Support Fund is $1 billion below the amount appropriated in the FY 1985 Continuing Resolution. This is due in part to the fact that we have deferred making any ESF request for Israel at this time. I will elaborate on the question of economic assistance to Israel later in my remarks.

-- Our request for military assistance--that is, direct Foreign Military Sales credits and grant MAP--is $860 millionmore than was appropriated in 1985. Most of this increase, $525 million, is accounted for by higher levels for Israel ($1.8 billion as opposed to $1.4 billion in 1985) and Egypt ($1.3 billion as opposed to $1.175 billion). In addition, our military assistance request for Turkey has been increased from the 1985 level of $700 million to $785 million. For the

Philippines, we are requesting a $75 million increase over the FY 1985 level.

-- The $2.5 billion requested for budget sub-function 153 includes critically important funds to enhance our security program in the face of increasing terrorist threats against U.S. personnel and facilities. Additional funds are also requested to expand and improve the Department's ability to obtain and interpret foreign policy information

In conjunction with our FY 1986 request, we are submitting three requests for supplemental appropriations in FY 1985. These include: $235 million in new budget authority to complete our $1 billion package of relief for the victims of the famine that continues to devastate much of Sub-Saharan Africa; $237 million to meet our arrearage payments to several multilateral development institutions; and $252 million primarily to provide additional security for U.S. personnel and facilities abroad.

III. The Regions

Latin America and the Caribbean

Mr. Chairman, nowhere has the dynamic linkage between foreign assistance and U.S. national interests -- and between

democracy and economic opportunity -- been more dramatically illustrated than in Latin America and the Caribbean. The past year has provided strong evidence that democratic development, and the rejection of the Communist left and the far right, are the keys to enduring peace and improving standard of living for all.

Our policy of lending political, economic, and military assistance to pro-democratic forces is working. In so complex a situation, we should look at the record.

In 1979, four of the five Central American countries were undemocratic, but six years have produced dramatic change. Today only Nicaragua remains under a dictatorship -- having traded a tyrant of the right for the tyranny of the left. Only Costa Rica has not changed politically: it remains thoroughly democratic -- though increasingly and justifiably concerned about the threat from the new and heavily armed Communist tyranny next door.

El Salvador is the most dramatic case of progress. As recently as a year ago, many in the United States, in Western Europe and even in Latin America believed El Salvador was caught in an endless war between guerrillas of the left and death squads of the right. But the National Bipartisan Commission on Central America insisted that electoral democracy

and political dialogue -- not externally imposed "power sharing" -- would prove a workable foundation for attacking the seamless web of political, economic, social, and security problems. Increased economic and security assistance were necessary to give democracy, reform, and economic revitalization a fighting chance.

Last year demonstrated that President Duarte's course was the route most likely to lead to greater respect for human rights and a better life. The Salvadorans themselves made the point in two rounds of national elections in 1984. And they did it again in a different dimension when a civilian jury found five former National Guardsmen guilty of the murders of the four American churchwomen. Support for this democratic renewal was backed unanimously by the National Bipartisan Commission, by President Reagan, by a bipartisan majority in the Congress, and in Europe by Social Democrats as well as Christian Democrats.

It would be naive to claim that all is now reformed, centrist, and peaceful in El Salvador. But the progress is dramatic and undeniable. And U.S. firmess on principles and on behalf of our Salvadoran friends has had a lot to do with it.

The recent history of Guatemala, as much as that of El Salvador, exemplifies the dangers of basing judgments on

stereotypes. The country often ranked as "the most polarized" or with the "least chance of democratic development" has confounded the conventional wisdom. The Constituent Assembly elections seven months ago were not only widely accepted as honest and open, but -- to the surprise of many -- revealed that centrist forces constitute the political majority. It is encouraging that the Guatemalans have moved in this direction almost exclusively on their own.

There is one issue, however, on which considerable controversy still reigns: Nicaragua. While we are promoting democratic reform throughout Central America, the Soviet Union and Cuba are abetting the establishment of a Communist dictatorship in Nicaragua.

If the forces of dictatorship continue to feel free to aid and abet insurgencies in the name of "proletarian internationalism," it would be absurd if the democracies felt inhibited about promoting the cause of democracy.

Peace and economic development in Central America require both the reliability of multi-year funding and the confidence that this long-term commitment will continue to be tied to equity, reform, and freedom. Bipartisan support is essential if the Central America Initiative is to address the Bipartisan Commission's call for a commitment through 1989 to provide --

in a consistent predictable way -- a balanced and mutually reinforcing mix of economic, political, diplomatic, and security activities.

This initiative is designed to use large amounts of economic aid, coupled with policy reform, to eliminate root causes of poverty and political unrest. Much work is already underway. Discussions are taking place with recipient countries concerning macro-economic adjustment. Progress has been made toward economic stabilization. Regional technical training programs will begin in April. We have begun to work with governments and non-governmental organizations seeking to improve the administration of justice. A trade credit insurance program has been set up through AID and the Export-Import Bank. The revival and strengthening of the Central American Bank for Economic Integration is being studied. And we are working to assist in the revival of the Central American Common Market.

The democratic trend in the Andean region has been equally impressive. All five countries have democratically elected governments. But like their Latin neighbors to the north, many of their economies are being seriously challenged.

Ecuador, Peru, and Bolivia, have been particularly hard hit by the recent global recession. Their difficulties have been

exacerbated by catastrophic weather conditions, sagging prices for their main exports, and, in Peru, a vicious Maoist guerrilla movement.

These countries deserve our help and it is in our interest to help them. We are proposing a special Andean program principally supported by $70 million in Economic Support Funds to assist these countries in their recovery efforts.

A democracy incapable of addressing major economic problems will be no more permanent than the dictators of the right or left that it has replaced.

We are encouraged that our neighbors in Latin America for the most part are taking the necessary and often painful steps to ensure economic revitalization. They have lowered government expenditures, bringing them in line with government income. They have restricted imports of non-essential goods to save foreign exchange. They have adjusted their exchange rates to reflect economic reality and breathe new life into their export sectors. They have worked with the international financial community to restructure their debts and ensure continued orderly debt servicing. They have reallocated scarce resources even as those resources fell.

The efforts are beginning to show results. The trade

balance for Latin America with the rest of the world has improved significantly, recovering from a negative $2 billion in 1981 to an estimated positive $37.6 billion in 1984. Vigorous U.S. economic growth in 1984 created new export opportunities. There also has been growth in real per capita income of about 0.2 percent in 1984 -- not much, but better than the decline of 5.8 percent in 1983 and 3.3 percent in 1982.

The Caribbean Basin Initiative is showing some positive signs. U.S. non-petroleum imports from the region for the first 11 months of 1984 were up 19 percent over 1983. The open U.S. market continues to offer substantial opportunities for the region's exports.

In Latin America and the Caribbean, I believe that the Administration and the Congress have reason to conclude that the policies we have been following the last four years are succeeding. The best option for the next four years is to continue these efforts based on firm, bipartisan support.

The lessons from the recent past and the guidelines for the near future can be condensed into an assertion: The skeptics were wrong about El Salvador, they were wrong about Grenada, and they are wrong about Nicaragua -- and all for the same reasons.

Mr. Chairman, what the Administration and the Congress have learned together in the past provides a mandate for the future. The Administration cannot fulfil that mandate without the active support of the Congress. If you and we do not stand firmly on principle and with our friends, we will both lose. A lack of policy consistency would be a significant obstacle to achieving our national objectives in this region over the next months and years.

Africa

I turn now from the promising developments in Latin America to a region where problems continue to be grave. Africa's desperate economic state is more in the public eye than it has ever been. I would like to devote the major portion of my discussion of Africa today to the economic crisis. In doing so, I do not mean to minimize the relationship between economic development and the national security of African states. Security assistance remains essential for many African countries. States threatened by Libyan adventurism or Soviet-armed hostile neighbors cannot devote the energy or resources necessary to economic development. And economically fragile societies are most vulnerable to subversion and attack.

Our total FY 1986 request for Africa is just over $1.2 billion Of that amount 17% is for military-related assistance, roughly, the same amount as in FY 85. The

overwhelming majority - over one billion dollars - is for economic assistance. While the military component is small,it is nevertheless extremely important if we are to continue the programs of logistics support and training that we have started and if we are to provide the bare minimum in the way of defense equipment for our friends facing threats. The proximity of the Horn of Africa to the Middle East and vital oil shipping routes in the Red Sea and the Indian Ocean adds a critical strategic dimension to our interests in creating a politically stable and economically viable environment in the region. Consequently, we are seeking the resources necessary to assist Sudan, Kenya, Somalia, and Djibouti cope with their flat economies and to help Sudan and Somalia counter the very real threats to their security.

In southern Africa we continue to work diligently toward a just and lasting settlement for Namibia based on UN Security Council Resolution 435, for continued change in the repugnant system of apartheid in South Africa, and for the economic and political stability of the region in general. The funds that we are requesting for programs in southern African countries will enable us to strike directly at the causes of the economic difficulties of the region. In southern Africa, as in East Africa, we intend to thwart the destabilizing influence of the Soviet Union and East Bloc by providing economic assistance and by offering an alternative to Soviet and East Bloc military

assistance and training. Mozambique has demonstrated a real intent to move away from heavy dependence upon the Soviet Union and toward a position of true non-alignment. The small MAP and IMET programs for Mozambique are of particular importance in encouraging this process.

In West Africa we have recently seen the spread of both the effects of the drought and long-term economic stagnation and Libyan adventurism. Our assistance is targeted against both the near-term crisis and the long-range effects of the economic crisis.

I would like to focus specifically on the two most urgent crises facing Africa today: famine and economic stagnation. During recent months, untold thousands of Africans have perished. We estimate that some 14 million Africans remain at risk. If they are to survive, they need urgent assistance in terms of food, medical care, and shelter

There is also the broader problem of malnutrition. An estimated 20 percent of Africa's population eats less than the minimum needed to sustain good health. Africa is the only region in the world where per capita food production has declined over the past two decades -- a combination of a drop in productivity and rapidly growing population. Africa's food dependency on outside sources has been growing at an alarming

pace, with African commercial imports of grain increasing at a rate of nine percent per year during the past twenty years.

In addition to the current severe food crisis, Africa's disappointing economic performance has made it difficult for most African countries to service their debt, propelling many countries from one financial crisis to another. The economic crisis has required that African nations regularly seek debt rescheduling. Ten of the fourteen Paris Club reschedulings in 1984 were for African countries.

The United States has mounted an unprecedented campaign to provide both economic and emergency food assistance to Africa In this effort, we have not allowed political or ideological differences with any government to weaken our determination to direct assistance to those in need. Since October of last year, we have committed more than $400 million to send over one million tons of emergency food and other types of humanitarian assistance to Africa. If we add our regular AID food programs, then our total food assistance for Africa is even larger -- almost 600 million dollars thus far this fiscal year. Our current request for $235 million in supplemental emergency funding for Africa will bring total food and emergency assistance this year to over $1 billion. I think we can be justifiably proud of what we have been able to accomplish in such a short period of time.

Equally impressive has been the direct response of the American people and the private sector. Through generous contributions to private voluntary agencies, many thousands of additional lives have been, and continue to be, saved. Volunteers for these agencies are directly involved in distributing food, medicines, clothing, and shelter and caring for drought victims in the most remote parts of Africa, enduring extreme hardships and even risking their own lives. Such humanitarian assistance is in the best tradition of America and the values for which America stands.

Public attention has focused on the immediate drought crisis, but it is apparent that Africa's economic difficulties have a profound origin that goes back many years.

Drought has aggravated the problem, but is not the principal cause of Africa's economic crisis. Many of the African governments recognize that past policy failures have contributed to the current economic crisis. While we seek to address the immediate crisis, therefore, we must also seek more sustainable solutions to Africa's economic problems. The United States has been in the forefront of those seeking to help African countries move from a statist economic orientation to one which allows market forces to operate freely and which provides appropriate price incentives, particularly to the small farmers. Structural issues which are being addressed include inefficient parastatals, overvalued exchange rates,

negative interest rates on bank deposits, uneconomic subsidies to consumers and artificially low prices to producers. In addition to the emergency assistance to meet the drought and famine needs, U.S. economic assistance levels for Africa have increased from $787 million in FY 1981 to over $1 billion in FY 1985; For FY 1986 we are again asking for a total of $1 billion in economic aid. To assist reform-minded governments to undertake desirable reforms, the Administration has established two new programs:

(1) The African Fund for Economic Policy Reform, an program funded with $75 million in Economic Support Funds in fiscal year 1985 has the following main objectives:

-- first, to provide additional support for those African countries which are in the process of implementing policy changes or have indicated a willingness and ability to establish growth-oriented policies; and

-- second, to strengthen the international assistance framework for Africa by improved multilateral and bilateral donor coordination at the country level.

Although this Policy Reform Program is still in its initial stages, preliminary reaction to this new initiative has been encouraging. An increasing number of African countries are

beginning to alter in a fundamental way their national economic policies. Above all, the relevance of free market economies as opposed to statist solutions has become clear to African leaders as never before. We are in the process of identifying the first African countries to participate in this special program. In addition, we are asking other donors and international financial institutions to work with us and to provide co-financing for these ventures. I might just add that our perception of the roots of Africa's current economic crisis is widely shared by the international community. We are particularly pleased with the World Bank's latest report on sub-Saharan Africa and its stress on the need for economic reform to reverse Africa's economic decline. The World Bank recently launched its own Special Facility which will provide financial support to reform-minded countries -- a facility which complements and reinforces our efforts.

(2) The "Food for Progress" initiative recently announced by the President is also targeted at achieving policy reform, but exclusively in the agricultural sector. This initiative would use food aid in strategically important African countries to promote reform in the key agricultural sector, stressing market approaches in agricultural pricing, marketing, and the supply and distribution of fertilizer, seeds and other agricultural inputs. One of the goals of the initiative is to supply American food to reform-minded countries on a multi-year basis. The sale of the commodities on the local economies

would provide resources for the governments to use in supplying needed incentives and inputs to the farmers while easing the effects on urban consumers of moving toward a market economy. The details of this proposal, including funding levels and sources, will be transmitted to the Congress shortly.

Near East and South Asia

One of the most important foreign policy goals of this Administration is to help achieve a lasting peace between Israel and its Arab neighbors. There are no quick and easy solutions for peace in the Middle East, but our assistance plays a crucial role in furthering the peace process. Israel and Egypt remain our principal partners in the quest for peace, and these two nations would be the largest recipients of our proposed foreign assistance for Fiscal Year 1986. Our economic and military assistance programs are needed to strengthen Jordan's security and economy, both of which are vital to enable Jordan to confront the risks involved in playing a significant role in the peace process. Our relationships with Saudi Arabia and the Arab Gulf States are important elements in our efforts to advance the peace process and, as I will mention later, to protect our interest in the Persian Gulf.

The United States has a commitment to Israel's security extending over three decades. Our security assistance proposal

aims to easing the onerous burden Israel shoulders in meeting its defense needs. The Fiscal Year 1986 Foreign Military Sales (FMS) program will enable Israel to maintain a qualitative military edge over potential adversaries in the region. Further progress towards peace depends in part on Israel having sufficient confidence in its ability to withstand external threats but also confidence in U.S. support and assistance. For these reasons, we are recommending a significant increase in Foreign Military Sales on a grant basis for Israel.

The U.S. and Israeli governments agreed last October to establish a Joint Economic Development Group to review economic developments in Israel, the role of U.S. assistance in support of the Israeli adjustment program, and Israeli longer-term development objectives. At a meeting in December, Israeli government officials presented the annual White Paper outlining Israeli economic objectives and assistance requirements for the remainder of this fiscal year and for FY 1986.

Our security assistance is a reflection of the U.S. commitment to Israel's security and economic well-being. In addition, we have indicated our willingness to provide extraordinary assistance in support of a comprehensive Israeli economic program that deals effectively with the fundamental imbalances in the Israeli economy. Without such a reform program, however, additional U.S. assistance would not resolve

Israel's economic problems but merely help perpetuate them. Moreover, without economic adjustment Israel will become even more dependent on U.S. assistance in the future. The Israeli government has made some considerable progress to date in developing an adjustment program. But further progress is necessary if their program is to put Israel back on the path of economic health and additional U.S. assistance is to serve a useful purpose. Accordingly, the Administration intends to hold open for the time being the amount and form of ESF which we will be requesting from the Congress pending further discussions with Israel and further evolution of its stabilization program. Our discussions will continue to focus not only on short term stabilization measures, but also on Israel's longer range development objectives so that Israeli citizens can have confidence in a brighter, more prosperous future. We agreed during Prime Minister Peres' visit last October to work together to promote foreign investment in Israel, particularly in the high technology area where Israel has a comparative advantage. Both governments are examining existing programs and frameworks which might help to improve Israel's investment climate and attract venture capital from abroad. It is clear that in Israel's case -- as in other countries -- mobilizing both domestic and foreign venture capital depends on an atmosphere that encourages private enterprise, appropriate tax structures and market pricing policies. Private sector initiatives hold the greatest promise

for helping Israel achieve its development goals, and we are encouraged by the interest that has been generated in both countries. Our real objective is to support Israel's own efforts to seize the opportunity to establish the fundamental conditions for economic growth in an age of new technology.

The Camp David accords and the Egyptian-Israeli peace treaty remain the cornerstone of our Middle East peace policy. Egypt has demonstrated its firm commitment to those accomplishments by repeatedly refusing to disavow them as a price for resuming its historic leadership role in the Arab world. Our assistance helps ensure that Egypt will remain strong enough to continue to resist the pressures of radical forces which seek to undo what has been achieved. Egypt remains an important force for moderation and stability not only in the Middle East but also in Africa, where it plays an important role in helping African states deter Libyan adventurism. Egypt's ability to continue this deterrent role depends heavily on our assistance. The FY 1986 Foreign Military Sales Program has been increased to enable Egypt to continue replacing obsolete Soviet equipment and remain a credible deterrent force in the region.

Another major U.S. interest in the Middle East is to maintain free world access to the vital oil supplies of the Persian Gulf now and in the future. The Persian Gulf countries

produce over 25% of the free world's oil supply. Through our assistance, we help to improve the security of our friends in this area. Oman is cooperating closely with the U.S. toward our common goal of maintaining security and stability in that vital area and freedom of navigation through the Strait of Hormuz; Oman's agreement to permit access to its facilities represents a key asset for the U.S. Central Command. Although not recipients of U.S. financial assistance, the other Gulf states and Saudi Arabia, as members with Oman in the Gulf Cooperation Council, have shown the will and the ability to defend themselves against encroachment of the Iran-Iraq war. The Administration is embarking on a comprehensive review of our security interests and strategy in the area, focusing on how our various programs in the security field complement ourefforts in the peace process and contribute to the general stability of the region.

In North Africa we have longstanding and close relationships with Morocco and Tunisia as firm friends and strategically located geo-political partners. Morocco, with whom we have transit and exercise agreements, and Tunisia are both in difficult economic circumstances. Our assistance program in Morocco, in concert with other donors, is designed to help the Moroccan Government as it implements necessary economic reforms. We have expressed to the Government of Morocco our disappointment over the unwelcome development of

the Libya-Morocco treaty of August 1984. Qadhafi's aggression against neighboring states and his undiminished support of terrorism and subversion worldwide are continuing causes of concern. We have registered these concerns with the Moroccans and told them that we discount the possibility that association with King Hassan could influence Qadhafi constructively. Despite differing views on how to deal with Qadhafi, however, the economic and political rationale for this assistance to Morocco remains; indeed it is stronger.

South Asia

A major foreign policy objective in South Asia is to obtain a negotiated settlement to get the Soviet Union out of Afghanistan so that the refugees can return and Afghans can exercise their own sovereignty and independence. In our efforts to achieve this goal, it is vital that we help ensure the security of Pakistan in the face of Soviet intimidation. Our six-year assistance program for Pakistan serves this goal. It is designed to support Pakistan's economy and its development and to help strengthen its defenses through provision of military equipment and training.

The U.S. has several important goals in South Asia. We seek to prevent conflict among the major states of the region; to help the region develop economically, and to foster the success of democratic institutions. India, the largest

democracy in the world, plays a pivotal role in the peace and stability of the region. Our development assistance program for India will concentrate on more sophisticated research and higher technical training, building on India's strong scientific and technological base. Our assistance programs in Bangladesh, Sri Lanka and Nepal demonstrate U.S. support for the moderate non-aligned policies and economic development of these countries.

Europe

Security assistance proposals for the European region are designed to redress the military imbalance in Europe and counter the increased Soviet military threat in Central Europe and in Southwest Asia. The assistance supports key NATO allies and has the dual result of providing the U.S. with continued access to important military bases and helping these countries modernize their own military capabilities. By so doing, our security assistance sustains confidence in our best efforts commitments which are the foundation of base agreements.

U.S. foreign policy objectives in Spain are to support Spanish democracy, to encourage Spanish movement towards a more open economy, and to contribute to Western defense by assuring continued U.S. access to vital to air and naval facilities in Spain. The security assistance program plays a key role in achieving these objectives.

The Spanish military has assumed a role appropriate for armed forces in a democracy. Our assistance is necessary to help Spain meet its goal of modernization to NATO standards and to provide tangible evidence of the benefits Spain receives as a partner in the Western alliance, as demonstrated by its bilateral relationship with the U.S. as well as its participation in NATO. Our security assistance program thus plays an important role in helping Spain to consolidate and strengthen its new democratic institutions.

Prime Minister Gonzalez' government has taken politically difficult steps to open Spain's traditionally protectionist economy to market forces. This decision was particularly courageous since Spain's economic austerity program has been accompanied by high unemployment. But as a result, the Spanish economy has shown impressive improvement in 1984. Its economic program would have placed a much more onerous burden on the Spanish people without our support. The security assistance program helps in modernizing the economy through scientific and technical exchanges and permits Spain to continue its economic recovery without jeopardizing its military modernization.

Our objectives in Portugal are similar to those in Spain. Portugal is striving to consolidate its 10-year-old democratic institutions while it assumes an expanded role in western political and military structures. It is also pursuing a

demanding economic austerity program in an attempt to reform its troubled economy, which is the second poorest in western Europe. The U.S. security assistance program assists Portuguese economic development efforts and permits Portugal to continue its program of military modernization aimed at assuming expanded NATO defense responsibilities.

U.S. security assistance to Portugal therefore provides both real and symbolic support for Portugal's attempt to strengthen its democracy and free-market economy. It provides a cornerstone for Portugal's attempts to play a more effective role in NATO. It also serves to meet the assistance goals to which the U.S. is committed under the 1983 agreement.

Our security assistance to Greece and Turkey contributes to important strategic policy objectives on the southern flank of NATO. Turkey's position between the Soviet Union and the Middle East and proximity to southwest Asia make it a natural barrier to Soviet expansion into the Middle East and the Persian Gulf. The Soviet invasion of Afghanistan, the Iran-Iraq War and the disintegration of Lebanon highlight the importance of a politically stable and militarily credible Turkish ally in this disturbed region. We also benefit from our military relationship with Turkey by our use of extremely valuable military and intelligence facilities. The United States accordingly has a compelling interest in enhancing Turkey's ability to meet its NATO commitments and deter

potential aggression in Southwest Asia through provision of security assistance.

Our interests are not confined to NATO security objectives. We have sought the cooperation of the Turkish Government in promoting a settlement on Cyprus. The Turkish Government accepted and supported the U.N. Secretary General's initiative. We are now working with all the parties to ensure that efforts in the wake of the recent summit in New York to reach a settlement between the Government of Cyprus and the Turkish Cypriot community can move forward. Accordingly, we believe that any attempt at one-sided efforts to impose conditions regarding Cyprus on security assistance to Turkey would not only be unwarranted but would set back the prospects of a settlement on Cyprus.

On the economic side, Turkey has taken far reaching and courageous steps to stabilize and liberalize its economy. U.S. concessional aid to Turkey is directly and constructively related to Turkey's efforts to create a freer and more sound economy.

We are also seeking a substantial level of security assistance for Greece. While we have our differences with the Greek Government, we see those differences in the context of a relationship between two democratic allies who share important interests. We recognize Greece's strategic importance in the

eastern Mediterranean. We derive important benefits from our military facilities. Our security assistance program is an important element in our relationship with Greece. It is exceeded only by our request for Israel, Egypt, Turkey and Pakistan.

East Asia and Pacific

Foreign assistance is an investment in the future that can benefit both recipient and donor. This is particularly evident in the East Asia and Pacific region where the returns paid on our foreign assistance investment have been enormous. For some 20 years East Asian countries have achieved higher economic growth rates than any other region of the world. They have achieved these remarkable results principally by relying on the dynamism of free market systems. As a result of this rapid economic growth, the region now accounts for more of our foreign trade than any other region of the world. Since former aid recipients in the region have reached the stage of development where they no longer need bilateral aid, and in some cases have become aid donors themselves, East Asia and Pacific countries now account for only a small portion of our worldwide assistance programs despite the vital importance of the region to the United States.

In spite of this generally bright picture, the region still has pressing economic and security problems that we must

confront. The Administration's FY 1986 foreign assistance request for East Asia and the Pacific that addresses these problems totals approximately $818 million. The requested economic assistance of $335 million will be concentrated in the three largest members of the Association of South East Asian Nations, the Philippines, Indonesia, and Thailand. The bulk of the $483 million requested for military assistance will go to deter direct military threats to Korea and Thailand and to enhance our close military relationship with the Philippines, a treaty ally. We also propose modest assistance programs in other ASEAN countries, in Burma, a country that has become increasingly important to our anti-narcotics efforts, and in the islands of the South Pacific. I would like to highlight some of our specific concerns.

The Philippines has passed through difficult times that have adversely affected the economy. The government has begun to take corrective measures and has concluded an economic stabilization agreement with the International Monetary Fund. These actions are showing signs of progress. The Philippine situation is further clouded by a growing armed insurgency by the New People's Army, the military arm of the Communist Party of the Philippines, which has been able to exploit the country's political, economic, and social difficulties. The revitalization of democratic institutions, the establishment of long-term growth through structural economic reform, the maintenance of our vital security relationship, and the

successful resistance to a communist takeover of the Philippines are intertwined. Our integrated economic and military assistance program is designed to support all of these objectives.

Like the Philippines, Thailand is a treaty ally of the United States. It is also a front-line state that faces serious security challenges caused by Soviet supported Vietnamese aggression in neighboring Cambodia. Our security assistance to Thailand supports the government's efforts to improve social and economic conditions in the war-affected Thai-Cambodian border areas that have experienced a large influx of refugees because of continued brutal attacks by Vietnam. Our military assistance supports the modernization of Thailand's defense forces to provide a deterrent to further Vietnamese aggression.

The specific efforts of the Philippines and Thailand are reinforced by their membership in ASEAN, which represents the best hope for peace and stability in Southeast Asia. Consistent with our strong support for ASEAN and in recognition of the importance of our relationship with Indonesia, we have also proposed economic and military assistance for that nation. Indonesia has continued to make good progress in its development program and maintaining sound economic policies in the face of an international recession. Our military sales to Indonesia have enhanced our common strategic interests in

Southeast Asia. We also plan to continue the ASEAN regional technical assistance program. In another ASEAN member, Malaysia, where U.S. private investment continues to be a major catalyst of economic growth and development, the government has expressed interest in continued defense cooperation with the United States within the context of that nation's non-aligned status. Malaysia has played a constructive role in international affairs and has forcefully advanced ASEAN's strategy to bring about a withdrawal of Vietnamese forces from Cambodia. We propose to continue our modest military assistance program in support of these efforts.

Another important U.S. treaty ally is the Republic of Korea. The prevention of North Korean aggression against South Korea is indispensable for peace and stability in the region and important to our own security. So far we have been successful in deterring aggression and preventing a recurrence of hostilities on the Korean peninsula. To maintain our support for the U.S.-ROK alliance we propose to continue an FMS credit program that will permit the ROK to improve the capabilities of its combat forces, many of which are stationed with our own forces along the DMZ and would operate with us under a joint command in time of war.

Multilateral Development Banks

Thus far I have stressed the vital role American bilateral

assistance plays in promoting the security and stability of the developing world. As I am sure each of you appreciates, this task is far too great for one country to attempt to do alone. Fortunately, we do not have to. Our friends and allies in the industrialized world devote a considerable amount of their resources to the task of promoting the development process, which in turn yields dividends in the expansion of economic trade and strengthening of democratic institutions. These resources are becoming too scarce to allow for inefficient use of any kind. A coordinated approach among donors has always been desirable. It is now critical.

A principal tool available for such coordination is, and will continue to be, the pooling of a portion of our economic assistance through the multilateral development banks (MDBs). MDB lending remains a significant and growing source of investment capital for developing countries. In FY 84, MDBs together committed $22 billion in new loans. That a lending program of this size was sustained with a U.S. paid-in contribution of $1.3 billion testifies to the advantages of using the MDBs to share the burden of providing aid. The U.S. benefits directly from the MDB's' efforts to promote strong and sustained progress in the developing countries through increased sales of U.S. goods and services. Indeed, a significant portion of the U.S. trade deficit can be attributed to the decline in purchases by debt-troubled developing

countries, a decline which appropriate development assistance can help reverse.

While valuable as a source of development finance, the MDBs play an equally critical role by providing sound market-oriented economic policy advice to their borrowers. They also impose financial discipline on the development objectives of their clients. These institutions are devoting increasing resources to projects and programs designed to support private enterprise in the developing world. For many years, the World Bank's special affiliate, the International Finance Corporation, has focussed on the specific needs of the private sector. The regional development banks are beginning to follow the World Bank's lead. The strengthened commitment on the part of these institutions to private enterprise may prove to be one of the most important factors in supporting a successful development process.

We are convinced that the MDBs have a crucial role to play in advancing world-wide growth and development, and increasing the private sector contribution to that process. We thus consider our participation in them a necessary complement to our bilateral assistance policy. In recent years this Administration, acting in close consultation with the Congress, has sought to reduce the cost to us of providing an effective level of support to these institutions, while maintaining U.S.

leadership. We have been successful in negotiating overall replenishment levels which we believe are adequate to the needs of borrowing members but also take into consideration our budgetary constraints. Maintaining U.S. leadership, however, depends on our meeting these obligations in a timely manner. I, therefore, urge Congress to support fully both our FY86 request for $1.3 billion and our FY85 Supplemental request for $237 million.

Summary

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together, firmly, predictably and realistically defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail. Our FY 1986 budget request is designed to do just that.

PRESS
DEPARTMENT OF STATE

No. 25
February 19, 1985

WELCOMING REMARKS
BY
THE HONORABLE KENNETH W. DAM
ACTING SECRETARY OF STATE
UPON THE RETURN
OF JEREMY LEVIN OF CABLE NEWS NETWORK
Andrews Air Force Base
February 18, 1985

The President joins me and all Americans in wishing you a warm welcome back to the United States. We share the joy of you and your family on your return home. Your long and cruel captivity has aroused the nation's sympathy and indignation, and your courageous escape to freedom has won our admiration. Your return is reason for all of us to celebrate.

At the same time, your freedom makes us even more aware of your countrymen who remain captive. We remain deeply concerned about the fate of the four Americans still held hostage by terrorists in Lebanon. We will continue to do everything possible to obtain their freedom as soon as possible. They should know that they are not forgotten. Once more, we call upon all nations which are in a position to help to rededicate themselves to the continuing effort to free our citizens.

For further information contact:

PRESS
DEPARTMENT OF STATE

No. 26
February 20, 1985

STATEMENT ON BEHALF OF
THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF STATE
Washington, D.C.
February 20, 1985

I am pleased by the news that Prime Minister Hawke of Australia announced February 19, that his cabinet unanimously reaffirmed Australia's support for the ANZUS alliance and for the obligations and responsibilities that the alliance entails. We note that the Prime Minister described ship visits and the U.S.-Australian joint facilities as "continuing fundamentals of the Australian-United States alliance relationship." We welcome this reaffirmation of Australia's commitment to its ties with the United States. Both the United States and Australia have emphasized the continuing importance we attach to the conclusion of the 1984 ANZUS Council communique that "access by allied aircraft and ships to the airfields and ports of the ANZUS members was reaffirmed as essential to the continuing effectiveness of the alliance." Both President Reagan and Prime Minister Hawke recognized, during the Prime Minister's recent visit, that solidarity among the western states is critical to maintenance of global and regional stability and to progress toward substantial nuclear arms reductions.

PRESS
DEPARTMENT OF STATE

No. 27
February 21, 1985

As Prepared for Delivery

ECONOMIC COOPERATION IN THE PACIFIC BASIN

THE PROSPECTS FOR U.S. FOREIGN POLICY

ADDRESS BY

THE HONORABLE GEORGE P. SHULTZ

SECRETARY OF STATE

BEFORE THE

UNITED STATES NATIONAL
COMMITTEE FOR PACIFIC ECONOMIC COOPERATION

SAN FRANCISCO, CALIFORNIA

FEBRUARY 21, 1985

In the Pacific today there is a new reality, though the world may not yet fully comprehend it. In economic development, in the growth of free institutions, and in growing global influence, the Pacific region has rapidly emerged as a leading force on the world stage. Its economic dynamism has become a model for the developing world and offers a unique and attractive vision of the future.

Perhaps even more important, there is a new trend toward wider cooperation among many East Asian nations. A sense of Pacific community is emerging. We see an expanding practice of regional consultations, a developing sense of common interests, and a desire to cooperate on a widening range of economic issues.

And we in America share this new cooperative spirit. The United States has had a Pacific coast since 1819, and one of the strongest stimulants to our growth and prosperity has been a vision of the West as an area of rich opportunity, where individual enterprise and a commitment to freedom can accomplish great things for all of mankind. Our vision today is no less bright and beckoning than when our forefathers embarked upon their manifest destiny. Pacific consciousness is rising in the United States -- not just on the west coast, but in Boston, New York, and in our nation's capital.

Last spring, a major French newspaper noted that the American President had observed that "western history began with a Mediterranean era, passed through an Atlantic era, and is now moving into a Pacific era." You might be surprised to learn that Le Monde was referring not to Ronald Reagan, but to Theodore Roosevelt. But I can assure you that President Reagan, himself a Californian with a western perspective, fully shares Teddy Roosevelt's enthusiasm about the opportunities that abound in the Pacific. Just this past September at the White House, the President, Vice President Bush, and I demonstrated this Administration's commitment to the future of Pacific cooperation by joining many in this room to inaugurate this, the United States National Committee for Pacific Economic Cooperation. More and more Americans are becoming aware that the economic and social progress of this region presents an exciting opportunity for the United States and for international peace, security, and prosperity.

A Region of Challenge and Diversity

While the prospects for the nations and people of the Pacific Basin are bright, politically and economically, we must bear in mind that this is one of the most heavily armed regions in the world, and Asian peace is still marred by continuing and tragic conflicts.

In Vietnam, Cambodia and Laos, some 1.1 million men are now under arms, while on the Korean Peninsula there is a combined total of 1.5 million troops. In addition to 4.4 million men in uniform in China, approximately one-third to one-half of the USSR's ground forces -- some 52 divisions -- are garrisoned in the Soviet Far East. Soviet air power, both tactical and strategic, continues to grow; the Soviet Pacific Fleet is now their largest; and about one-third of the Soviet SS-20 intermediate-range ballistic missile battalions overshadow much of the population of the region. This concentration of military forces is of considerable concern given the demonstrated willingness of the Soviet Union and its proxies -- in Afghanistan, Cambodia, and Korea -- to use their military power for their political ends.

Other challenges confront the region: The problems of the Philippines are serious, with potential effects on security throughout the region; the human suffering in Indochina drains the resources and energies of many Asian and Pacific nations; ethnic tensions, regional rivalries, and potential territorial disputes impede the search for lasting security. The slow growth of political liberalization could also set back Asia's hard-won successes.

Despite these challenges, the Pacific Basin enjoys a remarkable degree of stability -- a stability that derives from a number of factors independent of a simple calculation of the balance of forces. Economic vitality, in particular, is an important factor in the regional equation. To maintain stability, cooperation among like-minded states, particularly those that share the common goals of peace and regional development, is indispensable.

The Pacific Basin is a region characterized by great diversity. For example:

-- Populations range from the world's smallest independent state, Nauru, in the South Pacific, with eight square miles and a population of 8,000, to the world's largest, China, with almost four million square miles and over one billion people;

-- Economic size and influence range from oil-rich Brunei with a per capita GNP of nearly $18,000 to some of the island nations with per capita GNP's of less than $350;

-- Cultural, religious, and philosophical traditions cover the spectrum of the world's heritage, ranging from Confucianism and Buddhism to Islam and Christianity.

But the Pacific nations also have much in common:

-- With a few exceptions, countries in the region tend to share our interest in peace and a stable environment for growth and development.

-- Most of the vibrant countries of the Pacific are market-oriented systems that recognize the vital role of individual entrepreneurship.

-- Human resources are abundant in East Asia and the Pacific. Education levels are relatively high, and literacy (estimated at 75 percent in the developing Asian countries) is well ahead of other regions.

-- Sound financial management has led to rapid economic development. East Asian countries owe less than 20 percent of the world's developing-country debt compared with over 50 percent in Latin America. The East Asian developing-country debt-to-service ratio is the lowest of any region -- under 16 percent in 1982. Their debt-to-export ratio, nearly 80 percent, is the best in the world.

-- A strong technological base has been built with an extraordinary emphasis on scientific and technical education.

The transfer and practical application of technical know-how, coupled with a disciplined and skilled work force, have launched many of the countries of the region on the road to rapid and sustained development.

-- In the People's Republic of China, too, there has been movement toward greater openness. Pragmatism is now the watchword in China, where the hopes for economic modernization have been invested -- wisely -- in a bold program of reform. We watch with interest the effect of a great nation beginning to throw off some of its outmoded economic doctrines and redirecting the energies of a billion talented people.

Prior to the Second World War, American foreign policy focused on the defense and economic well-being of our Asian possessions and our neighbors in the Western Hemisphere. Following the war, our help in the reconstruction of Japan and our efforts to defend freedom in Korea and Vietnam monopolized our attention in Asia and the Pacific; our primary interest was in supporting the security and political stability of Asian nations and the trend toward democracy. Since then, our interest in Asia has continued to broaden, with the emergence in the region of powerful and diverse economic forces that are having a major impact not only in the United States, but elsewhere in the world.

The Role of Japan

One cannot properly contemplate the story of the Pacific without reflecting on the role of Japan as a catalyst in the remarkable developments of the last half of the Twentieth century. Japan has embarked upon a course of technological and economic advance that is destined to leave an indelible mark on the civilization of this era.

Japan's economy, literally shattered after the war, has in less than 40 years grown to become the free world's second largest. In the 1970's, the Japanese economy grew at an average annual real rate of 4.9 percent -- almost two-thirds greater than that of the United States, and about twice as fast as Germany and France. Since 1951 Japan's GNP and its exports have both grown by 100 percent.

Our permanent partnership with Japan is the keystone of American foreign policy in East Asia and the linchpin of our relationships in the region. But beyond that, the strong ties that have developed in the past 40 years between our two countries -- in the political, economic, and security arenas -- have provided the foundation upon which the Pacific cooperation and dynamism of which I speak today have been built.

The stimulus and the role model that the world's two largest free market economies and technological leaders provide to the region cannot be denied. Official economic assistance and private capital flows from Japan and the United States have contributed to economic and social development in many Asian nations. And the close diplomatic relationship between the United States and Japan, and our Treaty of Mutual Cooperation and Security and the bases that it makes possible, have bolstered peace and stability in the region.

If Japan's economic performance and the close U.S.-Japan partnership have been nothing short of miraculous, however, much remains to be done. There remain serious impediments in Japan to competitive foreign exports. Japan has a responsibility to take concrete actions to fulfill its commitment to an open trade and investment system. The United States attaches great importance to the understanding reached by President Reagan and Prime Minister Nakasone in Los Angeles on January 2. With the full support of both leaders, we have begun intensive negotiations to identify and remove trade barriers in four key Japanese markets: telecommunications, electronics, forest products, and medical equipment and pharmaceuticals. Foreign Minister Abe and I have been directed to oversee these negotiations and to provide a progress report to Prime Minister Nakasone and President Reagan at the time of the Bonn Economic Summit meeting, in early May.

In the security area, the gap between Japan's publicly-stated defense responsibilities and its ability to fulfill these responsibilities must be narrowed. In short, Japan, like all Pacific Basin nations, must be responsive to the global economic and security system in which our well-being is collectively imbedded.

Asia and the U.S. Economy

Nevertheless, the growth of Japan's economy has been a miracle, and it has stimulated changes elsewhere in the world. Other states in the region have emulated the Japanese experience and are aggressively applying the lessons learned. In addition to the newly industrialized countries, such as the Republic of Korea, other Pacific economies are growing rapidly, and their trade, both within the region and with the rest of the world, is thriving. In 1982, well over half of the trade of the 14 principal countries of the region (54 percent of exports and 59 percent of imports) was transacted within the Pacific Basin. And a remarkable 70 percent of all developing-country exports are from the newly industrialized countries of Asia.

The six countries that constitute the Association of Southeast Asian Nations (ASEAN) -- Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand -- are of growing importance to the United States.

Taken together, the ASEAN countries are now our fifth largest trading partner behind only the European Community, Canada, Japan, and Mexico. American trade with ASEAN grew 11.5 percent in 1984 over 1983; and ASEAN bought almost $10 billion of American goods -- more than 4 percent of our total exports. ASEAN's economic links to the Pacific are reflected in the fact that almost three-fourths of its imports and more than two-thirds of its total trade is with countries of the Pacific Basin.

The economic impact of all these developments on the United States is enormous. For the first half of this century, our total world trade (imports and exports) averaged less than 4 percent of our gross national product. By 1959, it had grown to somewhat less than 6 percent; but in the past twenty-five years it has almost tripled to 17 percent of our GNP. If present rates of growth continue, our foreign trade will, by the year 2000, amount to some 25 percent of the United States GNP -- or approximately Japan's current percentage. By any measure, those are significant figures; and it goes without saying that as trade continues to grow as a component of our national economy, both our trade policy and our domestic economic policies will play an increasingly important role in United States foreign policy.

For the past five years, total U.S. trade with East Asia and the Pacific has surpassed U.S. trade with any other region of the world. Moreover, East Asia's and the Pacific's share of total U.S. trade continues to rise -- and rapidly. In 1982, our trade with this region was $126.5 billion, or 27.7 percent of total U.S. trade. In 1984, U.S. trade with the region was $169 billion -- almost 31 percent of total U.S. trade. During the recent recession our overall world trade declined more than 5 percent, while that with East Asia and the Pacific was off by less than one percent. In 1983, total U.S. world trade rose one-half percent -- but trade with the Pacific region grew by 8 percent.

Pacific trade is having a subtle and, I believe, positive influence on the way Americans do business both at home and abroad, and it is affecting the attitudes and broadening the perspectives of Americans generally, many of whom are just beginning to appreciate the significance of this trade. Economically as well as politically and strategically, the Pacific is crucial to America's future.

The Framework for Pacific Cooperation

Political maturation and economic expansion have set in motion a dynamic process that is already transforming the Pacific Basin into one of the most productive regions of the world. America stands ready to contribute to this process.

In his State of the Union message, President Reagan said "America's economic success is freedom's success; it can be repeated a hundred times in a hundred different nations. Many countries in East Asia and the Pacific have few resources other than the enterprise of their own people. But through low tax rates and free markets, they have soared ahead of centralized economies. And now China is opening up its economy to meet its needs."

When one looks ahead to the evolution of the Pacific region over the next 10 to 15 years, the stakes are high, and the prospects exciting. Multilateral cooperation, built upon a sound network of bilateral relationships, is one promising means for Asian and Pacific nations to promote regional peace and an enduring prosperity for their peoples. It is the goal of the United States to cooperate with others to develop our common economic potential and to build mutually beneficial relations that strengthen all countries of the region.

The origins of the Pacific cooperative movement are diffuse, and spring from varying perceptions. There has emerged, however, a clear desire to explore the prospects for region-wide cooperation. The American people view these prospects with an open mind and a willing spirit.

In recognition of the growing importance of the Pacific to American foreign policy, some 14 months ago I asked Ambassador Richard Fairbanks to begin consultations with leaders of the region, to get their views on how the United States can contribute to the cooperative movement in the Pacific Basin, and to advise me on new policy initiatives for the United States. His preliminary findings are most encouraging, and we look forward to working in partnership with other countries of the region.

At the outset, I should point out that the United States has no preconceived notion as to how this process should continue or where it may ultimately lead. Indeed, it is critical that we join others in an open and frank dialogue on the multitude of economic issues before us. We do not wish to force the pace or inflate expectations in the region. But at the same time, we are eager and willing to continue the dialogue that Ambassador Fairbanks has begun and to contribute whatever we can to a peaceful and progressive partnership in the Pacific.

Let me also affirm that the United States is anxious to contribute as a collegial participant. It is neither our intention nor our desire to dominate that process or force it in particular directions.

Our objective is to move forward in a cooperative partnership with others. Our goal can be simply stated: peaceful progress for all countries in the region, based on a shared belief in the value of economic cooperation and mutual respect for the rights of all participants to freely pursue their own interests. The President's January 2 meeting with Prime Minister Nakasone reaffirmed that both the United States and Japan believe that this process can proceed only with the participation and consensus of all countries in the region.

There already have been some encouraging developments. Foremost among these has been the remarkable dynamism of the private sector, where individuals have taken the initiative to improve economic and commercial relationships among peoples of the region. For it is people who are the source of inspiration and progress. Governments respond, and then not always very well, to the aspirations of individuals.

In various areas of human endeavor -- scientific, educational and cultural -- people of the Pacific are exchanging ideas and joining in cooperative enterprises. As economies begin to grow and continue to expand beyond their borders, and as entrepreneurs reach out for improved techniques and new opportunities, businessmen are forging new links with one another, based on human ingenuity and a determination to succeed.

These private trade and investment relationships are the key to the remarkable economic success of the region. Such organizations as the Pacific Science Association, the Pacific Forum, the ASEAN-US Center for Technology Exchange, the Circum-Pacific Energy Resources Council, and the Pacific Basin Economic Council provide important momentum to this process; they reflect the growing sense of common identity and shared interest.

Another relatively recent and encouraging development has been the formation of the private-sector Pacific Economic Cooperation Conference, in which this United States Committee for Pacific Economic Cooperation participates. From modest beginnings less than five years ago, the PECC movement has captured the spirit and has quickened the pace of Pacific cooperation. With each successive meeting, the PECC shows greater promise of helping to bring into focus the major economic issues of the region. I trust that the upcoming meeting in Seoul in April will build upon the progress made thus far.

With respect to the US National Committee on the Pacific, let me say that your dedication and interest contribute vitally to a strong U.S. role not only in the PECC but in promoting regional cooperation more generally.

In his remarks to this Committee at the White House last September, President Reagan said, "I congratulate all of you on your foresight and commitment to recognizing the importance of the Pacific to our nation's future and acting on it. Your advice and counsel will be important to our continued effort. Your group includes four Senators, four Members of the House, and seven members of the Executive Branch in their unofficial capacity, and I think this demonstrates a bipartisan commitment of both branches. All of us are in your debt for what you are doing, and I wish you well."

I would like not only to reiterate the President's sentiments but also to assure you of this Administration's encouragement and support. While the Committee must remain a private group, we in the Executive Branch look forward to working with its distinguished members. As you proceed with your work, I would urge you to explore the entire range of possibilities for Pacific cooperation. I have been encouraged by the Committee's efforts on a number of critical issues, and I hope that the progress you have made so far is a harbinger of future achievements.

The spirit of Pacific cooperation is also beginning to attract the attention of other governments in the region.

Last July, in Jakarta, ASEAN foreign ministers initiated a multilateral dialogue with their Pacific partners -- Australia, New Zealand, Japan, Canada, and, of course, the United States. In that "6+5" meeting, we discussed the prospects for Pacific cooperation and agreed to make a review of Pacific-wide developments a continuing feature of these annual ministerial deliberations. The eleven of us also agreed that the governments would work together on a first cooperative project -- Human Resources Development, chosen as a focus because it encompasses all nations in the region, big and small. This theme was suggested by Foreign Minister Mochtar of Indonesia, who has spurred us and his ASEAN colleagues to think creatively about the shape of Asia yet to come and the human resources of the region.

At the time, I expressed the view that Pacific cooperation should not be an exclusive process, but that all who are prepared to contribute to wider economic cooperation in the region should be encouraged to do so. The response of the foreign ministers was encouraging, and the progress made to date augurs well for future cooperation in other areas.

In the seven months since the Jakarta meeting, we have worked to draw together the resources of the United States Government to participate in an international inventory of existing human development and training programs in the Pacific.

Three weeks ago, senior officials of all the governments met in Indonesia to review the results of that inventory. Participating governments have now moved closer to agreeing on the principles that will guide the Human Resources Development effort, and have identified areas for both immediate and long-term cooperative projects. Over the next four months, our representatives will meet to work out specific steps for consideration at next July's Post-Ministerial Conference on Pacific Cooperation. For our part, we will make every effort to contribute to the success of this promising undertaking.

I am encouraged by the progress made to date in this field, and I look forward to meeting with the foreign ministers again in Kuala Lumpur this July to decide on further actions that all of the countries can take together.

The Hopeful Prospects

The Pacific cooperative process is still in its infancy, and it is too early to predict its ultimate form or direction. Whatever arrangement ultimately evolves is likely to be unique to the Pacific, for the diversity, culture, heritage, and traditions of the Pacific states constitute a unique set of challenges.

As we prepare to mark the 40th anniversary of the end of the Pacific War, it is appropriate to reflect on what we have accomplished and to ponder the future. For if there have been moments of darkness in the history of Asia, there is also light in Asia's philosophical, aesthetic, and cultural traditions. The tragedy that befell Angkor Wat symbolizes the ironic juxtaposition of Asia's turbulent history of conflict and its rich heritage of civilization. When we look back 40 years from now, I hope we will see this incipient process of Pacific cooperation as the beginning of a new era -- an era of reconciliation, progress, and peace.

PRESS
DEPARTMENT OF STATE

February 22, 1985
No. 28

AMERICAN FOREIGN POLICY: CURRENT DOCUMENTS, 1981. SUPPLEMENT

The Department of State today released American Foreign Policy: Current Documents, 1981. Supplement. This microfiche publication is a supplement to a printed volume entitled American Foreign Policy: Current Documents, 1981, which the Department of State published in December 1984. That volume, which was prepared in the Office of the Historian, Bureau of Public Affairs, was the most recent volume in the Department of State American Foreign Policy series begun in 1950. Annual printed volumes, as well as microfiche supplements, are planned for 1982 and subsequent years.

The American Foreign Policy series presents official public expressions of policy that best set forth the goals and objectives of United States foreign policy. The texts of the major official addresses, statements, interviews, press conferences, and communications by the White House, the Department of State, and other officials involved in the foreign policy process are included.

This microfiche publication presents important documents that could not, for reasons of space, be included in the book edition. The editors regarded this supplement as important portions of the historical foreign affairs record and requiring wider and more permanent preservation and distribution. It consists of 1,077 documents totaling about 13,000 pages on 151 microfiche cards and includes the full texts of almost all documents printed in part in the printed volume. A printed guide contains a table of contents and a list of all the documents in the microfiche supplement.

The microfiche supplement is designed to be used in conjunction with the printed volume. Editorial annotations relate the printed volume to the microfiche. The first fifteen chapters of the microfiche supplement correspond to the

fifteen geographic and topical chapters of the printed volume. There are also additional compilations of documents on multi-issue foreign policy issues. Several chapters of the microfiche provide complete transcripts of press conferences, briefings, and interviews on multi-subject topics by President Reagan, Secretaries of State Muskie and Haig, and Secretary of Defense Weinberger. The final chapters present the complete transcripts of those White House daily press briefings containing documentation on foreign policy subjects and all the Department of State daily press briefings.

American Foreign Policy: Current Documents, 1981. Supplement was prepared in the Office of the Historian, Bureau of Public Affairs, Department of State. Copies may be purchased for $22.00 (domestic postpaid) from the Superintendent of Documents, U.S. Government Printing Office (Department of State Publication No. 9403; GPO Stock No. 044-000-02041-6). Checks or money orders should be made out to the Superintendent of Documents.

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PRESS
DEPARTMENT OF STATE

No. 29
February 22, 1985

As Prepared for Delivery

AMERICA AND THE STRUGGLE FOR FREEDOM

ADDRESS BY

THE HONORABLE GEORGE P. SHULTZ

SECRETARY OF STATE

BEFORE THE

COMMONWEALTH CLUB OF CALIFORNIA

SAN FRANCISCO, CALIFORNIA

FRIDAY, FEBRUARY 22, 1985

A revolution is sweeping the world today -- a democratic revolution.

This should not be a surprise. Yet it is noteworthy because many people in the West lost faith, for a time, in the relevance of the idea of democracy. It was fashionable in some quarters to argue that democracy was culture-bound; that it was a luxury only industrial societies could afford; that other institutional structures were needed to meet the challenges of development; that to try to encourage others to adopt our system was ethnocentric and arrogant.

In fact, what began in the United States of America over two centuries ago as a bold new experiment in representative government has today captured the imagination and the passions of peoples on every continent. The Solidarity movement in Poland; resistance forces in Afghanistan, in Cambodia, in Nicaragua, in Ethiopia and Angola; dissidents in the Soviet Union and Eastern Europe; advocates of peaceful democratic change in South Africa, Chile, the Republic of Korea, and the Philippines -- all these brave men and women have something in common: They seek independence, freedom, and human rights -- ideals which are at the core of democracy and which the United States has always championed.

The American Tradition

All Americans can be proud that the example of our Founding Fathers has helped inspire millions around the globe. Throughout our own history, we have always believed that freedom is the birthright of all peoples, and that we could not be true to ourselves or our principles unless we stood for freedom and democracy not only for ourselves, but for others.

And so, time and again in the last 200 years, we have lent our support -- moral and otherwise -- to those around the world struggling for freedom and independence. In the nineteenth century Americans smuggled guns and powder to Simon Bolivar, the Great Liberator; we supported the Polish patriots and others seeking freedom. We well remembered how other nations, like France, had come to our aid during our own revolution.

In the twentieth century, as our power as a nation increased, we accepted a greater role in protecting and promoting freedom and democracy around the world. Our commitment to these ideals has been strong and bipartisan in both word and deed. During World War I, the Polish pianist Paderewski and the Czech statesman Masaryk raised funds in the United States; then Woodrow Wilson led the way at war's end in achieving the independence of Poland, Czechoslovakia, and other states.

At the height of World War II, Franklin Roosevelt set forth a vision of democracy for the postwar world in the Atlantic Charter and Four Freedoms. The United States actively promoted decolonization. Harry Truman worked hard and successfully at protecting democratic institutions in postwar Western Europe and at helping democracy take root in West Germany and Japan. At the United Nations in 1948 we supported the Universal Declaration of Human Rights -- which declares the right of every nation to a free press, free assembly and association, periodic and genuine elections, and free trade unions. John F. Kennedy drew upon the very essence of America with his call to "pay any price ... to assure the survival and success of liberty."

The March of Democracy

The struggle for liberty is not always successful. But those who once despaired, who saw democracy on the decline, and who argued that we must lower our expectations, were at best premature. Civilizations decline when they stop believing in themselves; ours has thrived because we have never lost our conviction that our values are worth defending.

When Indira Gandhi, the Prime Minister of the world's largest democracy, was assassinated, we were shocked and saddened.

But our confidence in the resilience of democracy was renewed as millions of India's people went to the polls freely to elect her successor. As Rajiv Gandhi leads his nation to new greatness, he demonstrates more clearly than any words or abstract scientific models that democracy is neither outmoded nor is it the exclusive possession of a few, rich, Western nations. It has worked for decades in countries as diverse as Costa Rica and Japan.

In the Western Hemisphere, over 90 percent of the population of Latin America and the Caribbean today live under governments that are either democratic or clearly on the road to democracy -- in contrast to only one-third in 1979. In less than six years, popularly elected democrats have replaced dictators in Argentina, Bolivia, Ecuador, El Salvador, Honduras, Panama, Peru, and Grenada. Brazil and Uruguay will inaugurate civilian presidents in March. After a long twilight of dictatorship, this hemispheric trend toward free elections and representative government is something to be applauded and supported.

The Challenge to the Brezhnev Doctrine

Democracy is an old idea, but today we witness a new phenomenon. For many years we saw our adversaries act without restraint to back insurgencies around the world to spread Communist dictatorships.

The Soviet Union and its proxies, like Cuba and Vietnam, have consistently supplied money, arms, and training in efforts to destabilize or overthrow non-Communist governments. "Wars of national liberation" became the pretext for subverting any non-Communist country in the name of so-called "socialist internationalism."

At the same time, any victory of Communism was held to be irreversible. This was the infamous Brezhnev Doctrine, first proclaimed at the time of the invasion of Czechoslovakia in 1968. Its meaning is simple and chilling: Once you're in the so-called "socialist camp," you're not allowed to leave. Thus the Soviets say to the rest of the world: "What's mine is mine. What's yours is up for grabs."

In recent years, Soviet activities and pretensions have run head-on into the democratic revolution. People are insisting on their right to independence, on their right to choose their government free of outside control. Where once the Soviets may have thought that all discontent was ripe for turning into Communist insurgencies, today we see a new and different kind of struggle: people around the world risking their lives against Communist despotism. We see brave men and women fighting to challenge the Brezhnev Doctrine.

In December 1979, the Soviets invaded Afghanistan to preserve a Communist system installed by force a year and a half earlier. But their invasion met stiff resistance, and the puppet government they installed has proved incapable of commanding popular support. Today, the Soviets have expanded their occupation army and are trying to devastate the population and the nation they cannot subdue. They are demolishing entire Afghan villages and have driven one out of every four Afghans to flee the country. They have threatened neighboring countries like Pakistan and have been unwilling to negotiate seriously for a political solution.

In the face of this Soviet invasion, the Afghans who are fighting and dying for the liberation of their country have made a remarkable stand. Their will has not flagged; indeed, their capacity to resist has grown. The countryside is now largely in the hands of the popular resistance, and not even in the major cities can the Soviets claim complete control. Clearly the Afghans do not share the belief of some in the West that fighting back is pointless, that the only option is to let one's country be "quietly erased," to use the memorable phrase of the Czech writer, Milan Kundera.

In Cambodia, the forces open to democracy, once all but annihilated by the Khmer Rouge, are now waging a similar battle against occupation and a puppet regime imposed by a Soviet ally, Communist Vietnam. Although Vietnam is too poor to feed, house, or care for the health of its own population adequately, the Stalinist dictators of Hanoi are bent on imperial domination of Indochina -- much as many had predicted before, during, and after the Vietnam War. But six years after its invasion, Vietnam does not control Cambodia. Resistance forces total over 50,000; of these the non-Communist forces have grown from zero to over 20,000. The Vietnamese still need an occupation army of 170,000 to keep order in the country; they even had to bring in two new divisions to mount the recent offensive. That offensive, while more brutal than previous attacks, will prove no more conclusive than those before.

In Africa, as well, the Brezhnev Doctrine is being challenged by the drive for independence and freedom. In Ethiopia, a Soviet-backed Marxist-Leninist dictatorship has shown indifference to the desperate poverty and suffering of its people. The effects of a natural disaster have been compounded by the regime's obsession with ideology and power. In classical Stalinist fashion it has ruined agricultural production through forced collectivization; denied food to starving people for political reasons; subjected many thousands to forced resettlement; and spent vast sums of money on arms and "revolutionary" spectacles.

But the rulers cannot hide the dimensions of the tragedy from their people. Armed insurgencies continue, while the regime persists in relying on military solutions and on expanding the power and scope of the police and security apparatus.

In Angola, a Marxist regime came into power in 1975 backed and sustained by 30,000 Cuban troops and substantial numbers of Soviet and East European "advisers." The continuation of this Soviet/Cuban intervention has been a major impediment to the achievement of independence for Namibia under the terms of U.N. Security Council Resolution 435; it is also a continuing challenge to African independence and regional peace and security. Thus our sustained diplomatic effort to achieve a regional settlement addressing the issues of both Angola and Namibia. In Angola, UNITA has waged an armed struggle against the regime's monopoly of power and in recent years has steadily expanded the territory under its control. Foreign forces, whether Cuban or South African, must leave. At some point there will be an internal political settlement in Angola that reflects Angolan political reality, not external intervention.

Finally, an important struggle is being waged today closer to home in Central America. Its countries are in transition, trying to resolve the inequities and tensions of the past through workable reforms and democratic institutions.

But violent anti-democratic minorities, tied ideologically and militarily to the Soviet Union and Cuba, are trying to prevent democratic reform and to seize or hold power by force. The outcome of this struggle will affect not only the future of peace and democracy in this hemisphere, but our own vital interests.

In Nicaragua, in 1979, the Sandinista leaders pledged to the Organization of American States and to their own people to bring freedom to their country after decades of tyranny under Somoza. The Sandinistas have betrayed these pledges and the hopes of the Nicaraguan people; instead they have imposed a new and brutal tyranny that respects no frontiers. Basing themselves on strong military ties to Cuba and the Soviet Union, the Sandinistas are attempting, as rapidly as they can, to force Nicaragua into a totalitarian mold whose pattern is all too familiar. They are suppressing internal dissent, clamping down on the press, persecuting the Church, linking up with the terrorists of Iran, Libya, and the PLO, and seeking to undermine the legitimate and increasingly democratic governments of their neighbors.

This betrayal has forced many Nicaraguans who supported the anti-Somoza revolution back into opposition.

And while many resist peacefully, thousands now see no choice but to take up arms again, to risk everything so that their hopes for freedom and democracy will not once again be denied.

The Sandinistas denounce their opponents as mercenaries or former National Guardsmen loyal to the memory of Somoza. Some in this country seem all too willing to take these charges at face value, even though they come from the same Sandinista leaders whose word has meant so little up to now. But all you have to do is count the numbers: More people have taken up arms against the Sandinistas than ever belonged to Somoza's National Guard. In fact, most of the leaders of the ~~armed~~ resistance fought in the revolution against Somoza; and some even served in the new government until it became clear that the comandantes were bent on Communism not freedom, terror not reform, and aggression not peace. The new fighters for freedom include peasants and farmers, shopkeepers and vendors, teachers and professionals. What unites them to each other and to the other thousands of Nicaraguans who resist without arms is disillusionment with Sandinista militarism, corruption, and fanaticism.

Despite uncertain and sporadic support from outside, the resistance in Nicaragua is growing.

The Sandinistas have strengthened their Soviet and Cuban military ties -- but their popularity at home has declined sharply. The struggle in Nicaragua for democracy and freedom, and against dictatorship, is far from over, and right now may well be a pivotal moment that decides the future.

America's Moral Duty

This new phenomenon we are witnessing around the world -- popular insurgencies against Communist domination -- is not an American creation. In every region, the people have made their own decision to stand and fight rather than see their cultures and freedoms "quietly erased." They have made clear their readiness to fight with or without outside support, using every available means and enduring severe hardships, alone if need be.

But America also has a moral responsibility. The lesson of the postwar era is that America must be the leader of the free world; there is no one else to take our place. The nature and extent of our support -- whether moral support or something more -- necessarily varies from case to case. But there should be no doubt about where our sympathies lie.

It is more than mere coincidence that the last four years have been a time of both renewed American strength and leadership and a resurgence of democracy and freedom. As we are the strongest democratic nation on earth, the actions we take -- or do not take -- have both a direct and an indirect impact on those who share our ideals and hopes all around the globe. If we shrink from leadership, we create a vacuum into which our adversaries can move. Our national security suffers, our global interests suffer, and, yes, the worldwide struggle for democracy suffers.

The Soviets are fond of talking about the "correlation of forces," and for a few years it may have seemed that the correlation of forces favored Communist minorities backed by Soviet military power. Today, however, the Soviet empire is weakening under the strain of its own internal problems and external entanglements. And the United States has shown the will and the strength to defend its interests, to resist the spread of Soviet influence, and to protect freedom. Our actions, such as the rescue of Grenada, have again begun to offer inspiration and hope to others.

The importance of American power and leadership to the strength of democracy has not been the only lesson of recent history. In many ways, the reverse has also proven true: the spread of democracy serves American interests.

Historically, there have been times when the failure of democracy in certain parts of the world did not affect our national security. In the eighteenth and nineteenth centuries, the failure of democracy to take root elsewhere was unfortunate and even troubling to us, but it did not necessarily pose a threat to our own democracy. In the second half of the twentieth century, that is less and less true. In almost every case in the postwar period, the imposition of Communist tyrannies has led to an increase in Soviet global power and influence. Promoting insurgencies against non-Communist governments in important strategic areas has become a low-cost way for the Soviets to extend the reach of their power and to weaken their adversaries, whether they be China or the democracies of the West and Japan. This is true in Southeast Asia, Southwest Asia, Africa, and Central America.

When the United States supports those resisting totalitarianism, therefore, we do so not only out of our historical sympathy for democracy and freedom, but also in many cases in the interests of national security. As President Reagan said in his second Inaugural Address: "America must remain freedom's staunchest friend, for freedom is our best ally and it is the world's only hope to conquer poverty and preserve peace."

In many parts of the world we have no choice but to act, on both moral and strategic grounds.

How To Respond?

The question is, how should we act? What should America do to further both its security interests and the cause of freedom and democracy? A prudent strategy must combine different elements, suited to different circumstances.

First, as a matter of fundamental principle, the United States supports human rights and peaceful democratic change throughout the world, including in non-Communist, pro-Western countries. Democratic institutions are the best guarantor of stability and peace, as well as of human rights. Therefore, we have an interest in seeing peaceful progress toward democracy in friendly countries.

Such a transition is often complex and delicate, and it can only come about in a way consistent with a country's history, culture, and political realities. We will not succeed if we fail to recognize positive change when it does occur -- whether in South Africa, or the Republic of Korea, or the Philippines.

Nor will we achieve our goal if we ignore the even greater threat to the freedom of such countries as South Korea and the Philippines from external or internal forces of totalitarianism. We must heed the cautionary lessons of both Iran and Nicaragua, in which pressures against right-wing authoritarian regimes were not well thought out and helped lead to even more repressive dictatorships.

Our influence with friendly governments is a precious resource; we use it for constructive ends. The President has said that "human rights means working at problems, not walking away from them." Therefore, we stay engaged. We stay in contact with all democratic political forces, in opposition as well as in government. The historic number of transitions from authoritarian regimes to democracy in the last decade, from Southern Europe to Latin America, demonstrates the effectiveness of this approach -- as well as the essential difference between authoritarian and totalitarian regimes. There <u>are</u> no examples of a Communist system, once consolidated, evolving into a democracy.

In June 1982, addressing the British Parliament, President Reagan endorsed a new effort -- including leaders of business, labor, and both the Democratic and Republican parties -- to enlist the energies of American private citizens in helping develop the skills, institutions, and practices of democracy around the world.

Today, the National Endowment for Democracy, the concrete result of that initiative, is assisting democratic groups in a wide variety of countries. The Endowment represents practical American support for people abroad working for our common ideals.

Second, we have a moral obligation to support friendly democratic governments by providing economic and security assistance against a variety of threats. When democratic friends are threatened by externally-supported insurgencies, when hostile neighbors try to intimidate them by acquiring offensive arms or sponsor terrorism in an effort to topple their governments, international security is jeopardized. The more we can lend appropriate help to others to protect themselves, the less need will there be for more direct American involvement to keep the peace.

Americans have always responded with courage when overwhelming danger called for an immediate, all-out national effort. But the harder task is to recognize and meet challenges before they erupt into major crises, before they represent an immediate threat, and before they require an all-out effort. We have many possible responses that fall between the extremes of inaction and the direct use of military force -- but we must be willing to use them, or else we will inevitably face the agonizing choice between those two extremes.

Economic and security assistance is one of those crucial means of avoiding and deterring bigger threats. It is also vital support to those friendly nations on the front line -- like Pakistan, Thailand, or Honduras and Costa Rica -- whose security is threatened by Soviet and proxy efforts to export their system.

Third, we should support the forces of freedom in Communist totalitarian states. We must not succumb to the fashionable thinking that democracy has enemies only on the right, that pressures and sanctions are fine against right-wing dictators but not against left-wing totalitarians. We should support the aspirations for freedom of peoples in Communist states just as we want freedom for people anywhere else. For example, without raising false hopes, we have a duty to make it clear -- especially on the anniversary of the Yalta Conference -- that the United States will never accept the artificial division of Europe into free and not free. This has nothing to do with boundaries and everything to do with ideas and governance. Our radios will continue to broadcast the truth to people in closed societies.

Fourth, and finally, our moral principles compel us to support those struggling against the imposition of Communist tyranny.

From the founding of this nation, Americans have believed that a people have the right to seek freedom and independence -- and that we have both a legal right and a moral obligation to help them.

In contrast to the Soviets and their allies, the United States is committed to the principles of international law. The UN and OAS charters reaffirm the inherent right of individual and collective self-defense against aggression -- aggression of the kind committed by the Soviets in Afghanistan, by Nicaragua in Central America, and by Vietnam in Cambodia. Material assistance to those opposing such aggression can be a lawful form of collective self-defense. Moral and political support, of course, is a long-standing and honorable American tradition -- as is our humanitarian assistance for civilians and refugees in war-torn areas.

Most of what we do to promote freedom is, and should continue to be, entirely open. Equally, there are efforts that are most effective when handled quietly. Our Founding Fathers were sophisticated men who understood the necessity for discreet actions; after the controversies of the 1970s we now have a set of procedures agreed between the President and Congress for overseeing such special programs.

In a democracy, clearly, the people have a right to know and to shape the overall framework and objectives that guide all areas of policy. In those few cases where national security requires that the details are better kept confidential, Congress and the President can work together to ensure that what is done remains consistent with basic American principles.

Do we really have a choice? In the 1970s, a European leader proposed to Brezhnev that peaceful coexistence should extend to the ideological sphere. Brezhnev responded firmly that this was impossible, that the ideological struggle continued even in an era of detente, and that the Soviet Union would forever support "national liberation" movements. The practical meaning of that is clear. When Soviet Politburo member Gorbachev was in London recently, he affirmed that Nicaragua had gained independence only with the Sandinista takeover. The Soviets and their proxies thus proceed on the theory that any country not Marxist-Leninist is not truly independent, and therefore the supply of money, arms, and training to overthrow its government is legitimate.

Again: "What's mine is mine. What's yours is up for grabs." This is the Brezhnev Doctrine.

So long as Communist dictatorships feel free to aid and abet insurgencies in the name of "socialist internationalism," why must the democracies, the target of this threat, be inhibited from defending their own interests and the cause of democracy itself?

How can we as a country say to a young Afghan, Nicaraguan, or Cambodian: "Learn to live with oppression; only those of us who already have freedom deserve to pass it on to our children"? How can we say to those Salvadorans who stood so bravely in line to vote: "We may give you some economic and military aid for self-defense, but we will also give a free hand to the Sandinistas who seek to undermine your new democratic institutions"?

Some try to evade this moral issue by the relativistic notion that "one man's freedom fighter is another man's terrorist." This is nonsense. There is a self-evident difference between those fighting to impose tyranny and those fighting to resist it. In El Salvador, pro-Communist guerrillas backed by the Soviet bloc are waging war against a democratically elected government; in Nicaragua and elsewhere, groups seeking democracy are resisting the tightening grip of totalitarians seeking to suppress democracy.

The essence of democracy is to offer means for peaceful change, legitimate political competition, and redress of grievances. Violence directed against democracy is therefore fundamentally lacking in legitimacy.

What we should do in each situation must of necessity vary. But it must always be clear whose side we are on -- the side of those who want to see a world based on respect for national independence, for freedom and the rule of law, and for human rights. Wherever possible, the path to that world should be through peaceful and political means; but where dictatorships use brute power to oppress their own people and threaten their neighbors, the forces of freedom cannot place their trust in declarations alone.

Central America

Nowhere are both the strategic and the moral stakes clearer than in Central America.

The Sandinista leaders in Nicaragua are moving quickly, with Soviet-bloc and Cuban help, to consolidate their totalitarian power. Should they achieve this primary goal, we could confront a second Cuba in this hemisphere, this time on the Central American mainland -- with all the strategic dangers that this implies.

If history is any guide, the Sandinistas would then intensify their efforts to undermine neighboring governments in the name of their revolutionary principles -- principles which Fidel Castro himself flatly reaffirmed on American television a few weeks ago. Needless to say, the first casualty of the consolidation of Sandinista power would be the freedom and hopes for democracy of the Nicaraguan people. The second casualty would be the security of Nicaragua's neighbors, and the security of the entire region.

I do not believe anyone in the United States wants to see this dangerous scenario unfold. Yet there are those who would look the other way, imagining that the problem will disappear by itself. There are those who would grant the Sandinistas a peculiar kind of immunity in our legislation -- in effect, enacting the Brezhnev Doctrine into American law.

The logic of the situation in Central America is inescapable:

-- The Sandinistas are committed Marxist-Leninists; it would be foolish of us and insulting to them to imagine that they do not believe in their proclaimed goals. They will not modify or bargain away their position unless there is compelling incentive for them to do so.

-- The only incentive that has proved effective thus far comes from the vigorous armed opposition of the many Nicaraguans who seek freedom and democratic government.

-- The pressures of the armed resistance have diverted Sandinista energies and resources away from aggression against its neighbor El Salvador, thus helping to disrupt guerrilla plans for a major offensive there last fall.

-- If the pressure of the armed resistance is removed, the Sandinistas will have no reason to compromise; all U.S. diplomatic efforts -- and those of the Contadora group -- will be undermined.

Central America's hopes for peace, security, democracy, and economic progress will not be realized unless there is a fundamental change in Nicaraguan behavior in four areas:

-- First, Nicaragua must stop playing the role of surrogate for the Soviet Union and Cuba. As long as there are large numbers of Soviet and Cuban security and military personnel in Nicaragua, Central America will be embroiled in the East-West conflict.

-- **Second**, Nicaragua must reduce its armed forces, now in excess of 100,000, to a level commensurate with its legitimate security needs -- a level comparable to those of its neighbors. The current imbalance is incompatible with regional stability.

-- Third, Nicaragua must absolutely and definitively stop its support for insurgents and terrorists in the region. All of Nicaragua's neighbors, and particularly El Salvador, have felt the brunt of Sandinista efforts to destabilize their governments. No country in Central America will be secure as long as this continues.

-- And fourth, the Sandinistas must live up to their commitments to democratic pluralism made to the OAS in 1979. The internal Nicaraguan opposition groups, armed and unarmed, represent a genuine political force that is entitled to participate in the political processes of the country. It is up to the Government of Nicaragua to provide the political opening that will allow their participation.

We will note and welcome such a change in Nicaraguan behavior no matter how it is obtained.

Whether it is achieved through the multilateral Contadora negotiations, through unilateral actions taken by the Sandinistas alone or in concert with their domestic opponents, or through the collapse of the Sandinista regime, is immaterial to us. But without such a change of behavior, lasting peace in Central America will be impossible.

The democratic forces in Nicaragua are on the front line in the struggle for progress, security, and freedom in Central America. Our active help for them is the best insurance that their efforts will be directed consistently and effectively toward these objectives.

But the bottom line is this: Those who would cut off these freedom fighters from the rest of the democratic world are, in effect, consigning Nicaragua to the endless darkness of Communist tyranny. And they are leading the United States down a path of greater danger. For if we do not take the appropriate steps now to pressure the Sandinistas to live up to their past promises -- to cease their arms buildup, to stop exporting tyranny across their borders, to open Nicaragua to the competition of freedom and democracy -- then we may find later, when we can no longer avoid acting, that the stakes will be higher and the costs greater.

Whatever options we choose, we must be true to our principles and our history. As President Reagan said recently: "It behooves all of us who believe in democratic government, in free elections, in the respect for human rights to stand side by side with those who share our ideals, especially in Central America. We must not permit those heavily armed by a far away dictatorship to undermine their neighbors and to stamp out democratic alternatives at home. We must have the same solidarity with those who struggle for democracy, as our adversaries do with those who would impose Communist dictatorship."

We must, in short, stand firmly in the defense of our interests and principles, and the rights of peoples to live in freedom. The forces of democracy around the world merit our standing with them. To abandon them would be a shameful betrayal -- a betrayal not only of brave men and women, but of our highest ideals.

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QUESTION AND ANSWER SESSION FOLLOWING REMARKS BY
THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF STATE
BEFORE THE
COMMONWEALTH CLUB OF CALIFORNIA
SAN FRANCISCO, CALIFORNIA
FRIDAY, FEBRUARY 22, 1985

MR. H. JESSE ARNELLE: Thank you, Secretary Shultz, for those remarks.

And now Dennis Bonney, President of the Commonwealth Club, will conduct the question and answer period.

MR. BONNEY: Thank you, Jesse Arnelle, Quarterly Chairman.

Secretary Shultz, if you would rejoin me at the microphone, we have a very large number of questions; and I apologize for those who have asked questions which there will not be time to ask. The first question:

In connection with support for the contras in Nicaragua, in an effort to destabilize the Sandinista Government unless it changes its present direction, how will this plan square with the Boland Amendment prohibiting funding?

SECRETARY SHULTZ: Well, of course, at the present time there is no U.S. funding to support the people fighting for freedom in Nicaragua. It has been cut off by the Congress. The Boland Amendment applied to a continuing resolution in 1983, and the restrictions that presently apply are of a different sort.

MR. BONNEY: Mr. Secretary, could you elaborate on the difference between a freedom fighter and a terrorist, in the State Department's view? (Laughter.)

SECRETARY SHULTZ: Well, I tried to do that, and I've tried to do that on many occasions; and I recognize that the question tantalizes people and titillates them as well, I see. (Laughter.)

If you have a country that has a democratic form of government, then those who want to have change, of whatever sort, have a legitimatized and proper method of trying to bring it about. So, an effort through violence to bring about change in another way is illegitimate; it is terrorism.

Terrorism is a method of seeking to bring about change that employs an effort to frighten people, to cause them to feel that the situation is out of control. It attacks civilian targets. It hits people who have nothing -- no connection, necessarily, with whatever it is that the terrorists may think is their true objective.

People who are fighting for freedom are, by definition, in a situation where freedom doesn't exist, where there is a dictatorship -- a dictatorship in being, or, as in the case of Nicaragua, a dictatorship seeking to impose itself more and more completely; and people are resisting that.

Those are freedom fighters -- whether they are in Afghanistan, resisting Soviet direct invasion. In Cambodia, where their country has been decimated by the Vietnamese. Remember in this country those people who exalted Ho Chi Minh? And they can see what the Vietnamese are doing. The same in Nicaragua; the same in many parts of the world.

So I think that the notion of freedom fighter should be an exalted one, and it's a perversion of our language and a perversion of morality to equate them in any manner with the sort of terrorism that we see operating in many parts of the world. (Applause.)

MR. BONNEY: Mr. Secretary, we have many representatives from the press here who also submitted questions; and this is one of them:

What are the freedom fighters in racist South Africa? Will this Administration ever recognize and aid in any way the victims of apartheid? (Applause.)

SECRETARY SHULTZ: This Administration and the President finds apartheid abhorrent. We say so publicly here; we say so publicly in South Africa. We say so privately. We make no ifs, ands, and buts about it.

We also engage with the South African Government on that basis, to try to persuade them that there must be a better way, there must be change to a different system -- one which recognizes people as people, regardless of their color. We support people in South Africa, the blacks in South Africa, in all sorts of ways. Through educational help, our U.S. firms, businesses that operate in South Africa, have provided a model in employment through the Sullivan Principles, among other ways. And I might say the blacks in South Africa want American investment to stay there. They see the positive results and the jobs that it brings.

I met with the Chief of the Zulu tribe, Mr. Buthelezi, the other day. Referring to a Senator who had been travelling in South Africa, he said, "Who is this white man that wants to tell us that we shouldn't have these jobs?" (Laughter and applause.)

So we are trying to help people. We recognize their plight; we recognize the justice of their cause. And we feel that the way to help them is to hang in there and be engaged and work at it -- not to just throw up your hands and say, "We don't like the situation" and walk away. That's not going to do any good.

And, as a matter of fact, over the past four or five years there has been a considerable amount of change. I don't mean to imply at all that the situation is remotely satisfactory, but there has been movement; and we welcome it, and we encourage it. (Applause.)

MR. BONNEY: Turning to another area, this man asks:

When there is a changing of the guard at the Kremlin, do you believe it will remain with the older generation, or be passed on to the next generation? If the younger, would it be to our benefit?

SECRETARY SHULTZ: I don't know. (Laughter and applause.)

MR. BONNEY: Please comment on your relations with Mr. Gromyko. (Laughter.)

SECRETARY SHULTZ: Well, I've had a great number of meetings with Mr. Gromyko. He's an able, experienced person. We've had some very stormy meetings, particularly a meeting in Madrid shortly after the Soviet Union shot down a Korean airliner -- not only shot it down, but Mr. Gromyko in Madrid said, "We'd do it again." They showed no remorse. And we had, I can assure you, one stormy meeting.

We've also had many meetings that have been basically non-polemical, straightforward, and worthwhile.

In terms of our personal relationship, I consider it to be perfectly fine.

I can remember the meeting, the first meeting we had when I was Secretary of State. I had known him from the last time I was in Government. It was in September 1982, and we had two separate meetings on two separate days. And at the end of the first meeting we agreed that we ought to set ourselves a little agenda for the second one, try to find a few areas where we thought it might be possible to find a common interest and work constructively together. And we did that.

And one of the areas we picked out was non-proliferation of nuclear weapon capability. Both of us felt strongly about that. And, as it turned out, as a result of the push that we each gave this subject, there have been a series of very fruitful meetings on that subject between the two governments; and I must say that I noticed this morning that the Soviet Union agreed to on-site inspection of at least some of their non-military nuclear facilities, and I think that's progress.

So we have had a lot to argue about, and we have argued vigorously; and we have found some points of agreement.

We managed to agree in Geneva on the resumption of negotiations that will start on March 12th. I believe that as we conduct this very important, very difficult relationship with the USSR, that it's important for us to have decency in our behavior toward our opposite numbers. But it's also important for us always to remember this country as our adversary -- always to remember our interests very clearly. When we talk about arms control, we'd like to have an agreement; but a bad agreement is not in our interests. We don't want a bad agreement; we want a good agreement. And also to remember always that our relationship with them is not simply one involving arms control.

We need to remind them continuously, as we all do and I do, that their treatment of many human beings -- particularly, Jews in the Soviet Union -- is entirely unacceptable to us, and to keep probing and asking about that.

We need to keep pointing out to them how detrimental their behavior in many parts of the world -- and I've talked about them here today -- how disruptive it is to world peace and stability.

And we also need to be working with them on areas of bilateral interest -- in terms of trade and space and one thing and another that we historically have been able to work with them on -- and try to develop, to the extent we can, a constructive relation with them.

But I think underneath it all we must remember that the keys are, first: Let's always be realistic -- never wishful -- and be willing to say, squarely and frankly, what we believe the truth to be. And, second: We better be strong. Don't kid yourself; weakness will not get us anywhere with the Soviet Union -- not with Mr. Gromyko, not with Mr. Gorbachev, not with Mr. Romanov, not with Mr. Chernenko -- nor did it with Mr.Brezhnev, nor any of the predecessors. (Applause.)

MR. BONNEY: To what extent are Russia and its satellites supporting Sandinista covert action in El Salvador and Honduras?

SECRETARY SHULTZ: The supplies that flow into Nicaragua -- some of which find their way into El Salvador, and perhaps other countries -- come from the Soviet Union or the Soviet Bloc. We know that, could take pictures of the ships; we trace them as they go along. It's public information; there isn't any question about it whatever.

For some time the Soviets seemed to have the idea that sending these supplies in ships of other countries, such as Bulgaria, was the way to do it; but more lately they've been sending their supplies in Soviet ships directly. So there isn't any ambiguity about the answer to the question.

MR. BONNEY: This member asks:

Why doesn't the U.S. Government withdraw all support from the Government of Chile until they have democratic elections?

SECRETARY SHULTZ: Well, I don't know exactly what support there is to withdraw. I would say that Chile is being run by a dictatorship. It has had periods in which it seemed that constructive change was under way. It ran for a while one of the most interesting free market economies around that was quite successful for a time.

Right now the regime seems to have slipped back into a disappointingly repressive phase, with a state of siege being maintained. But we will stay engaged with Chile. The Chilean people are a wonderful people with a democratic tradition; and we can hope that, even as the present constitution calls for, that at least eventually they may return to a democratic form of government.

In any case, we will keep working at that and trying to help bring it about.

MR. BONNEY: Two questions here which we can combine:

Why are private citizens, who are not elected officials or appointed officials and do not represent the United States, permitted to go to Beirut, Cuba, et cetera, and bargain with those respective leaders to let out hostages, et cetera? And what is the State Department doing to get American hostages released in Lebanon?

SECRETARY SHULTZ: Well, as far as the problem of hostages, Americans held anywhere -- and there are now still four that were seized in Lebanon -- we work tirelessly in an effort to get them released. And we make it very clear to those we believe are responsible for holding them that if harm comes to them we will hold those parties responsible and we will do something about it.

But our efforts, I can assure you, are tireless -- some public, mostly private, diplomatic efforts -- and we never forget those who have been seized, and want to help them in every way that we can.

Now, as far as private citizens and their efforts are concerned, of course private citizens have a right to go. And I think Mrs. Levin, for example, did quite a lot, in collaboration with us, in trying to work for the release of her husband.

I do think, when it comes to broader efforts to represent the United States Government, that it is a bad idea for people not operating under the authority of the President to try to represent the United States, because the President is elected to do that and you can only have one President at a time.

It is a problem for us in this country, because I think all one hundred Senators, and most of the Congressmen, consider themselves to be candidates for President. (Laughter.) And sometimes they think they already are there. (Laughter.)

But, on the whole, I think people do understand this point. And I notice, particularly, when it comes, for example, to our dealings with the Soviet Union, that on both sides of the aisle there is a great care taken; and when someone is going to go to Moscow, they generally -- they let us know. We tell them what we know of the situation, what we would like to see represented. They without fail debrief and tell us what took place in their conversations.

And I think, on the whole, Americans are very responsible about these things.

MR. BONNEY: Another question on Lebanon:

Do we have a policy that reflects how we want the Israeli-Lebanon conflict to be resolved? And, if so, what is it?

SECRETARY SHULTZ: Well, we have had clear objectives in Lebanon. We want to see a sovereign, independent Lebanon. We'd like to see it free of all foreign forces. And we would like to see a Lebanon constituted in such a way that activities in southern Lebanon are not a threat to the peace and security of people living in northern Israel.

So those have been our objectives. They've been consistent. And, of course, the condition in Lebanon and the way its relationships develop are part and parcel of the whole Middle East puzzle.

So we worked very hard, as we all know here; and we suffered some very heavy losses that leave us very distressed. But those have been our objectives all along.

Now, as far as the current situation, we are glad to see the Israelis withdrawing. We would like to see that withdrawal take place through some form of negotiation, so that a possible role for UNIFIL is defined and the stability that a designated role could add would be put there -- and that there would be an orderly process, an understood process, of turning over strong points as the Israeli army leaves and other forces take up key posts.

Despite a great deal of flexibility on the part of Israel in trying to work these matters out, there has been, I think it's fair to say, great intransigence on the other side in recent weeks and months. And so there isn't in prospect right now -- although this may change -- any negotiated outcome. The Israelis are simply pulling back unilaterally.

And, of course, in the end, as they draw their forces completely out of the country, if there are no negotiated arrangements to provide security for their northern border, they will have to figure out unilaterally what they will do about the attacks that have historically come from southern Lebanon into northern Israel. That's the reason why we think a negotiated withdrawal program is better than a unilateral

one -- in that arrangements having to do with security would be put in place. Otherwise I'm afraid there will be security obtained, accompanied by a very great amount of tension and potential for continual outbreaks on the border.

MR. BONNEY: The next question takes us to the other side of the world:

In light of the growing opposition to the Marcos regime in the Philippines, will the United States continue to support Marcos?

SECRETARY SHULTZ: Yes. Ferdinando Marcos is the legitimate head of the Philippine Government and we will deal with him.

We will also be working in every way that we can to build up and legitimatize -- help the Philippines legitimatize -- all manner of processes that are the means of selecting leadership in a country.

So we supported very strongly the second board that investigated the Aquino murder, feeling that the first was not really an expression of a proper rule of law, and the second was.

We supported the use of arrangements for the elections held some months ago, so that they would be as democratic and open and free as possible. And they turned out to be pretty good elections.

We support having the army be professionalized, not politicized -- so that, on the one hand, it can be an effective force in countering the Communist insurgency that is gathering in the Philippines; and, on the other hand, as respectful of the democratic process and the importance of civilian rule

So we're working constantly to try to keep these processes alive and help them flourish so that whenever a transition comes, it comes through processes of this kind, and people retain their confidence that there are democratically based procedures through which leadership should be chosen.

MR. BONNEY: Mr. Secretary, we have time for only one more question, unfortunately. It is:

How does a hard-working Secretary of State, such as yourself, get such a great tan (laughter and applause); and why don't you have an ulcer? (Laughter.)

SECRETARY SHULTZ: Well, I don't know about the answer to the second, but the answer to the first is, that you got to goof off once in a while.

(Laughter and standing applause.)

MR. BONNEY: I'd like to thank Secretary of State George P. Shultz for joining us here today, and I think he carries with him all the good wishes of our radio audience, and the overflow audience here at the Fairmont Hotel, for his meetings on March 12th.