
THE DISAM JOURNAL OF INTERNATIONAL SECURITY ASSISTANCE MANAGEMENT

Our feature article by Lieutenant Colonel Sippel, USA, looks at the dynamics and paradigm encountered by the U.S. Military Training Mission, Saudi Arabia, due to the separate service status of the Royal Saudi Air Defense Forces. I was assigned to that unit from 1996-1998 and the article brought back a lot of good memories and pointed out changes that have occurred.

This Journal is chock-full of speech excerpts by Secretary of State Colin Powell, Undersecretary of Commerce Kenneth Juster, Assistant Secretaries of State Christina Rocca and Beth Jones, Deputy Assistant Secretary of State Mathew Daley, and the Honorable Ambassador to India Robert Blackwill. The speeches cover policy dynamics from Asia, Europe, the Pacific, and South America, literally world wide coverage.

Excerpts of the latest Department of Commerce's "Report on Offsets" and the State Department's "Report on Direct Commercial Sales Authorizations for Fiscal Year 2002," have been included in this issue.

In a commencement address to the new William and Mary international studies graduates, Assistant Secretary of State Lincoln Bloomfield outlines challenges, assets and tools that could apply to our workforce. Take a moment to read this article for some motivation or perhaps a refocus.

Steve Arnett and Ann Sajtar discuss the role of the Defense Logistics Information Service in tying the logistics world together via the North Atlantic Treaty Organization's Codification System.

I am pleased to note Thomas Molloy's comments on English Language Training and its impact on the Security Assistance Training Program and ultimately the individual student. He is about to complete a forty year career in English Language Training, with thirty-seven years at the Defense Language Institute English Language Center at Lackland Air Force Base, Texas. If you have been in the security assistance business for any length of time, you may have met Thomas Molloy at a conference or met him as an English Language instructor. I would like to congratulate Thomas Molloy on his retirement. He will be missed.

I will mention that our editors are always looking for Security Assistance thought - provoking articles. We hope you keep reading the Journal, continue to give us feedback and continue to contribute articles to be published. The most current Journal is available on our website. If you are looking for a particular security assistance article or several articles on a related topic, a subject search or search on an author's name in our Journal index should help you find articles. If you cannot find the Journal article we will be happy to assist.

I look forward to seeing you at the next conference. Please keep reading the Journal and continue to give us feedback and interesting articles.



RONALD H. REYNOLDS
Commandant

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 2003		2. REPORT TYPE		3. DATES COVERED	
4. TITLE AND SUBTITLE The DISAM Journal of International Security Assistance Management. Volume 25, Number 4, Summer 2003				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Defense Institute of Security Assistance Management (DISAM),DISAM/DR,2475 K Street,Wright-Patterson AFB,OH,45433-7641				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited.					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 116	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

THE DISAM JOURNAL

of International Security Assistance Management

Summer, Volume 25 No. 4

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FEATURE ARTICLE

Saudi Arabia: The Changing Paradigm and Implications for the United States Military Training Mission

By

Lieutenant Colonel Michael J. Sippel, USA

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As the international community and the United States continue to enforce *United Nations Security Council Resolution 1441*, the Middle East region finds itself again at the forefront of attention. Rumors abound as to the intentions of governments that make up the Gulf Cooperation Council. This is no less true for the Kingdom of Saudi Arabia as a principal partner in the Gulf Cooperation Council.

The media have focused on comments made by the Saudi government with respect to their post conflict intent. This same media have reported that the Saudis want to rely less on the United States government for security and support. This will cause the United States to wrestle with post conflict security commitments within the Kingdom of Saudi Arabia.

The decision making process by the United States must take into account the rich history of the Muslim culture, current political and economical climate, and the modernization efforts of the Kingdom to improve the Saudi Arabian Armed Forces (SAAF) before the U.S. can develop strategies and policies of implementation.

A paradigm shift is occurring with the SAAF. It occurred with the creation of the Royal Saudi Air Defense Forces (RSADF) and the making of the RSADF as a separate and equivalent service, equal to the Land Forces, Air Forces, and Naval Forces. The RSADF is no longer subordinate to the Royal Saudi Land Forces (RSLF). The impetus behind this shift is the ever-changing threat. The concern by the Kingdom of proliferation of weapons of mass destruction and their mechanism of delivery, resulted in the early understanding by the SAAF of the requirement to transform, and thus the creation of the RSADF.

To this extent, this article will provide a brief historical background of the Kingdom of Saudi Arabia, the command structure of the Saudi Arabian Armed Forces, the history of Saudi Air Defense (and how air defense fits into this structure), and, finally, from an air defense perspective, the impacts a change in paradigm by the Saudi government on the RSADF modernization and the United States Military Training Mission.

Historical Background

The Kingdom of Saudi Arabia, as a country, is fairly young. Its heritage, developed over thirteen centuries, is derived from the nomadic Bedouins whose customs and culture are even older. This culture has had a tremendous historical impact that is evident in biblical times and readings.

In 1902, not long ago from a historical standpoint, a young Arab prince, who had been raised in exile in Kuwait, led a band of about fifty warriors on a desperate raid to regain control of his family's ancestral fort in Riyadh. The attack was successful and the youthful victor, Abd al Aziz bin Abd ar Rahman Al Saud, launched other campaigns to reestablish the dominion of the House

of Saud throughout Najd in Central Arabia. By 1926, Abd al Aziz, through tribal conquest and diplomatic maneuvering, had brought most of the peninsula under his hegemony and, in 1932, proclaimed the establishment of the present-day Kingdom of Saudi Arabia.¹

Geography

The Kingdom of Saudi Arabia occupies approximately 80 percent of the Arabian Peninsula, an area roughly equivalent to the United States east of the Mississippi. Eight countries and two bodies of water make up the boundaries of Saudi Arabia.

The Arabian Peninsula is at the crossroads of Asia, Europe, and Africa. The Peninsula enjoys a strategic position in terms of communication and transportation. From an economic point of view, the Arabian Peninsula is home to the largest producers and exporters of oil, the main source of energy for the industrialized world.²

Economics

For the past twenty-five years, the economic development of Saudi Arabia has been broadly governed by five-year economic plans. The first five plans emphasized the development of the Kingdom's infrastructure, with later plans focusing increasingly on human resources and private sector development. The Sixth Plan, which began in 1995, called for broadening the technical skills of the Saudi population and an even stronger emphasis on economic diversification of industrial and agricultural sectors by increasing the private sector's role in the economy. The Seventh National Development Plan (2000-2005) will continue reforms of privatization and economic diversification of the economy and add even greater emphasis on such additional sectors as training and employment of the Saudi population.³

The Kingdom of Saudi Arabia's chief export is its oil. Saudi Arabia is the world's leading oil producer and exporter with 264.2 billion barrels of proven oil reserves (more than one-fourth of the world total) and up to 1 trillion barrels of ultimately recoverable oil. The United States imports approximately 17 percent of its oil needs from Saudi Arabia, a drastic reduction from previous years. Europe and Asia have, on the other hand, surpassed the United States as the major purchaser of oil from the Kingdom, with Europe accounting for over twenty percent of the oil exports and Asia accounting for nearly 50 percent of the Kingdom's oil exports.⁴

Other major industries within the Kingdom of Saudi Arabia include petrochemicals; with Saudi Basic Industries Corporation (SABIC), one of the largest petrochemical producers in the world, accounting for nearly 70 percent of global petrochemical output. Saudi Arabia is home to the largest mineral resources in the Gulf, including precious and base minerals, as well as industrial minerals.⁵

The Kingdom of Saudi Arabia is among the world leaders in per capita consumption of electricity, water, and gas, and demand for such services continues to grow. From 1975 to 1996,

1 Richard F. Nyrop (editor), *Saudi Arabia: a Country Study*, Foreign Area Studies, The American University, 1984, p 26-27.

2 Major General Silas R. Johnson Jr., USAF, "United States Military Training Mission: A Paradigm for Regional Security", *The DISAM Journal*, Volume 23 No. 4, (Summer 2001), p 97.

3 U.S. – Saudi Arabian Business Council, 6 March 2003, *The Saudi Arabian Economy*, Chapter 2, p16. http://www.us-saudi-business.org/015-052_chapter%202.pdf.

4 Energy Information Agency (EIA), Saudi Arabia, Washington, Department of Energy, June 2001, <http://www.eia.doe.gov/emeu/cabs/saudi.html>.

5 U.S. – Saudi Arabian Business Council, 6 March 2003, *The Saudi Arabian Economy*, <http://www.us-saudi-business.org/Petrochemicals>.

the generation capacity of electricity companies in the Kingdom increased sixteen times from 1,173 to 18,780 megawatts (MW).⁶

The Saudi agricultural sector has become one of the largest and most successful non-petroleum sectors in the Kingdom of Saudi Arabia. The sector has grown at an average annual rate of 8.7 percent since 1970 and accounts for more than 9.4 percent of Saudi Arabia's GDP.⁷

The importance of industrialization of the country cannot be overstated. As the population will double by 2020, there will be more demand on the government to provide business opportunities and employment.⁸ This will have a direct impact on many areas of the Kingdom's economy and future military modernization plans. The momentum of this change must also be a consideration of any strategy and policy the United States intends to pursue.

Religion⁹

In the eighteenth century in Najd, the Saudi homeland in central Arabia, a local leader named Muhammad bin Saud aligned himself with a local religious leader, Muhammad bin Abd Al Wahhab. Together, they planned a jihad to purify and, in the process, conquer Arabia. A series of intermarriages, the most important being Muhammad bin Saud's marriage to Abd Al Wahhab's daughter, cemented the relationship. Muhammad bin Abd Al Wahhab was a fundamentalist reformer who reshaped the worship and social practices of virtually all elements of the Sunni society during this period.

Today, Saudi society is based on a strict form of Wahhabi Islam. Saudi Islamic practices are generally more conservative than those of other Islamic states. Both the Saudi interpretation of Islam and the Saudi clergy are heavily influenced by the values of Muhammad bin Abd Al Wahhab.

The importance of religion within the Kingdom of Saudi Arabia is such that the Saudis do not distinguish between Islam and the state. The Kingdom is the custodian of the two holiest sites of Islam, Mecca and Medina. This, for the Saudis, carries a responsibility unlike other Islamic countries. It is this responsibility that must not be ignored when making strategic decisions and policies.

Government

Saudi Arabia is a monarchy; the country does not have a constitution. Shari'a, the sacred law of Islam, is the fundamental law within the Kingdom of Saudi Arabia. The Kingdom is often described as an absolute monarchy. However, a more descriptive phrase could be an absolute monarchical system operated as a "family affair." The King derives an important element of his authority from the influence of Wahhabi Islam over all aspects of life. The King's power is limited by other power centers within the royal family, by religion, by customs, and the need for consensus within Saudi tribes, technocrats, business leaders, and religious figures.

The Saudi clergy play a powerful role in ensuring that Shari'a is enforced and limits the pace at which the king and royal family can modernize and still maintain a Saudi social consensus. The

6 U.S. – Saudi Arabian Business Council, 6 March 2003, *The Saudi Arabian Economy*, <http://www.us-saudi-business.org/Power%20and%20Energy>.

7 U.S. – Saudi Arabian Business Council, 6 March 2003, *The Saudi Arabian Economy*, http://www.us-saudi-business.org/economic_indicators.htm.

8 Anthony H. Cordesman, Center for Strategic International Studies (CSIS), *Saudi Arabia Enters the 21st Century: Economic, Demographic, and Social Challenges*, May 2002, <http://www.csis.org/burke/saudi21/index.htm#reports>.

9 Anthony H. Cordesman, Center for Strategic International Studies (CSIS), *Saudi Arabia Enters the 21st Century: Politics and Internal Stability*, August 2001, chapter III, p.1-2, <http://www.csis.org/burke/saudi21/index.htm#reports>.

pressure created after the Gulf War led King Fahd to reorganize his cabinet and included the formation of a Council of Saudi Citizens or Majlis al-Shura.

The King has made broader reforms, including the creation of thirteen provincial assemblies and thirteen regional councils. There is a Saudi cabinet that reflects the distribution of power within the royal family. The King heads the cabinet of some twenty members, including six ministers of state. There are twenty-two separate ministries, with the King acting as prime minister. Prince Abdullah is the First Deputy Prime Minister and head of the National Guard. Prince Sultan is the Second Deputy Prime Minister and Minister of Defense and Aviation.¹⁰

This background information, though condensed, provides insights into the complexities of the different fragments of Saudi society that must be understood and considered by strategic planners if the United States is to continue to be a vital and relevant entity in the political and economical sphere of the Kingdom of Saudi Arabia. Furthermore, an understanding of the distinct cultural ancestry that brought Saudi Arabia to where it is today and the role of religion and royalty provides an understanding of how the armed forces in the Kingdom are influenced, organized, and directed.

Armed Forces of Saudi Arabia and U.S. Support Organizations

The Land Force of Saudi Arabia divides its manpower between two main entities, the Saudi Arabian National Guard (SANG) and the Saudi Arabian Armed Forces (SAAF).

The present-day Saudi Arabian National Guard evolved from the *Ikhwan* (The Brotherhood) or the White Army, as it was sometimes called. His Royal Highness King Abdul Aziz Al Saud, the first King of Saudi Arabia, organized and led the White Army in the early decades of the 20th century to subdue tribal resistance and unify the tribes of the Arabian Peninsula into what is now the Kingdom of Saudi Arabia. From this origin, the SANG has a long honored tradition of bravery and loyalty to the nation and its ruling family.

The Saudi Arabian National Guard is a full-time, standing, land-based, defensive force of approximately 75,000 regulars and 25,000 militia. Commanded by His Royal Highness Prince Abdullah bin Abdulaziz, Crown Prince and First Deputy Premier of the Kingdom, the SANG is headquartered in the capital city of Riyadh, with regional headquarters in two provincial capitals: Jeddah in the West and Dammam in the East.

The Saudi Arabian National Guard is a separate but equal force with the land-based components of the Ministry of Interior, the Ministry of Defense and Aviation, and the Royal Saudi Land Forces (RSLF). Each force plays a complementary role in the defense and security of the Kingdom. The SANG is a mechanized infantry and light infantry force that relies on rapid mobility and firepower to defeat its adversaries. It complements the heavier armor of the RSLF and is fully capable of conducting integrated operations.

The Office of the Program Manager - Saudi Arabian National Guard (OPM-SANG) is a security assistance program that was established by a 1973 Memorandum of Understanding between the governments of Saudi Arabia and the United States. The Program Manager is the principal U.S. military advisor to the Crown Prince, and is a member of the U.S. Ambassador's country team.¹¹

The other U.S. military organization present in the kingdom is the United States Military Training Mission (USMTM).¹² USMTM is a joint training mission and functional component

10 Anthony H. Cordesman, Center for Strategic International Studies (CSIS), *Saudi Arabia Enters the 21st Century: Politics and Internal Stability*, August 2001, chapter III, p.12-13, <http://www.csis.org/burke/saudi21/index.htm#reports>.

11 An Historical Perspective, 9 March 2003, <http://www.opmsang.sppn.af.mil/Default.htm>.

12 Global Security, United States Military Training Mission, 8 September 2002, <http://www.globalsecurity.org/military/agency/dod/usmtm.htm>.

command under the auspices of the United States Central Command (CENTCOM). The Chief of USMTM has been designated as the senior United States Defense Representative in Saudi Arabia and has been given coordinating authority over the other Department of Defense agencies in country. The Chief of USMTM works under the general guidance of the American Ambassador to Saudi Arabia, who has overall responsibility for all U.S. government activities within the Kingdom.

The mission of USMTM military is to advise and assist the SAAF through security cooperation efforts in developing, training, and sustaining capable deterrent and self-defense forces for the Kingdom of Saudi Arabia in order to facilitate regional security.

USMTM, with a headquarters, four service divisions, a joint advisory division, and a directorate staff, was formally organized in 1953 under the terms of the *Mutual Defense Assistance Agreement* between the United States and Saudi Arabian governments. USMTM maintains a headquarters on Eskan Village in Riyadh. There are five major divisions within USMTM that perform an advisory role to the SAAF.

Joint Advisory Division

The Joint Advisory Division (JAD), located in Riyadh, advises the General Staff of the Ministry of Defense and Aviation. This staff corresponds to the Joint Staff in the U.S. Department of Defense. Personnel of the JAD work with their counterparts in all aspects of planning, operations, and training generated by the Minister of Defense and Aviation joint and special staff for the Royal Saudi Land Force (RSLF), Royal Saudi Naval Force (RSNF), Royal Saudi Air Force (RSAF) and Royal Saudi Air Defense Forces (RSADF). In addition, JAD personnel serve as principal assistants to the Director, Foreign Procurement Department, and Director Foreign Assistance and Cooperation Department in their management and administration of Saudi Arabian foreign military sales (FMS) cases.

Land and Air Defense Forces Division

The Land and Air Defense Forces Division (L/ADF), with offices at the Royal Saudi Land Forces building in Riyadh, is responsible for providing advisory, training, and security assistance support to the Royal Saudi Land Force (RSLF) and the Royal Saudi Air Defense Forces (RSADF). The advisors in Jeddah and Tabuk represent USMTM in their areas by coordinating and managing the requirements of Department of Defense personnel in these communities as well as serving as advisors to various Saudi Arabian Armed Forces activities in their areas.

Air Force Division

The Air Force Division (AFD), Riyadh, is located within the Royal Saudi Air Forces (RSAF) Headquarters. The division has supporting advisors in Dhahran, Khamis Mushayt, and Jeddah. Personnel assigned to Riyadh work directly with their RSAF Headquarters counterparts on all logistics, operational, and foreign military sales (FMS) issues. In addition, E3A/KE-3A Extended Training Service Specialists (ETSS) personnel provide training and assistance to the RSAF in a variety of flying operations out of Riyadh Air Base.

Naval Forces Division

The Naval Forces Division (NFD), Riyadh, works with its counterparts in all aspects of operation, planning, maintenance, logistics, and training for the small but rapidly growing Royal Saudi Naval Force (RSNF). In Jubail, Navy personnel assist and advise the Base Commander, King Abdul Aziz Naval Base, and provide assistance to the Eastern Fleet Commander in naval warfare operations. In Jeddah, similar assistance is provided at King Faisal Naval Base and to the Western Fleet Commander.

Marine Force Division

The newly created Marine Force Division (MFD) is based in the Royal Saudi Naval Forces Headquarters, Riyadh.¹³ The MARFOR Division Chief is dual-hatted as the Chief of the Marine Corps Technical Assistance Group (MCTAG), which annually provides advisors to both Saudi Marine Forces Brigades in Jubail and Qadimah. Additionally, they provide technical advice to the Director of Marine Forces Schools at Ras al Gar.

USMTM reflects the organization of the Saudi Arabian Armed Forces. The SAAF Command structure provides for a Commander of Naval Forces, Commander of the Army, and a Commander of the Air Forces. Prior to 1984, the Royal Saudi Air Defense Forces fell under the command of the Land Forces Commander (Army). However, in 1984 the Kingdom established a separate professional service dedicated to the relatively high-technology air defense mission.¹⁴

The Ministry of Aviation and Defense exercises operational control over the SAAF, civilian aviation, and the national air lines of the Kingdom. The function of Minister of Defense and Aviation is similar to the following organizations in the United States: the Department of Defense and the Federal Aviation Administration.

The sizes of the services are as varied as their missions. Today, the Saudi Army has several thousand soldiers, a substantial inventory of tanks, other armored vehicles, and a variety of major artillery weapons. It is headquartered in Riyadh and has five staff branches:

- Personnel (G1);
- Intelligence and Security (G2);
- Operations and Training (G3);
- Logistics (G4);
- Civil and Military Affairs (G5).

It also has field commands organized into eight zones under Military Area Commanders.¹⁵

Saudi Arabia built a large base near Hafar Al Batin called King Khalid Military City. The city houses some 65,000 military and civilian personnel and is capable of housing and supporting three full army brigades. The Gulf Cooperation Council Peninsular Shield Force is located in King Khalid Military City.¹⁶

The Saudi Air Force is headquartered at Riyadh. Like the Army, it has a modern headquarters staff with five major branches: G1, G2, G3 or GS, G4 and G5. The RSAF also has a military academy and an extensive system of training schools and support facilities. Its operational command is structured around its Air Command and Operations Center and base operations. The main Air Command and Operations Center is near Riyadh and there are Sector Operating Centers at Tabuk, Khamis Mushayt, Riyadh, Dhahran, and Al Kharj (Prince Sultan Air Base – PSAB). These centers control air defense operations by fighter aircraft, surface to air missiles and air defense artillery.

13 Colonel Rodney Fitzpatrick, Chief of Staff, USMTM, 8 March 2003.

14 Anthony H. Cordesman, Center for Strategic International Studies (CSIS), *Saudi Arabia Enters the 21st Century: The Saudi Air Defense Force*, April 2002, p.1, <http://www.csis.org/burke/saudi21/index.htm#reports>.

15 Anthony H. Cordesman, Center for Strategic International Studies (CSIS), *Saudi Arabia Enters the 21st Century: Saudi Army*, January 2002, Chapter VII, p.1, <http://www.csis.org/burke/saudi21/index.htm#reports>.

16 Anthony H. Cordesman, Center for Strategic International Studies (CSIS), *Saudi Arabia Enters the 21st Century: Saudi Army*, January 2002, p.2, <http://www.csis.org/burke/saudi21/index.htm#reports>.

The Saudi Navy has a modern headquarters staff with five major branches similar to the Army and Air Forces. Its operational command is divided into two major fleets plus command of the Marine regiment. The Arabian Gulf Division is headquartered at Al Jubail and has bases at Dammam, Ras Tanura, and Al Qatif, plus a naval aviation element. The Red Sea Division is headquartered at Jeddah and has bases at Haqi, Al Wajh, and Yanbu.

The Saudi Air Defense Force, a separate service since 1984, is similarly organized as the other services with five major branches: G1, G2, G3, G4, and G5. The RSADF shares its headquarters with the RSLF in the RSLF headquarters. However, a modern headquarters facility is under construction in Riyadh and will be completed and occupied sometime in 2004. There are six major Group Commands

- 1st Group in Riyadh;
- 2nd Group in Jeddah;
- 3rd Group in Tabuk;
- 4th Group in Khamis Mushayt;
- 5th Group in Dhahran;
- 6th Group at Hafar Al-Batin (King Khalid Military City).

The SAAF are directly under the control of the King, who is prime minister and commander-in-chief. Prince Abdullah, the Crown Prince and First Deputy Prime Minister commands the National Guard (SANG). Prince Sultan, the Second Deputy Prime Minister and Minister of Defense and Aviation, is responsible for the regular armed forces.

There is a modernization effort that has occurred in the Saudi military forces. Air defense, as a relatively new service, is at the forefront of this effort. There are several areas in which the Royal Saudi Air Defense Forces have to examine and find competing resources to maintain and evolve their current capabilities. Most of the weapon systems of the Air Defense Forces were purchased in the 1980s and early 1990s. The Saudi government sought and purchased systems from many nations to include those from Europe, the United States, and Asia. It is this “sharing” of the wealth that will influence the future modernization of the Saudi Armed Forces and the desire to acquire the best at the best price. Governments and contractors alike must be prepared to accommodate the Kingdom’s needs with proper understanding of the cultural sensitivities that exist in the Kingdom of Saudi Arabia and its armed forces.

The Royal Saudi Air Defense Forces

The Royal Saudi Air Defense Forces (RSADF) has been a separate service since 1984 and has the responsibility for the air defense of the Kingdom. To successfully achieve this protection, the RSADF has purchased Short Range Air Defense Systems (SHORAD) and high to medium range air defense (HIMAD) missile systems. It is these weapon systems, facilities that support and train their forces, and the changing threat within the region that the Saudi Arabian government will examine over the next decade to determine the direction it will take.

The RSADF has several vital locations and facilities that are instrumental in providing training and education for all their soldiers and officers that successfully make it into the ranks of Royal Saudi Air Defense Forces. The headquarters, located in Riyadh, provides the operational and logistical planning and coordination support for the six group commands that are similarly aligned with the defense sectors that are in the Kingdom. It is also the location of the Staff College that trains field grade officers in staff operations. Jeddah is the home of the Air Defense Forces Institute (ADFI), the Maintenance and Technical Support Depot, and the location for all RSADF initial entrance and weapon systems training. It is at the ADFI that the officer basic course and the officer advance course are taught to the company grade officers. The ADFI is also the location of the RSADF military college. The college is new and in its second year of existence at the

ADFI. Currently, the college is designed as a three-year program providing graduates with a bachelor's degree in military studies. The goal of the college is to emulate other prestigious military academies such as the United States Military Academy.

The Royal Saudi Air Defense Forces use the old city gates as the entrance to their headquarters.



Another view of the old city gate.

The Maintenance and Technical Support Depot is a superb facility that supports modernization initiatives within the RSADF. The Depot is divided into three critical sites:

- Theater Readiness Missile Facility;
- System Integration and Check-Out Facility;
- Technical Support Facility.

The Maintenance and Technical Support Depot is a multi-million dollar HIMAD missile inspection facility that enables the RSADF to inspect missiles in the Kingdom, precluding the requirement to send them back to the U.S. This is a tremendous savings of millions of dollars to

the RSADF. The TRMF has been designed as an Ammunition Storage Point for storage of the missile and other ammunition that supports the RSADF. The System Integration and Check-Out facility conducts all of the weapon system integration, system checks and evaluations, and upgrades prior to standing up an air defense battalion. Finally, command, control, and communications are driving the Technical Support facility. Their goal is the integration of all the RSADF air defense weapon systems under one command and information center (CIC).

The current inventory of air defense weapon systems is varied. The RSADF maintains an inventory of gun systems, self-propelled SHORAD systems, and HIMAD missile systems. To support this complex array of weapons, the RSADF has an Air Defense Operations Center (ADOC) located in each of the six group commands.

The weapon systems and capabilities that the RSADF are able to bring to bear on a potential foe are divided into the following categories and capabilities:¹⁷

- Gun Weapon Systems;
- Man Portable Missile Systems;
- Short Range Missile Systems;
- Medium Range Missile System;
- Long Range Missile System.

The gun systems within the RSADF are used in support of maneuver units and other air defense operations as deemed necessary. Close-in, as well as medium range, systems can be found within all Group commands.

The first generation of man-portable missile systems are beginning to reach the end of their shelf life and are in the process of being destroyed. This effort was of vital importance to the Department of Defense and a significant effort for the air defense advisors within USMTM. The Mistral, a French man-portable missile system, was purchased by the SAAF in support of its armed forces. The missile is deployed throughout the different group commands. The Crotale/Shahine is another short-range system.

The HAWK missile system was purchased by the RSADF from the United States and has gone through several product improvement plans (PIPs). The improvements help the system in targeting and missile detection. There were improvements made in radar capability, both acquisition and detection, to the command and control interface, and missile warhead. The Patriot missile is the RSADF's newest acquisition, first purchased in 1990.

Finally, the Air Defense Operations Center is currently undergoing modifications that will allow it to integrate all air defense assets under one command and control system. There have been some decisions by the Kingdom of Saudi Arabia and the United States that have impacted the progress of the modifications. Completion of this effort should be achieved during 2003 when a final certification and acceptance test is expected to be conducted and successfully completed.

The RSADF has many weapon systems within its arsenal. However, age and technological improvements have required the RSADF to examine how to resource all of the requirements it sees as essential to the future. This provides a unique environment for security cooperation operations within USMTM. How this is accomplished will reflect the potential changes by the RSADF and therefore the requirement by USMTM, the U.S., and contractors to understand the changes that are occurring within the Kingdom and to plan and respond accordingly.

Some examples of how USMTM advisors can influence the direction of the RSADF can be shown through recent cultural, military, and support assistance efforts. After the tragic events of

17 Robin Keil and Dr. Norman Friedman, Raytheon, *Missile Systems of the World*, 1999, section: Air Defense.

September 2001, the effects on the Saudi military reflect the “perceived” attitudes and action taken by the U.S. Cancellation of training and schooling in the United States was immediate and a self-protection mechanism for the SAAF. Breaking this mold was paramount for the advisors. The air defense advisors used several mechanisms that resulted in the thawing of relations and a return of confidence in the U.S. government.



A Shanine Short-Range Missile.

The deployment and rotation of Patriot Task Forces to the Kingdom every four months makes the interface and exchange between the RSADF and U.S. Patriot forces difficult at best. The air defense advisors are in the Kingdom for one to two years. Understanding that relations within the Saudi culture are built over time allows the air defense advisors to be the conduit through which military-to-military exchanges occur in a more relaxed and routine manner, despite the ebb of constant change.



Several Patriot Missile Batteries.



Breaking several cultural barriers is also vital to the understanding of the cultural differences that exist. The air defense advisors can bridge this gap and did so in 2002 with the first inductions of RSADF soldiers into the Order of Saint Barbara, the air defense and artillery fraternal organization. This brought an artillery tradition of Christian origin to an Islamic military, which was extremely well received. The understanding and brotherhood that was developed helped improve the understanding of service-oriented traditions and the role they play in moral and unit esprit de corps.

The air defense advisor always plays a vital role in ensuring that the security cooperation program is correctly implemented and executed. A prime example is the monumental effort by several key members of the air defense branch in planning, coordinating, and executing the closure of a foreign military sales case relating to the Stinger missile weapon system. Advisors had to coordinate between the RSADF, RSNE, the 2nd Group, and Staff agencies in the RSADF Headquarters and Minister of Defense and Aviation, and then plan and execute the destruction of the Stinger missile system. The importance of this effort took on a more ominous role after September 11, 2001 in that it ensured, with RSADF assistance, that none of these highly lethal Stinger missiles made it into the hands of terrorists. This cooperation is indicative of the role advisors in USMTM play and the value that the Saudi Armed Forces place on the mission advisors conduct.

Training of the RSADF officer corps is extremely valued by the RSADF headquarters. Most officers speak multiple languages, as most are educated in the west. After September 11, 2001, the Kingdom of Saudi Arabia had scaled back the number of officers sent to the United States for advanced training. The efforts by the advisors to alleviate preconceived beliefs by the RSADF that officers would be at risk resulted in a resumption in school attendance in the U.S.

Current SAAF organization reflects the RSADF as a separate service. Having air defense subordinate to the Army has worked well for the military of the United States. However, this is not the case for Saudi Arabia. Understanding the Saudi culture and the mindset of the RSADF provides focus to the new paradigm.

The creation of an Air Defense Division (ADD) within the USMTM might provide the SAAF and the RSADF confirmation that their organizational structure is understood and correctly perceived. A new ADD would mirror the historical and cultural partings of the RSLF and the RSADF. This separate service organizational change had a definitive impact on both the RSADF and the Air Defense advisory team within the Kingdom. The military experiences brought by a change in USMTM to create an Air Defense Division could be broad and varied and provide greater flexibility for the RSADF and the USMTM air defense advisors.

The question becomes “how”? Division chiefs are colonels and the experience of a brigade level air defense commander would be an asset to the RSADF. Additionally, with the ADD being headquartered in Riyadh, permanent deployment of a detachment to Jeddah and Dhahran would provide daily operational interaction between advisors and RSADF soldiers. The inclusion of a U.S. military non-commissioned officer at each detachment would assist in the RSADF experience, fostering understanding of how to use this vital “asset” on which the U.S. Army depends so heavily. Currently, the level of responsibility and dependency upon the noncommissioned officer in the U.S. Army is critical to mission accomplishment. Within the RSADF, the noncommissioned officer’s role is not as pronounced as in the U.S. Army.

This implementation could influence how the U.S. government and contractors interact with the RSADF. Advisors, historically, have performed liaison functions in this capacity successfully. It might also allow the RSADF to have a greater appreciation for the complexities it faces with future modernization efforts.

From an air defense perspective, the Kingdom of Saudi Arabia will face many challenges. The expertise that the United States Military Training Mission brings in this arena will influence the security assistance that is brought to bear. The expertise of the air defense advisors within

USMTM will assist and help guide the paradigm shift that will occur over the next decade. Some of the areas that will be influenced by this organization will include the Patriot Configuration III and PAC3 Missile acquisition, Surface Launched Advanced Medium Range Air to Air Missile (SLAMRAAM), early warning improvements, and future integration efforts beyond the ADOC modifications.

The RSADF is quickly becoming a premier service. The potential regional hostilities and concerns of proliferation of weapons of mass destruction are influencing the resourcing and direction the RSADF is taking. The lethality of a single ballistic missile can cause tremendous death and destruction when it is configured with a weapon of mass destruction warhead. The other services will continue to focus on the conventional threat while the RSADF must consider the ominous technological changes occurring now and in the future. The pace of change for the RSADF is much quicker than the other services, making it more difficult on the leadership within the RSADF and their decision making process. It is the air defense advisor's role to improve efficiency and the security cooperation provided to the RSADF, which would only be enhanced by a more robust advisory team.

Failure to implement change may not be seen as any great loss. However, as the militaries of the world transform and watch the direction and changes of the U.S. military, failing to understand the paradigm shift within the Kingdom will reduce long-term influences, from an air defense perspective, on the strategic plans of the United States and national business industries. Understanding the uniqueness will, in time, allow Saudi Arabia to be less reliant on actual U.S. military forces but more dependent on U.S. military expertise. The result will be an increase of U.S. government influence within the Kingdom in a much more positive and appreciative role. The creation of a separate Air Defense Division might just be the key combination within USMTM that will assist the RSADF to continue on the path of transformation.

About the Author

Lieutenant Colonel Sippel's primary military occupation specialty is Air Defense, and his functional area is Operations. His academic education includes a Bachelor of Science degree in Electrical Engineering from Penn State, and a Masters of Arts in Management from Webster University.

LEGISLATION AND POLICY

Changing Dynamics in the Asia-Pacific Region: Implications for U.S. Business and Policy

**By
Colin L. Powell
Secretary of State**

[The following are excerpts of the speech presented to the United States Asia-Pacific Council Symposium Capital Hilton; Washington, D.C., April 24, 2003.]

I really do appreciate your words about what things are like in the business of U.S. diplomacy. It is not a matter of prevailing. It is a matter of serving the American people. It is a matter of serving the President. We have a President who has a vision, a vision of a world at peace, a vision where we work with friends and allies around the world to pursue that desired goal of a world at peace. A world that increasingly is worried and focused on the spread of democracy. A world that comes together to deal with tyrants. A world that works on free trade agreements of the kind that was just described. Free trade agreements not just for their own purpose or to serve the business community, but as a way of generating wealth in countries that desperately need wealth to bring people out of poverty and out of despair.

The President has a vision of going after some of the great problems that the international community faces, that the world faces; famine, and perhaps one of the greatest threats to the world now, and that is the human immuno-deficiency virus/acquired immune deficiency syndrome (HIV/AIDS). The President goes forward in the execution of his policies in the name of the American people, he will use all the tools at his disposal, diplomatic tools, political tools, economic tools, the brilliant United States military that we have seen at work in Iraq liberating the people. All of these elements of national power come together in the White House for the use of the President, and all of the members of the President's national security team work hard every day to make sure that we give him the very best advice, the very best council that we can, so that he can make the decisions that he has been elected to make for the American people.

And he does make those decisions and he does it in a bold way and he does it in a principled way. And the world has seen George Bush act in a dedicated and principled world and in a dedicated and principled way in recent months, and that is the way he will continue to work during the course of his administration and as he holds the reins of leadership in the United States and for the international community. And that is especially the case with respect to the way in which we will approach Asia. With a vision, with a desire to cement our friendships in Asia, with a desire to help those nations in Asia who are still trying to find their way forward find that way forward. And that is why this organization is important.

So many longtime friends of Asia and friends from Asia are here today to welcome the inauguration of the United States Asia-Pacific Council. The Board of Governors of the East-West Center deserves our appreciation for hosting the new Council and it is a testament, indeed, to the importance of the Council's mission that it has been able to assemble such a stellar group of leaders, from industry, academia, the media and government.

When I travel to Asia, journalists traveling with me will often say, "In this new century, does the United States believe that Asia is more important than Europe, or is Europe more important than Asia, or how has the balance shifted?" And, of course, my very diplomatic answer is that both sets of relationships have been and will remain essential. It is a diplomatic answer, but it also

happens to be absolutely true. It is in Europe and Asia where the United States finds a great concentration of capable, like minded partners, countries able and willing to work with us to address common concerns. And certainly Asia's weight in the world will only continue to grow.

But I would also say that a question like that is really a question of the 20th century, not of the 21st century, not of the mindset that we have to have for this century. Because so many of the opportunities and challenges in the world today are not just transnational, not just transregional, they are global. Whether it is terrorism or the spread of weapons of mass destruction, creating conditions for sustainable development, going after infectious diseases, or promoting democratic and accountable government, you can no longer just say it is a European problem or an Asian problem or an American problem or an African problem.

And it is no wonder that Asian countries have engaged so actively with us and others in the world community to confront these global challenges. Strong partnerships between the United States and our allies and friends in the Asia Pacific region have been, and remain, the pillars of security and prosperity in the region. And in this global age, they are also becoming critically important for the world beyond the Asia Pacific community, a world which depends upon the stability and growth that together we can generate.

You hear so much, for example, about North Atlantic Treaty Organization (NATO) going out of area. And, indeed, in August, NATO will take over the direction of the International Security Assistance Force in Kabul, in Afghanistan. Now, ten years ago when we were wondering about "whither NATO" and we were having these fascinating intellectual debates about whether there would be a role for NATO, and could NATO think about going out of area, we were thinking about just out of the immediate NATO area. Nobody could have anticipated then that NATO would go half way across the world to Asia and perform peacekeeping missions in a place like Afghanistan. And even more significant, members of the alliance are now talking about how they can play a role in Iraq. And for its part, the European Union (E.U.) is playing a welcome role in helping the Israelis and Palestinians back onto the road to a lasting Middle East peace.

I would argue, in reverse, that the nations of the Asia Pacific region are also going out of area. Already, Asian countries have made crucial contributions to combating international terrorism. Asian nations are extensively engaged in helping to rebuild Afghanistan. Japan co-chaired the Steering Group of Afghan Reconstruction Countries that came together, and Japan hosted our first highly successful international donors meeting. And it is no coincidence that our allies in East Asia have been key partners in Operation Iraqi Freedom.

They stood by us when the going got tough. In the days during and after our intensive efforts to encourage the United Nations to enforce its own resolutions, they were there and they stood by us. They did not waver. A transpacific partnership so vital for so long to keeping the peace of Asia now contributes in crucial ways to peace worldwide. As it was for Afghanistan, Australia, for example, was one of our very first coalition partners in Iraq, sending troops to fight on the ground and aircrews to fight from the sky.

South Korea is sending an engineering brigade and a medical battalion to Iraq, as well as also providing ten million for reconstruction and humanitarian assistance, in addition to what they have done in Afghanistan. Japan has given strong support to Operation Iraqi Freedom, as well as, at the same time, making a substantial commitment to Afghan reconstruction. Prime Minister Koizumi has shown the way in Asia with his personal leadership to deal with both of these challenges far away from the islands of Japan. Japan has pledged over \$200 million to post-war humanitarian assistance in Iraq, including assistance to Iraq's neighbors. So Japan clearly understands the role that it must play on the world stage, not just as part of the Asia Pacific part of the world, but as a part of the world community.

The Philippines announced its full support for Operation Iraqi Freedom. Immediately, at the first opportunity they had to do so, they did it, and they have stood alongside of us. Many others around the region, such as our good friend, Singapore, contributed to the coalition effort.

What has already been achieved in Afghanistan and Iraq is remarkable, and enormous opportunities have been opened in those two countries. U.S. led coalition forces destroyed in Afghanistan a major terrorist training ground, and now is in the process of liberating the long-suffering people of Afghanistan from the dual tyranny of the Taliban and al Qaeda, freeing a Muslim people and putting in place a Muslim government to lead those people. Afghanistan will not become an American colony or a fifty-first state; quite the contrary, we were willing to invest our time and our treasure and the lives of our young men and women, along with the lives of other coalition soldiers and sailors and airmen and marines, to bring freedom to the people of Afghanistan. Now, Afghanistan is governed by the most representative leadership in its history and is on its way to full constitutional government. For the first time in over two decades, the men and women of Afghanistan can look to the future with hope.

Liberation in Iraq is a great victory for freedom. It has freed the region and it has freed the world from the threat posed by the potentially catastrophic combination of a rogue regime with weapons of mass destruction and terrorism. But above all, it has freed the Iraqi people from a vicious oppressor. Now, we and our coalition partners, and many others who are now becoming a part of the coalition effort, are committed to helping the liberated Iraqi people, help them achieve a stable and united country under a representative government that will use Iraq's great natural human talent and its wealth, its oil wealth, to benefit all of its citizens. Iraqi oil will be used by the Iraqi people for the Iraqi people. The future of Iraq, finally, will be in the hands of its own people.

To the region and to the world, Iraq can become an example of a state transformed from a threat to a contributor, a contributor to international peace and security. How wonderful it was over the last several days to watch millions of pilgrims, for the first time in almost twenty-five years, practice their faith, marching to Karbala. It was our coalition, this great coalition that came together, that liberated them from a Muslim dictator and once again gave them the ability to practice their faith. It was a wonderful day. And to see General Jay Garner, United States Army, retired, up in the northern part of the country being greeted by the people with such affection and with thanks for what we have been able to achieve. A new day has begun in Iraq.

The international community, the United Nations (U.N.), the E.U., so many other organizations throughout the world, will all be playing vital roles in the relief, recovery and reconstruction effort in Iraq. And I have no doubt that many Asian nations, in addition to our coalition partners that I have mentioned already, will have the opportunity to take part in these noble efforts.

Meanwhile, the larger international campaign against terrorism continues and must continue. And Asia-Pacific countries have worked hard in this campaign. They have tightened their financial control system. They have worked to improve law enforcement. They have improved border controls and they are working on document security so we know who is traveling throughout the region, and whether they are traveling for peaceful purposes or for evil purposes. The Asian nations have dramatically increased intelligence cooperation, not just bilaterally with the United States, but with each other as well, as we make it clear that terrorism has to be dealt with in a comprehensive way. Countries that once had reservations about intelligence sharing, are now among the strongest advocates of such sharing, realizing how much it is in their interest to do so.

The Philippines, for example, has worked closely with our forces to not only share intelligence, but to work with our military and other forces to stop terrorist groups operating within its own borders. Malaysia, Singapore, and Indonesia have cracked terrorist cells. China has cooperated with us bilaterally and as a permanent member of the United Nations Security Council to pass those necessary resolutions that will implement the international will with respect to terrorism, including that historic resolution that is the foundation for all that we do, *Resolution 1373*.

Indonesia, to take yet another example, finally awakened to the threat of terrorism within its own borders, and has worked hard and has arrested many of the perpetrators of the terrible Bali, Indonesia bombing and brought to justice the leader of one of the terrorist organizations that claimed responsibility. All of the Association of Southeast Asian Nations (ASEAN) and others joined us in asking the United Nations to designate that group, Jemaah Islamiyah, as a terrorist organization. Even as we cooperate bilaterally with the countries of the region, we are working hard to bolster regional forums and help focus the efforts of these forums on terrorism and other transnational challenges.

At the Asia-Pacific Economic Cooperation (APEC) meeting last year, President Bush and the other leaders of APEC issued a counterterrorism declaration, a powerful declaration that will strengthen cooperation within APEC dealing with the security of trade, knowing what is transiting through our ports; deal with cyber infrastructure protection to make sure that the powerful tool that we now have available to us, the internet, is not used for evil purposes, and making sure that we have protected the global financial system so that we know when dirty money is passing through that system and heading to terrorist organizations. And just a few months before that, my Southeast Asian counterparts and I signed the *Joint ASEAN-U.S. Terrorism Declaration*, and we and our ASEAN regional partners agreed on ground rules for combating terrorist financing. Last month in Malaysia, we co-hosted another ASEAN regional forum workshop on ways to improve border security while facilitating the flow of people and goods.

So in this new century, with all of its perils, America's commitment to Asia's security and stability endures. For Asia's sake, for our sake, and for the sake of the international community, we are all in it together, and we will work with our partners to adapt our alliances and other relationships to meet these new 21st century needs.

With South Korea, for example, we are engaged in a Future of the Alliance Initiative. President Roh has welcomed these discussions aimed at modernizing the alliance and adapting it to the changing regional and global security dynamics. This process, this open transparent process between two allies, will result in strength and deterrence, including an expanded role for the Republic of Korea and its forces in the defense of the peninsula, and an enhanced contribution of U.S. forces to regional security and stability. There has been a lot of media attention on these discussions, especially within South Korea. And sometimes media is focused on what they believe is some effort on the part of the United States to get to a reduced commitment to South Korea's defense. Nothing could be further from the truth.

Our goal, in fact, is to reinforce our deterrence and reshape our force structure so that our alliance is positioned to serve for the long term. The size and shape of the U.S. footprint in any number of places may change, but we will remain steadfast in meeting the security obligations that geography, history and destiny have placed upon us. As President Bush has made clear repeatedly with respect to the Korean Peninsula, the United States does not want to see nuclear weapons on the peninsula. We seek a peaceful solution to the international community's serious concerns about North Korea's nuclear weapons program. As the President has said repeatedly since the beginning of this situation, we will pursue every diplomatic channel.

And that is why, for the past two days, we have been participating in meetings in Beijing with the Chinese and with the North Koreans. This is an early meeting, no intention of resolving any issues at this meeting. It was a way of bringing three countries in a multilateral setting who had a great interest in this problem together to exchange views to hear one another. Strong views were presented. The North Koreans presented their point of view strongly; the United States and the Chinese did, as well. The meetings are coming to a close now. The sides will return to their capitals and assess what they heard, analyze proposals that were put down by the parties, and determine where we will go next. The one thing that is absolutely clear as a result of this meeting, once again, is that there is unity within the community that we must not allow the peninsula to become nuclear.

These are strong views of the Chinese government, of the United States, of Japan, of South Korea, and of Russia, Australia, and other neighbors in the region, North Korea must come to understand this. North Korea must also come to understand that we will not be threatened. We will not respond to threats. We look for a way forward that will eliminate this threat and put North Korea on a path to a better future, a future that will provide a better life for its people. So we will analyze the results of this first set of discussions and see where we are going. The one thing we are also absolutely committed to is that there must be a multilateral approach and a multilateral solution to this problem. Nuclear weapons on the Korean Peninsula are a threat to every neighbor in the region, and a threat to the region, and we believe a threat to us as well. And it is for that reason we have insisted that all of the nations in the region play a role.

China has stepped up; South Korea and Japan are ready to participate in future conversations, when and if those conversations are held. And I hope the North Korean delegation will return to Pyongyang with a clear understanding of our point of view, as we have listened carefully to their point of view. I am particularly impressed at China's willingness to play an active role in these discussions, and I congratulate China for playing such an active role.

Our relationship with China has come a long way since the beginning of this administration. It was just about two years ago when we were in the midst of the U.S. Navy EP-3 crisis. You will recall when our reconnaissance plane collided with a Chinese fighter. We went into the ditch at that point, and people wondered if whether or not we were in for a long period of hostility and frozen dialogue. Quite the contrary. We dealt with that problem, came out of it, and today we are pursuing many promising new areas of cooperation with China, from counterterrorism to nonproliferation and stability in North and South Asia. This should surprise no one. As China's role in the world has grown, so too has its responsibilities and our expectations. There should be no doubt that despite our cooperation we still have serious differences with China. We have not stepped back from our principles or our commitments. But our cooperative agenda with China is better, richer and deeper than ever because we find that China and the United States have a mutual interest in addressing a wide range of global concerns. China has built up its foreign trade over the last thirty years. Today, it is a global manufacturing powerhouse to whom we look as a partner in fostering and sustaining global growth. We are working closely with China to ensure it fulfills all of its World Trade Organization (WTO) commitments and to advance the WTO's Doha agenda trade negotiations. Of course, creating conditions for an expanding global economy entails more than maintaining a fair and open international trading system. It also means cooperating with other nations to address the full range of global challenges that touch each member of the world community, not least of all China and the United States.

We are seeking to bring China into the group of nations working to fight the global scourge of HIV/AIDS. We have also developed important bilateral dialogues on international crime and law enforcement and on climate change. And we seek to bring China into a more global conversation about how to tackle these issues, as well, because they are global in nature. In the key area of human rights and religious freedoms, there still is much work to be done. China's citizens must have freedom to express their views peacefully and the protections of a fair and transparent legal system. After a year, 2002, of promising steps culminating in a productive U.S. and China human rights dialogue last December, we have seen some disturbing setbacks. We have talked to the Chinese candidly and directly about these setbacks and we have seen some improvement.

Our goal is to turn human rights into a positive element of our relationship, and so we are watching China's behavior and its decisions very closely and remain in very close dialogue with them. Inevitably, China's actions in the human rights area will continue to affect our overall bilateral relationship. As we look ahead, however, we will not allow areas of difference to preclude cooperation in areas where we share interests. The United States will continue to work creatively with China, as well as with all of our longtime allies and friends in Asia, to foster stability in the region and in the world. We will also continue to provide the security in that part of that world through our military presence that underpins growth not only in Asia, but the kind

of growth we need throughout the world. Because it is the kind of growth upon which America's own prosperity depends.

U.S. trade with East Asia now exceeds that with Western Europe, and it includes some of the largest and fastest growing economies in the world. Open economies support American jobs and income and broaden the foundations upon which democratic institutions can be constructed and create incentives to settle problems peacefully. When problems can be settled peacefully, you encourage more investment. Investment does not go to troubled parts of the world where that investment might not be safe.

And you can see that in the last decade alone, U.S. exports to Asia grew by more than 80 percent and U.S. imports from Asia grew by more than 150 percent. U.S. investments in Asia nearly tripled during the same period to over \$200 billion, about equal to the amount that Asians have invested in the United States. This two-way trade and investment pattern must continue and must be expanded. As is the case elsewhere, political stability in Asia is inextricably linked to economic prosperity. When an economy founders, there are political consequences. Likewise, when political systems are askew, there is economic fallout. It makes good sense, therefore, that we are actively promoting open markets, economic reform and pro-growth policies in all of our key bilateral relations in the region and especially using institutions such as APEC and Association of Southeast Asian Nations

And now a new threat to the region's economies has arisen. The outbreak of Severe Acute Respiratory Syndrome (SARS) reminds us that infectious disease knows no borders and requires an effective and coordinated response at local, national and international levels. Experts from our Centers for Disease Control are working around the clock in coordination with their counterparts in the region to prevent its spread and to find effective treatments. Already SARS is having a serious economic impact on tourism, commercial air travel, and other sectors touched deeply by the globalization of trade, manufacturing, and finance.

It is in all of our interests that Asian countries meet not only the challenges of this kind of threat, SARS, but also the challenges of political and economic reform, and also that the region continues to be the economic dynamo that it has been in past decades. We especially support Prime Minister Koizumi's economic reform agenda to return Japan to a strong and sustainable growth path. An economically robust Japan is of great importance to regional and global economic growth.

As I mentioned, we are closely monitoring China's implementation of its WTO commitments. And with its full compliance, we believe that will help spur further economic development, economic reform, help promote the rule of law, and increase the flow of ideas and information to the Chinese people, and from the Chinese people. As you heard Bob Zoellick say earlier, we have concluded a free trade agreement with Singapore and are pursuing another one with Australia.

Last year, President Bush unveiled the Enterprise for ASEAN Initiative, which offers Southeast Asian nations a roadmap to free trade, so they can increase their competitiveness and growth prospects. And we are working within APEC to promote open trade and investment and structural reform throughout the region. We are strengthening our ties in ASEAN through the ASEAN cooperation plan that I announced last year in Brunei. This plan focuses not just in institution-building within ASEAN, but also on narrowing the development gap among Southeast Asian countries. In all of these initiatives, it is not just what the government does; the private sector is the key to the success of each of these efforts. And so the Bush administration, and President Bush himself, personally committed to building and strengthening partnerships throughout our Asia-Pacific community. And we applaud the United States Asia-Pacific Council's efforts to heighten U.S. engagement in the region.

The enterprising nations of the Asia-Pacific are at the forefront of a worldwide phenomenon, an increasing awareness that the 21st century holds extraordinary opportunities as well as some threats and challenges:

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- Opportunities to work with allies, friends, and even former adversaries to resolve longstanding conflicts;
 - Opportunities to form coalitions against global challenges such as terrorism and weapons of mass destruction;
 - Opportunities to advance worldwide well-being on an unprecedented scale by freeing ordinary people to pursue their dreams.

In the new century, I am absolutely confident that Asia will be a growing force for global peace and prosperity. This is the future of Asia the Bush Administration that President Bush personally envisions. And it is the Asia we will work with to make sure that this is not a dream deferred, but a dream that we can reach and capture for the benefit of the peoples of Asia and the peoples of the world. It is Asia's tomorrow that is taking shape today, and you are playing a vital role in making sure that we achieve our goals and that we achieve that dream. It is an exciting time to be in the foreign policy community. It is an exciting time to see world regimes start to move to the side and disappear. It is an exciting time to see the international community come together with all the fractious behavior that sometimes occurs within the international community, even with some of the heated debates that you see and the disagreements that go on, whether it is within NATO or within the United Nations.

What comes through all of this noise, however, is the reason for the noise. It has a simple one-word descriptor. The reason for so much of this noise is democracy. Free people, free sovereign nations, debating, arguing, fighting, trying to achieve compromise, achieving consensus, all for a common purpose, to spread the values that we all believe in, the values of democracy, the value of individual human rights, the value of an open trading system, a system of values that come together for the purpose of freeing mankind from poverty and disease and want and fear. That is what we are all joined together to do, and I congratulate you for this step that you have taken to form this council, to be a part of this great crusade.

Asian Security and Hong Kong's Role in the War on Global Terrorism

By

Kenneth I. Juster

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[The following were excerpts of the keynote remarks presented at the Center for Strategic and International Studies Conference, Washington, D.C, April 28, 2003.]

Globalization and its Effect on Terrorism

I think it is fair to say that, during much of the 1990s, most of us thought of globalization primarily in terms of increased economic integration, including increased trade, increased flows of information, capital, technology, and increased foreign investment. This economic integration and technological development often led to increased economic growth, as well as greater social and cultural interaction.

In recent years, however, we have come to appreciate that globalization brings with it not just potential benefits, but also significant threats and vulnerabilities. It is now clear that problems, which may once have been contained to a single country or region of the world, can today spread rapidly throughout the world, whether by electronic and financial networks, by an integrated global transportation system, or by our increasingly efficient trading system. One recalls, for example, the negative effects of the financial crisis in Asia in 1997 and 1998 that rippled throughout economies across the globe. And as we speak we are seeing the spread of Severe Acute Respiratory Syndrome (SARS) due to international travel within Asia and to other cities worldwide, outpacing efforts to contain it.

Unfortunately, we have seen the impact of globalization on terrorism. We can no longer safely assume that we will be insulated from the problems of failed societies, from political or religious extremism, or from rogue regimes in distant countries. Indeed, the attacks of September 11, 2001 made clear that terrorists in countries half way around the world can present significant and immediate threats to our security. In short, we now face a new form of terrorism, one that does not focus on narrow or geographically-confined political objectives, one that does not seek to negotiate solutions, one that observes no red lines and will use suicide attacks if necessary, and one that often does not even take credit for its heinous actions. This new breed of terrorism is intent on destroying our freedom, our tolerance, our diversity, and our economic well being indeed, the values that are shared by both the United States and Hong Kong.

The challenge of confronting and preventing terrorism in today's world is made all the more difficult by the very attributes of our societies, our openness, the integrated nature of our transportation systems and information networks, and the widespread availability of technology. The same technology and communication networks that are essential for modern trade and commerce are also used by global terrorist networks to advance their nefarious goals worldwide.

The threat posed by global terrorism and rogue states is, regrettably, alive and well in Asia. There have been numerous reports that Osama bin Laden's al Qaeda network has been working and coordinating actions with indigenous terrorist groups in Asia, groups that were previously viewed as only local or regional problems. The mainstream press has reported at length on apparent ties between al Qaeda and Jemaah Islamiyah, the Indonesian terrorist group that bombed a Bali nightclub last October, killing 190 people and wounding several hundred more. There also have been reports of connections between al Qaeda and Abu Sayeff, the terrorist group in the Philippines allegedly responsible for several bombings causing the loss of lives and economic damage in that country. And connections of a Singaporean group to al Qaeda were suspected in a plot to bomb the U.S. Embassy and other Western targets in that country, a plot that was foiled by cooperative efforts between the United States and Singapore.

Economic Cooperation and Security Cooperation Are Intertwined

Just as terrorism has increasingly acquired a global character, so too must our efforts to fight terrorism be coordinated on a global basis. Indeed, with globalization, both our economic well being and our security are now more closely intertwined than ever before. Today, the health of any nation's economy and the global economy is dependent on security, including the security of borders, transportation systems, computer networks, and mail systems. That is why security should be viewed not as an obstacle to economic activity, but as the foundation for it.

Asia-Pacific Economic Cooperation and the Secure Trade in the APEC Region Initiative

That is also why, today, the Asia-Pacific Economic Cooperation (APEC) forum focuses not just on economic issues, but also on security issues. The Asia-Pacific economic region accounts for over fifty percent of the world's trade, twenty-one of the world's thirty top container seaports, and twenty-three of the world's thirty busiest airports. In the year 2000, U.S. exports to APEC totaled \$500 billion, making the APEC economies as a whole the largest export customer of the United States. And U.S. imports from APEC in 2000 totaled nearly \$700 billion. In addition, Asia is the home of a number of significant financial and banking centers, including Hong Kong. Indeed, the overall health of the Asian economy is one of the keys to ensuring a strong global economy.

Significantly, therefore, the United States launched, at the APEC Ministerial meetings in Los Cabos, Mexico in the fall of 2002, the Secure Trade in the APEC Region (STAR) initiative. The objective of the STAR initiative is to commit APEC economies to accelerate action on screening people and cargo for security before transit, increasing security on ships and airplanes while en-route, and enhancing security in airports and seaports. This is a critical initiative for the U.S. government, given the significant economic relationship between the United States and the APEC countries. We greatly appreciate the fact that Hong Kong has actively supported the STAR initiative, and we look forward to continuing our work together in this area.

Container Security Initiative

Hong Kong also has been an active participant in other U.S. led and multilateral efforts to protect the global trading system from terrorist activity. As many of you know, a significant amount of global trade passes through a handful of "megaports," which serve as key distribution points in the global economy. Many such hubs are located near countries that pose proliferation concerns, and potentially could be used by terrorists or rogue nations to divert sensitive items to unauthorized destinations or end-uses. Hong Kong is one of the world's major "megaports" and currently the world's largest container port. The sheer amount of commerce that passes through the port of Hong Kong in a given year is staggering. Indeed, trade flows account for greater than two and one-half times Hong Kong's gross domestic product. Thus, Hong Kong is a natural and essential partner in efforts to improve security at major transshipment hubs.

We are therefore gratified that Hong Kong is participating in the Container Security initiative. This initiative, which is led by the U.S. Customs Service, focuses on ensuring that containers destined to the United States from foreign seaports are screened and cleared prior to the time that they arrive at U.S. ports. Given the size of Hong Kong's port and the fact that Hong Kong is the largest single supplier of containers destined for the United States, accounting for almost ten percent of all containers shipped to our country, Hong Kong's enthusiastic participation is critical.

Transshipment Country Export Control Initiative

In addition to efforts to secure containers bound for the United States, we must address the possibility that sensitive items originating in the United States or other nations that produce high-technology goods could be diverted through Hong Kong or other major ports to terrorists or rogue nations. To focus specifically on these diversion concerns, the Commerce Department launched the Transshipment Country Export Control Initiative (TECI).

Transshipment Country Export Control Initiative seeks to channel existing and new export control resources toward curtailing the illegal diversion of products that can occur at the major transshipment hubs. We are working in both the inter-governmental and public-private arenas. At the government-to-government level, the Commerce Department works with its counterpart export control agencies in key transshipment countries, such as the Hong Kong Trade and Industry Department to strengthen the export control regimes, to have export control laws apply to both goods produced in country as well as goods in transit, and to strengthen the enforcement of such laws so as to prevent the illegal diversion of sensitive goods and technologies to terrorists or other unauthorized end-users. At the government-to-private sector level, the Commerce Department is working with industry in particular, companies involved in the transportation of goods through transshipment hubs, to enlist their support in preventing the illegal diversion of such goods.

Since the inception of TECI in late 2002, Hong Kong has worked closely with the U.S. government to further the goals of this initiative. Hong Kong delegations have made presentations at several international conferences on the issue of transshipment controls and have been instrumental in developing a set of best practices for transshipment hubs. Hong Kong's continued cooperation in these efforts will be essential, because many other major global trading centers look to Hong Kong as a model of balancing effective trade controls with the successful expansion of economic activity.

Operation Greenquest and the Disruption of Terrorism Financing Networks

As one of the world's leading financial centers, Hong Kong is also playing a key role in efforts to identify and disrupt the financial networks that support terrorism worldwide. The U.S. government has blocked the property of, and prohibited transactions with, designated terrorists, terrorist organizations, and individuals and governments that support terrorism. In addition, the U.S. government has launched "Operation Greenquest" an interagency effort led by the U.S. Customs Service to bring the full scope of the U.S. government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding.

Hong Kong has pledged full cooperation with these efforts. Using lists of terrorist organizations and individuals supplied by the United States and the United Nations, Hong Kong financial regulatory authorities have directed financial institutions to check records and undertake other efforts to uncover terrorist assets. Hong Kong also has played a key role in encouraging the intergovernmental Financial Action Task Force on Money Laundering to adopt stringent anti-terrorism measures in the wake of the September 11, 2001 attacks, to implement recommendations against terrorism financing, and to build global support for the work of the Task Force among non-members.

Strategic Trade and Export Controls

Let me now switch gears for a moment and move from steps that the United States and Hong Kong are taking together to combat terrorism and enhance security in Asia, to some of the issues related to our strategic trade relationship which can involve terrorism concerns, but also goes beyond that. As you may know, the Commerce Department and, in particular, the Bureau of Industry and Security, is responsible for administering and enforcing U.S. export controls on "dual-use" goods and technologies. "Dual-use" items are those that have both a legitimate commercial use and a use in the development or production of advanced conventional weapons or weapons of mass destruction. For example, machine tools can be used to make civilian aircraft, but they also can be used to manufacture jet fighters for the military. Or chemicals can be used to produce agricultural pesticides, but they also can be used as precursors for chemical weapons.

Under the U.S. "dual-use" export control regime, Hong Kong enjoys a special status. This derives from Hong Kong having been a British dependent territory prior to its unification with China in 1997. Today, under the "one country, two systems" model established in the *Sino-British Joint Declaration of 1984* and formally recognized under both U.S. and Chinese law, many items

that are controlled for export to China such as high performance computers, certain telecommunications equipment, and certain semiconductor testing equipment and materials do not require a license for export to the Hong Kong Special Administrative Region. This special treatment for Hong Kong is based on the continued autonomy of Hong Kong's customs territory from China, as well as the strong support of the United States for the values that Hong Kong represents in Asia open markets, free trade, and the rule of law.

Hong Kong derives significant benefits from this special status, including access to a wide range of sensitive "dual-use" items and technologies from the United States. Indeed, in 2002 Hong Kong received \$54.4 million worth of sensitive "dual-use" goods under licenses issued by the Commerce Department and many times that amount under license exceptions. The licensed trade alone includes a number of items that fuel Hong Kong's economy, such as precursor chemicals and magnetic metals as well as various high-technology items, such as electronic equipment and information security equipment and software. Seventy-five percent of all applications to export controlled items to Hong Kong were approved in 2002, with 21 percent returned without action, usually because a license was not necessary, and only 4 percent denied.

To maintain this favorable and preferential status in the U.S. export control system, Hong Kong must continue to ensure that the integrity and autonomy of its customs territory is not compromised and that its actions do not undermine the reality or the perception that Hong Kong is separate from mainland China. This will be especially challenging in light of Hong Kong's plans for increased economic integration with China, for streamlining border controls with China and co-locating customs facilities, and for negotiating a free trade agreement with China. Any weakening of Hong Kong's autonomy would cast doubt on the rationale for its special status under the U.S. export control system.

Much to its credit, Hong Kong has put in place a world-class system of export controls relating to strategic trade, and has repeatedly emphasized its commitment to maintaining the effectiveness of this system. The Hong Kong strategic commodities control system applies to all items and technologies listed on the internationally-agreed control lists of the multilateral regimes. As previously noted, the Hong Kong system applies both to goods exported from Hong Kong and to goods that are in transit through the port of Hong Kong. Recent improvements to Hong Kong's system include the establishment of an online database of controlled items and the creation of an industry liaison position. Indeed, the Hong Kong system is often appropriately held up by the United States as an example for other nations that lack an effective and efficient export control system. And we very much support Hong Kong's increasing efforts to engage in outreach to its own exporters and shippers regarding the applicability and requirements of the strategic commodities control system.

A world-class export control system by itself, however, is not sufficient. In order to prevent the diversion of sensitive goods and technologies, export control laws and regulations must be vigorously enforced. Hong Kong has long cooperated with the United States on export enforcement matters, and we want to continue and enhance that cooperation. For the past six years we have held regular bilateral talks with Hong Kong trade officials on issues of mutual concern. We just concluded last week two days of very productive discussions as part of this dialogue.

These meetings have been a testament to the importance of our relationship and provide a strong foundation for future cooperation. One recent step toward our goal of increased cooperation on enforcement matters was the exchange of letters last month between myself and Hong Kong's Director General of Trade and Industry on mechanisms for sharing information. This new agreement should enhance our ability to share export licensing and enforcement data, and lead to more effective enforcement efforts by both the United States and Hong Kong.

Conclusion

The U.S. relationship with Hong Kong is as important as it is unique. The open markets and free trade necessary for the health of our economies cannot thrive in an environment where the threats of proliferation and terrorist attacks cause our citizens and our companies to disengage from the world economy. Our future prosperity will be tied directly to the success of our cooperative efforts to eliminate the global instability caused by terrorism.

Two important components of these efforts are our cooperation in administering and enforcing strategic trade controls to prevent the illegal diversion of sensitive items and technologies and our cooperation in identifying and tracking down financial assets and networks that support terrorism. In addition, our mutually-beneficial strategic trade relationship will continue to flourish if we are able to remain confident in the autonomy of Hong Kong's customs territory and export controls under the "one country, two systems" model. We look forward to working with our counterparts in Hong Kong to ensure that this is the case.

Foreign Assistance Programs in South Asia

By

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[Excerpts of the following testimony was presented to the Senate Committee on Foreign Relations, Washington, DC March 26, 2003.]

Regional Policy Priorities

How U.S. foreign assistance programs for South Asia support our policy priorities and efforts in the region. Even as we advance our efforts in the Middle East, South Asia remains at the front lines of the war on terror, and regional stability remains critical. We must remain actively and effectively engaged in this region where our most vital interests are at stake. U.S. support has contributed to substantial progress over the past year and a half. Eighteen months ago, we could not have foreseen that Afghanistan would convoke a representative Loya Jirga, select a transitional government to preside over reconstruction, and draft a constitution. Afghanistan must shortly begin preparations for national elections in June 2004. Pakistan's effective support for Operation Enduring Freedom has been equally welcome. Pakistan's October 2002 elections re-established a civilian government, and we are providing assistance towards a full return to democracy there. We have experienced the close cooperation of all the countries in the region in the war against terror, and were able to play a helpful role last spring and summer to defuse a dangerous crisis between India and Pakistan that could have led to a catastrophic conflict, and we are redoubling our efforts to reduce tensions in Kashmir. Regional stability has been served by Sri Lanka's progress towards ending a twenty year civil conflict. However, we must assist Sri Lanka to achieve and consolidate peace, and Nepal to avoid resumption of a Maoist insurgency and to shore up its fragile democracy. With an eye to the future, we will continue to transform our relationship with India, a rising global power, and will help the moderate Muslim democracy of Bangladesh, which faces difficult political divisions and significant economic challenges, towards greater stability and economic growth.

Assisting South Asia's Frontline States: Afghanistan and Pakistan

As we move into fiscal year (FY) 2004 and beyond, helping Afghanistan to establish lasting peace and stability will require a continued commitment of U.S. and donor resources to four interlocking objectives, consistent with the goals of the *Afghanistan Freedom Support Act*.

- Afghanistan must establish internal and external security, without which economic reconstruction and political stability will fail. President Bush committed the United States to take the lead among donors in helping to establish a multi-ethnic and disciplined Afghan military. Our security assistance will enable us to train and help retain troops and officers. This program has made significant strides in the last few months. Thanks to the *Afghanistan Freedom Support Act*, we were able to provide \$150 million under Department of Defense (DoD) drawdown authority towards a gap in funding those efforts. With similar FY 2004 levels of U.S. funding from all our security accounts, including drawdown authority, we will be able to meet our goal to help establish a strong central corps before the 2004 elections. Although we must rely to some degree on local leaders and their militia to provide interim security and stability in many parts of the country, we are working with President Karzai to draw the center and the regions together. We must therefore link recruitment efforts to the broader process of disarmament, demobilization and reintegration (DDR) of Afghan fighters. We are also helping the Afghan government to combat narcotics trafficking, fortify counterterrorism and non-proliferation export control capabilities, and train police in coordination with European and other donors. A stable and effective central government is being established according to the roadmap accepted at Bonn in December 2001. A Constitutional Loya Jirga is scheduled for October of this year followed by national elections scheduled for June 2004. We will assist those processes, as well as assistance to the women's

ministry, judicial rehabilitation, human rights, civic education and independent media development. We are providing budget assistance to help keep the government operative while helping Afghans establish revenue generation, while other programs support development of an accountable, broad-based, and representative political system. We are striving to ensure visible signs of progress by the central government on key reconstruction needs, such as the completion of the Kabul to Kandahar road segment prior to the June 2004 elections. In order to enhance the Afghan Transitional Authority and better link central and local government, Provincial Reconstruct Teams (PRTs) have been established in three locations with more to follow in late spring. Initial indications of PRT success point to increased stability and enhanced non-government organization reconstruction efforts.

- Economic reconstruction and development will bolster the Bonn process and reduce dependence on donors. In January of 2002 at Tokyo, sixty countries, the European Union (E.U.), the World Bank, and the Asian and Islamic Development Banks pledged over \$4.5 billion over six years. At the Afghanistan high-level strategic forum in Brussels in March 2003, the international donor community reaffirmed its commitment to Afghanistan and pledged \$1.5 billion for reconstruction and recurrent budget assistance in 2003. In addition to pledging over \$297 million at Tokyo and \$600 million at Brussels, the United States has assisted Afghanistan to access frozen assets and begun initiatives in the areas of trade, commerce and finance. The United States Agency for International Development (USAID) programs focus on private enterprise and employment and agriculture, the livelihood of most Afghans, as well as health and education. Economic Support Funds will also continue to support infrastructure rehabilitation, including the Kabul-Kandahar-Herat ring road.

- Humanitarian needs will also continue as reconstruction proceeds. We continue to support the remaining Afghan refugees in Pakistan and Iran, internally displaced persons (IDPs) and returnees. U.S. demining assistance as part of a larger donor effort will enable the return of refugees and displaced, and will support economic reconstruction.

United States relations with Pakistan have broadened significantly over the past eighteen months. Starting with our solid partnership in the war on terror and our cooperation in Operation Enduring Freedom, we have expanded the relationship and have reestablished a USAID program, providing assistance in the areas of education, democracy, economic development and health. We have expanded our cooperation in law enforcement and we have begun restoring our military ties. In the coming years, we will strengthen our programs of bilateral cooperation in order to deal successfully with issues of key interest to both our nations, including: counterterrorism, Pakistan's relations with its neighbors, regional stability, strengthening Pakistan's democracy, helping to promote economic development, and improving life for the people of Pakistan to help this nation continue moving in a positive direction.

The United States and Pakistan cooperation in the war on terror takes place on several fronts, including coordination of intelligence and law enforcement agencies in hunting al Qaeda and other terrorists within Pakistan, coordination with military and law enforcement agencies along the border with Afghanistan and efforts to strengthen Pakistan's law enforcement and counterterrorism capabilities and institutions. We continue to work closely with the government on counternarcotics and have more than a decade of successful collaboration with the Pakistani government, including in the tribal areas near the Afghan border. Since the fall of 2001, Pakistan has apprehended close to 500 suspected al Qaeda operatives and affiliates. It has committed its own security forces, some of whom have lost their lives to pursue al Qaeda in its border areas. Just as importantly, we are encouraging Pakistan to build positive, mutually constructive relations with neighboring Afghanistan and support its efforts to establish a stable and secure government. We are also assisting Pakistan to strengthen non-proliferation export controls.

Pakistan's commitment to democracy and human rights will be central to building a stable and positive future for its people. National elections in October, although flawed, restored civilian government, including a Prime Minister and a National Assembly, after a three-year hiatus. We

want to see accountable democratic institutions and practices, including a National Assembly that plays a vigorous and positive role in governance and an independent judiciary that promotes the rule of law. We will support development of the independent media and effective civil society advocates. These institutions are required if Pakistan is to develop into a stable, moderate Islamic state.

Pakistan's progress toward political moderation and economic modernization will require sustained economic growth. The U.S. government engages in a bilateral economic dialogue with Pakistan to encourage sound economic policies. We are providing debt relief and budgetary support, and are devoting significant resources to assist Pakistan's economic development, particularly in the areas of education as well as health, so that Pakistanis can develop the skills they will need to build a modern democratic state that can compete successfully in the global economy.

Promoting Regional Stability: India and Pakistan Tensions, Sri Lanka and Nepal

We are redoubling our efforts to resolve and prevent conflict throughout South Asia in order to avoid instability favorable to terrorist movements seeking to relocate or expand operations in the region. Stability will also assist continued economic and political progress. We were deeply shocked and disturbed by Sunday's terrorist attack south of Srinagar, India, which killed twenty-four innocent civilians, including two young children. This cowardly act appears aimed at disrupting the Jammu and Kashmir state government's bold efforts to restore peace and religious harmony to this troubled state. Although the U.S. has no preferred solutions for Kashmir, one thing we do know is that violence will not provide a way forward, and should cease immediately. The Kashmiri people have demonstrated a desire to move forward with a peaceful, political solution, and their efforts should be supported by all sides.

Avoiding conflict between Pakistan and India is perhaps the most daunting U.S. challenge in South Asia. We helped to successfully walk India and Pakistan back from the brink of war last year. However, continued terrorism like Sunday's attack threaten to provoke yet another crisis in the coming months. We look to Pakistan to do everything in its power to prevent extremist groups operating from its soil from crossing the Line of Control. Pakistan has taken steps to curb infiltration but we are asking the government to redouble its efforts. At the same time, we will use our good offices to continue to press both sides to take confidence building steps that will lead to a process of engagement addressing all issues that divide them, including Kashmir.

We were encouraged by the results of last fall's state elections in Kashmir and view them as the first step in a broader process that can promote peace. The new state government has adopted a thirty-one-point common minimum program aimed at promoting dialogue, reconciliation, human rights, and economic development in Kashmir. Resources required for this effort are primarily diplomatic. We are also examining ways in which modest U.S. assistance might bolster some of these positive developments and help build up constituencies for peace.

Through a Norwegian facilitated peace process, the Sri Lankan government elected in December 2001 moved rapidly towards peace negotiations with the separatist Tamil Tiger guerrillas designated a Foreign Terrorist Organization in 1997. Five rounds of talks have followed the initial round that began in September 2002, and the talks have made significant progress, although complex issues remain that will require time and skillful diplomacy to resolve. Several U.S. agencies, including the Treasury Department, the Commerce Department, and Department of Defense, sent assessment teams to Sri Lanka last year to examine how we can most effectively use our bilateral assistance and engagement in support of the peace process. As a result, we are providing demining support, and we plan to establish new programs to strengthen Sri Lanka's peacekeeping capability and reform its military institutions. Our economic assistance and development programs will facilitate post war reconstruction, economic recovery, and political and social reconciliation and reintegration.

In Nepal, a recent cease-fire and agreement on a code of conduct have raised hopes of progress with the Maoists. We believe the parties have come this far only because the Royal Nepal Army was able to make an effective stand, a goal which U.S. security assistance aims to bolster. In coordination with Great Britain, India and other partners, our security assistance will provide directly needed small arms, equipment and training to enable the Royal Nepal Army to counter the Maoist military threat. If a political settlement has been reached, the United States should be in the forefront of donors prepared to help Nepal conduct local and national elections and strengthen administrative and democratic institutions. In the near term, we will continue to support improved governance and respect for basic human rights, improved health services and rural livelihoods, and sustainable development. Our assistance will also support efforts to bolster government control in areas vulnerable to Maoist influence by funding high-impact rural infrastructure and employment projects.

Transforming the U.S. and India Relationship

Shared interests and values link the United States and India, the world's two largest democracies. We are deepening our partnership and are providing assistance on issues ranging from regional stability, non-proliferation and combating terror, to science and technology, economic reform, human rights and global issues. We are expanding our security cooperation through a bilateral Defense Planning Group, joint exercises and military exchanges. U.S. security assistance aims to promote cooperation and interoperability, and we are helping to upgrade India's export-control system to meet international non-proliferation standards.

As we continue an expanded economic dialogue with India, U.S. economic and development programs aim to assist the completion of fiscal, trade and other reforms that will promote economic stability and, by extension, reduce poverty. Our programs will also enable vulnerable groups to have better and quicker access to justice, and will address human rights concerns. Our health programs aim to increase the use of reproductive health services, prevent human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS) and other diseases, promote child survival, and improve access to, and availability of, tuberculosis treatment. A number of these services are delivered in conjunction with non-government organizations and the government of India using the platform of our food assistance, which we expect will continue, although with some degree of modification.

Supporting a Moderate Bangladesh

Bangladesh provides a model of a strong, stable democracy. It is in the interest of the United States to help Bangladesh's economy prosper. A valued partner in the war on terror as well as a moderate voice in regional and international fora, Bangladesh is the eighth most populous country in the world and the top manpower contributor to U.N. peacekeeping missions. Bangladesh has made marked progress on economic development, health and women's rights. However, political rivalries and corruption threaten political stability and impede economic growth, while law and order problems must be addressed. U.S. assistance programs in Bangladesh aim to increase the accountability and effectiveness of Bangladesh's democratic institutions and to promote human rights. Our programs also seek to improve basic education and provide high impact economic assistance and target improved health services for Bangladesh's women and children.

The Maldives and Bhutan

The Maldives, a small Muslim country of 280,000 persons, has served as a moderate voice in international fora, including in the Organization of Islamic Countries. Absent a U.S. mission in the Maldives, engagement continues through regular diplomatic exchanges managed by the U.S. Embassy in Sri Lanka, through our International Military Education and Training (IMET) program, and through South Asia regional programs.

We have a cordial but modest relationship with Bhutan. We welcome efforts by the King to modernize the nation and to build a constitutional democracy. We continue to urge Bhutan and

Nepal to resolve the long-standing plight of 100,000 refugees in Nepal. Bhutan needs to accept back those persons who have a legitimate claim to citizenship.

Public Diplomacy

The South Asia bureau's public diplomacy efforts support the preceding policy goals. As the war on terror continues, we are using public diplomacy programs to counter extremist influences and encourage moderate voices in universities, media, government, religious organizations and business organizations and associations. Getting the message out is key. In Afghanistan, we recently installed a Voices of Asia transmitter capable of supporting country-wide AM radio. We are engaged in dialogue with religious leaders in Bangladesh and Pakistan, and through our international exchange programs, are giving South Asians greater understanding of religious life and democracy in the United States. To promote stability and development in South Asia, we are focusing in particular on women's rights advocacy training, building skills in conflict resolution, and improving civic education and teacher competence. Other programs work to increase mutual understanding, particularly by reaching out to youth and women, like the Seeds for Peace program. Finally, our public diplomacy programs will continue to support our goals to strengthen democratic institutions, extend universal education and support economic development.

Conclusion

Achieving U.S. goals in South Asia has never been more critical to our national security, or to the stability of the region. I will close by re-emphasizing that the United States has significantly changed and deepened its relationships in South Asia. We are making progress in the war on terrorism. We have contributed to the reduction of tensions and supported the resolution of conflict throughout the region. We have championed stronger democratic institutions, development and economic reform that will lead to a better quality of life and long term stability for all South Asians. But there remain a great deal to accomplish. A more secure, democratic, stable and prosperous South Asia is very much in our interest, and I look forward to working together with the Congress as we continue to pursue those very important goals.

U.S. Engagement in Central Asia and the Caucasus: Staying Our Course Along the Silk Road

By

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[The following are excerpts of the remarks presented to the “Central Asia: Its Geopolitical Significance and Future Impact” Conference hosted by the Title VI Undergraduate International Studies and Foreign Language Program Directors, University of Montana, in Missoula, Montana April 10, 2003.]

Acknowledgements

We have colleagues waiting to go into Iraq to launch a new relationship between the U.S. and Iraq. We have other United States Agency for International Development (USAID) colleagues, members of Disaster Assistance Response Teams (DART) already in Um Qasr and Basra to survey the humanitarian situation. My specific goal this evening is to discuss where we are and where we want to go in our relations with the countries of Central Asia and the Caucasus.

Opening

In recent months much of the world’s attention has understandably been focused on the trans-Atlantic relationship, and the differences that emerged with some of our European friends and allies over Iraq. What has received relatively less attention has been the steadfast support the United States has received from a number of countries in the former Soviet Union. Clearly, one of the reasons we enjoy such a close and supportive relationship is our intense engagement, through diplomacy and foreign assistance, during their difficult transitions from Communism toward democratic political systems and market economies.

The United States has important interests in Central Asia and the Caucasus beyond supporting the transition of formerly Communist countries. After September 11, 2001, global interests such as combating terrorism, weapons proliferation, and trafficking in narcotics and other illicit goods also came to the fore. Despite the relatively small overall Department of State budget, we have undertaken some effective policies and programs in the region. We are successful because we work closely with a number of partners, such as non-governmental organizations, international financial institutions, and other U.S. government agencies. I want to highlight how our political engagement and assistance directly support our national interests. I also want to give concrete examples of how our assistance actually works.

Strategic Importance

It is no coincidence that the Caspian region has been on the edge of recent international conflicts. History shows that the Silk Road was not only a trade route but also a strategic bridge for Alexander’s armies, the Mongols, the Moghuls, the Ottoman empire and more recently the Soviet empire. Today, it is a region surrounded by key competitors for energy and for military and ideological power Turkey, Russia, China, Iran and India.

Our disengagement from Afghanistan in the 1980s taught us a harsh lesson, one that we do not want to repeat in other countries. We learned that we must engage the region’s governments and people to promote long-term stability and prevent a security vacuum that provides opportunities for extremism and external intervention. This is particularly true in Georgia, Uzbekistan, Kyrgyzstan and Tajikistan, where terrorist groups have threatened our own national interests.

In contrast to Afghanistan and Iraq, we engaged in Central Asia and the Caucasus well before the situation reached a crisis. We were among the first countries to open diplomatic missions in Central Asia and the Caucasus after the collapse of the Soviet Union. We have a continuing

interest in stopping the transborder movement of terrorist groups, weapons of mass destruction and other weapons traffic, illegal drugs, and trafficked persons. We have an interest in resolving and, where possible, preventing violent conflicts that threaten regional stability. And we also have an interest in seeing all countries of the region become democratic, market-oriented states, the best long-term guarantee of regional stability and of positive, mutually beneficial relations.

Finally, the Soviet legacy of weapons of mass destruction, weapons infrastructure and expertise remains a critical United States security interest in the region. Our assistance continues to be targeted at the detection, deterrence, interdiction, control and reduction of the vast Soviet military arsenal, with its widely dispersed sources of weapons of mass destruction and weapons of mass destruction expertise. To address this, in 2002 we spent \$958 million on assistance in Central Asia and the Caucasus to build civil society, promote political and economic change, and combat terrorism. This is a bargain, given the radical reform we are striving for in these countries. Though our plan is complex and multifaceted, our vision for this region is simple:

That these nations remain independent, and become democratic, stable, and prosperous partners of the United States.

Our Successes

United States assistance programs and policy engagement have generated demonstrable progress in this region. These steps are now discernable, and in some countries, contrast with stalled reforms in the period immediately after independence. We have worked closely with reform-minded leaders, journalists, non-government organizations activists, and we have persevered remembering our pledge to be in this for the long haul. Let me illustrate some success stories and some places where we clearly have more work to do. I have brought handouts on our programs in each of these sectors.

Civil Society

In every state in the region, we are helping carve out a role for non-government organizations, independent media outlets, and democratic political parties where none existed ten years ago. We are working with several local partners, non-government organizations, civil society organizations, and journalists to help build democracy from the grassroots up. Under repressive conditions, such as those existing in Turkmenistan, these efforts are mostly aimed at keeping alive hope for long-term change. In other countries, though, civil society is increasingly able to act as a real counterweight to arbitrary government behavior. We saw examples of this in Kyrgyzstan, where non-government organization pressure led to revocation of a presidential decree limiting freedom of the press. In Tajikistan, the government approved the application of Radio One, the first non-state-run station in Dushanbe, Tajikistan. Also in Tajikistan, the government has registered new political parties, simplified political party registration, and made it easier for civil society non-government organizations to register, leading to an explosion in their numbers.

Security

Programs to target cross-border threats provided to Uzbekistan under the Export Control and Related Border Security programs have helped the Uzbeks to interdict several shipments of weapons of mass destruction material transiting their border. Similarly, substantial United States support for a U.N. drug control program in Tajikistan enabled authorities there to seize record quantities of Afghan heroin on its way to Russia and Europe. Additional support has made it possible for our United States Drug Enforcement Administration to set up the first “vetted” counter-narcotics unit in Central Asia, in Uzbekistan. In addition, we have expanded our security assistance cooperation to enhance interoperability of many of these states with U.S. and coalition forces.

In Georgia, we began the Train and Equip Program (GTEP) in 2002 to enhance Georgia’s abilities to control its territory and to fight terrorism. This assistance helped create, train and equip four combat infantry battalions and one mechanized company to defend Georgia against potential

terrorist threats in the Pankisi Gorge. The Georgia Train and Equip Program graduated its first class of trained infantry in December 2002 and the Red Bridge border guard station opened in March 2003.

As each day passes, the countries of Central Asia and the Caucasus are becoming better equipped, better trained and better coordinated with one another to deal with transnational threats. Our Embassies in the region are among our smaller posts, but they all take very seriously the threats that come from drug trafficking and the destabilizing activities associated with that trade.

Human Rights

The issue of human rights has been the toughest nut to crack. For example, Uzbekistan has serious problems. Since September 2001, however, because of our persistent and consistent diplomatic engagement, we have seen important progress. This included the release in the December 2002 annual amnesty of 923 political prisoners, International Red Cross access to Uzbek prisons, the first-ever registration of two local human rights non-government organizations, the abolition of prior censorship of the media, and the acknowledgement by the government of the problem of torture following the visit by the U.N. Special Rapporteur on Torture. Much remains to be done, but we must recognize that these are real achievements.

Economic Reform

Economic reforms have really started to take hold in Kyrgyzstan, a country that has been working closely with the international financial community. Its economic situation remains precarious, due largely to its isolation and lack of marketable natural resources. But it has achieved six straight years of growth and some reductions in poverty as a result of courageous economic decisions. The International Monetary Fund recently approved a major initiative to combat poverty, and the Paris Club restructured Kyrgyzstan's enormous debt. The Kyrgyz Republic was the first former Soviet republic to join the World Trade Organization. A very successful micro-enterprise program that we fund in Kyrgyzstan provides employment for hundreds of poor women, many of whom are the sole breadwinners for their families and are excellent businesswomen by anyone's standards.

In some countries, agribusiness development programs help increase farmers income through marketing and export strategies. In Armenia, the Market Assistance Program (MAP), works directly with fifty-five agribusinesses and twenty-five farmer associations. These agribusinesses employ about 3,000 people and buy raw products from over 18,000 farmers. With the Market Assistance Program, twelve dairy processors have already sold ninety tons of cheese in export markets. That means that 2,000 farmers now receive cash for the milk they produce for cheese, if they can meet associations' quality standards.

In Georgia, micro-finance programs benefited 60,000 borrowers last year; approximately 75 percent were women. Partner financial institutions have established models of successful lending by providing a range of innovative loan products to micro, small and medium-sized businesses and by maintaining a near 98 percent repayment rate. Our assistance has made these successes possible. These are real steps forward.

Energy

Some states in the Caspian region are fortunate to have abundant oil and gas resources. But because the region is land-locked, developing these resources and getting them to world markets has been a formidable challenge. Recognizing the pivotal nature of the transport issue for the political independence and economic viability of these countries, we have vigorously supported the political development of an East-West Energy Corridor. This includes the Caspian Pipeline Consortium, which is taking oil from Tengiz in Kazakhstan to Novorossiysk in Russia. The Baku-Tbilisi-Ceyhan oil pipeline is now under construction and will start operating in 2005. The South Caucasus gas pipeline, built parallel to the Baku-Tbilisi-Ceyhan oil pipeline, will ship gas from the off-shore Shah Deniz field to central Turkey beginning in 2006. Together, these projects

strengthen the Caspian countries, promote regional integration and contribute to global energy security by diversifying supply sources.

The Roots of Extremism

This is perhaps the clearest example where our diplomacy and assistance programs need to work hand-in-glove. In Central Asia, poor economic and social conditions are contributing to the appeal of extremist Islam in the volatile Ferghana Valley. We seek to head off conflict by improving infrastructure, creating employment opportunities, and helping develop and strengthen civil society. We are creating jobs through marketing assistance and establishing credit for agricultural processors. We are maintaining a high level of student and professional exchanges. In addition, we hope to expand highly successful pilot health reform projects, including the establishment of private medical clinics that are not dependent on the central system. These clinics will have an insurance co-payment system, primary care physician training, and management of their own funds. We have put our money where our mouth is. While admittedly foreign aid can never substitute for the political will of the parties involved to find peaceful solutions to their conflicts, we can do a great deal to support countries recovering from conflict and to address the social, economic, and political conditions that sow the seeds of conflict. We do not want another Afghanistan.

Anti-Corruption

Our battle against corruption throughout the region has begun to reap rewards. For example, the United States and the Kyrgyz government addressed corruption in academia where Communist party or government influence used to determine admission to universities. At the request of the Kyrgyz Ministry of Education, we developed and funded the first nation-wide testing program for university scholarships. In June 2002, the National Merit Scholarship Test was administered in three languages, Kyrgyz, Uzbek and Russian, to over 14,000 high school seniors. Nowhere else in the former Soviet Union do students receive university scholarships solely on merit. This is a remarkable achievement and has opened opportunities for young people.

Education and Exchanges

We have funded a whole range of educational programs, such as the Fulbright and Hubert Humphrey academic exchanges. We helped found universities for instance, the American University of Central Asia in Bishkek and promoted institutional linkages with American universities. Our assistance also focuses on secondary education. The Future Leaders Exchange (FLEX) Program was established in 1992 for high school students from Eurasia to experience life in a democratic society. Since 1993, more than 11,000 students from twelve Eurasian countries, including all the Central Asian ones, have participated. Imagine how important this is for long-term change in Central Asia!

Continuing Challenges

While we have achieved a number of successes, we still have much more to do.

- **Political Pluralism**

A thriving opposition is a problem in all the countries in the region. This has been evident even in two of the most successful countries in carrying out reforms: Kazakhstan and Kyrgyzstan. Kazakhstan has selectively charged and convicted key opposition leaders for corruption and intimidated independent media outlets and journalists associated with the political opposition. Kyrgyzstan's imprisonment of an opposition parliamentarian led to violence and great instability and recent constitutional changes have tended to concentrate even more power in the hands of the executive. We are working closely with both these governments to turn around these negative trends.

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- Elections

The Caucasus needs more democratic reform. Although civil society in all three countries Georgia, Armenia and Azerbaijan has advanced, recent Presidential elections in Armenia did not meet Organization for Security and Cooperation in Europe or other international democratic standards. Other recent elections in Georgia and Azerbaijan also fell short of international standards. We are working diligently to promote democratic practices ahead of the remaining important elections scheduled over the next several years.

- Human Rights

There are serious human rights problems throughout the countries in Central Asia and the Caucasus. For example, in Turkmenistan, we have witnessed a sharp crackdown on the political opposition and society in general since the attack on President Niyazov's motorcade in November. The Government of Turkmenistan arrested a number of political opponents of President Niyazov, all of whom he alleges were involved in the plot. The Turkmen government did not allow an independent observer from the Organization for Security and Cooperation in Europe to visit Turkmenistan to investigate claims of human rights violations, including torture, associated with this crackdown. Despite this bleak picture, we firmly believe that change will come in Turkmenistan. We will not abandon the Turkmen people.

A Commitment to Future Engagement

We are committed to long-term engagement in the countries of Central Asia and the Caucasus through both diplomacy and assistance. Counterterrorism will remain a prominent and integrated element of our assistance. We plan to put more resources into counter-narcotics and law enforcement cooperation across the region, where porous borders and weak law enforcement have created significant opportunities for terrorists and those trafficking in illicit weapons and drugs. We will never forget, however, that human rights, political freedoms and economic opportunity, must be an integrated part of this security assistance. Both factors, tightening up on law enforcement and maintaining human rights standards, must remain an integral part of our assistance.

We have also greatly increased our ability to hack away at terrorist financial flows and money laundering. We provide assistance to draft the necessary laws and regulations, and give technical advice to financial intelligence units and bank regulators throughout the region. These programs do not cost a lot and they may not be especially sexy, but they do have a potentially huge payoff.

Conclusion

We are proud of what our policies and assistance are accomplishing in Central Asia and the Caucasus. There have been positive developments, and there have been setbacks. It is critical that we undertake honest assessments of the setbacks, so that we learn from them and understand what remains to be done. The important thing is that we stay the course to achieve stability, prosperity, and democratic reform, it will take dedication and persistence.

The United States is wholly committed to intensive engagement and dialogue with each of the nations of this pivotal region of the world. To fulfill this commitment, we must have all the diplomatic and financial tools necessary to permit us to do so. If we do not use all of these tools, we risk failure.

There are those who would argue that some of these countries in the region, because of their human rights or corruption records, deserve to be sanctioned or that we should turn our back on them until they learn to behave. I do not deny that there are problems, but legislatively imposed sanctions are not the answer. Sanctions do not ensure that countries will fall in line.

In fact, experience has shown otherwise. We have witnessed firsthand how sanctions undercut our ability to engage countries and generate leverage for positive change. For example, in Azerbaijan, Section 907 of the *Freedom Support Act* broadly prohibited most assistance to the

Government of Azerbaijan for military, security or intelligence purposes, significantly inhibiting needed cooperation. With the President's waiver of Section 907 in January 2002, we are now able to help Azerbaijan's border security to prevent terrorist infiltration and exfiltration, and enhance our intelligence and law enforcement cooperation.

We cannot risk our engagement in Central Asia or the Caucasus through sanctions. We must use the full arsenal of diplomatic tools at all levels to ensure a stable and prosperous region. To bring about change, we must remain engaged. Change will not happen overnight. The Soviet Union was very effective at isolating the Central Asian and Caucasus states from the influences of democracy and market economics. We want to make clear to the millions of people of Central Asia that we are committed to helping them create the stable, prosperous and open societies that they seek.

A stable, prosperous Central Asia and the Caucasus will mean a more secure world for the American people and a more prosperous future for the people of the region. I want to reaffirm in the strongest terms the United States long-term commitment to intensive engagement in this important region of the world. Engagement results in a classic win-win situation for everyone. This is attainable and we will continue to strive for it.

U.S. Interests and Policy Priorities in Southeast Asia

By

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[The following are excerpts of a speech presented to the House International Relations Committee, Washington, D.C., March 26, 2003.]

Chairman Hyde's invitation requested our assessment of U.S. and Indonesian relations, regional counterterrorism efforts, the situation in Burma, possible troop deployments in the Philippines, the political climate and election preparation in Cambodia, and human rights conditions in Vietnam.

Southeast Asia is a region in which democratization has proceeded at a mixed pace. In the past decade, the Philippines and Thailand have consolidated relatively young democracies. Indonesia, under authoritarian rule for thirty years, continues to make strides in its democratic transformation. In Laos, Cambodia, and Vietnam, we are promoting more open societies and democratic government. In Burma, although we were heartened by the release of Daw Aung San Suu Kyi last May, we have subsequently been disappointed by a lack of progress toward democratic change. At the same time, Southeast Asia is a region that is largely coming to grips with terrorism, again with some countries moving to take effective action more rapidly than others. The common threat of terrorism has actually strengthened cooperation and our ties with

key Southeast Asian countries. One need think only of October 12 in Bali. That attack shows that terrorism threatens us all and it can happen anywhere.

Indonesia

Indonesia's status as the world's fourth most populous nation gives it an intrinsic importance. In addition, Indonesia has the world's largest Muslim population, thus making it a key player in our engagement with the Islamic world. Indonesia's importance to U.S. interests is further enhanced by the nation's ongoing transformation into a vibrant democracy following decades of authoritarian rule. We also have substantial commercial and environmental interests in Indonesia, a nation with significant natural, energy, and mineral resources, and a storehouse of biodiversity, home to some of the world's largest tracts of tropical rainforest and expanses of coral reef.

We view the Indonesian example of tolerance and democracy as a model for other Muslim countries. It is imperative that we support the democratic transition in Indonesia, not only because of Indonesia's intrinsic importance, but because its experience gives the lie to those who would claim that Islam and democracy are mutually incompatible. The outcome of Indonesia's experiment with democracy has profound implications for our strategic interests in fighting terrorism, preserving regional stability, promoting human rights and the rule of law, expanding access for U.S. exports and investment, and preserving the global environment.

The risks of Indonesia's failure to consolidate its democratic gains are sobering to contemplate. A breakdown in law and order would accelerate the spread of terrorism, crime, illegal drugs, infectious disease, and trafficking in persons. A dissolution of central authority and rising separatist movements would risk destabilizing the region, raise the menace of substantial humanitarian emergencies, accelerate regional environmental degradation, and invite the growth of militarism and violence. To avoid such daunting outcomes, we must assist Indonesia with its effort to create a just and democratic society.

- **Combating Terrorism/Police Assistance**

The terrorist threat that endangers Indonesia and its neighbors was graphically illustrated by the bombings in Bali in October of last year that killed more than 200 people, including seven Americans. Indonesia responded to this bombing by conducting a professional and competent police investigation that made remarkable progress in solving the Bali attacks and in disrupting the Jemaah Islamiyah terror network behind them. The Indonesian government has pressed ahead with domestic counterterrorism legislation and increased cooperation and consultation with its neighbors. With newfound determination, the mainstream Muslim groups that represent the vast majority of Indonesians are speaking out against the extremist fringe that are involved in acts of terrorism and other violence.

As part of our Anti-Terrorism Training Assistance Program, funded through the Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR) account, we are assisting the Indonesian National Police (INP) in the formation of a counterterrorism unit. Once established, this unit will substantially enhance the Indonesian government's capability to neutralize terrorist cells and conduct terrorism-related criminal investigations.

- **Military-to-Military Relations**

There is no question that the military-to-military relationship is one of the most controversial aspects of our bilateral partnership. Reforms in the Indonesian military have not kept pace with Indonesia's broader democratic development. The lack of a track record on accountability for human rights abuses is of particular concern.

Nevertheless, it is in the U.S. national interest to engage with the Indonesian armed forces. For good or ill, the Indonesian armed forces will play an extremely influential role not only in the future of the Indonesian state, but also in the survival of that state. To influence the behavior and attitudes of the members of the Indonesian armed forces, and to ensure adequate protection of American and American interests in Indonesia, we must interact with them.

While military reform is lagging, there have been some signs of progress. The military has accepted more changes in its status and role in the national life over the past four years than at any other time in its history. It did not intervene in the 1999 elections, and it resisted political pressure to violate constitutional norms during the turbulent period of President Wahid's impeachment and the succession to President Megawati. The military has formally relinquished its special, parallel function in government, and accepted a sharp reduction in appointed parliamentary seats and the end of appointed representation in legislative bodies by 2004. The conviction on March 12, 2003 of an Army general officer for East Timor human rights abuses represents a tangible step on the path to accountability.

Fundamental problems remain, however. Progress on accountability has been slow; the military has grudgingly gone along with trials for a small number of officers for human rights abuses. Discipline remains a problem. The military also deals with inadequate central government funding through running unofficial businesses and foundations, and sometimes engaging in illicit activities.

- Papua

One of the most important issues of concern in our bilateral relationship with Indonesia is the case of the murder of American citizens in Papua in August 2002. This ambush by unknown gunmen took the lives of three teachers, two Americans and one Indonesian, and wounded many others. According to public statements by the officer in charge of the initial Indonesian police investigation, the evidence pointed to possible involvement by members of the Indonesian military, rather than members of the separatist movement known as Office of Program Management (OPM). The Indonesian and international media have reported various comments by sources suggesting that members of the Indonesian Army Special Forces, known as KOPASSUS, were responsible for the attack. Other reports or theories have blamed members of the Indonesian Army Strategic Reserve, known as KOSTRAD. While the preponderance of evidence appears to indicate that elements of the Indonesian Army were responsible for the crime, we cannot make any definitive judgments until the investigative process is complete. Until we have a better understanding of this terrible crime, we must be careful not to assign blame to institutions.

We have made clear to the government of Indonesia that those responsible must be identified and punished. Anything short of a full accounting and punishment for those responsible will hurt our entire relationship. In response to our concerns, the Indonesian government formed a joint Police and Armed Forces investigative team to conduct a new investigation, and accepted participation by the Federal Bureau of Investigation (FBI). In mid-January, FBI agents traveled to Papua to conduct interviews of persons connected to this tragedy. The FBI agents recently finished their trip to Papua, but given the complexities of this investigation, they will have to return before they can conclude their investigation.

- Political Developments

In the political field, 2004 will be a momentous year for Indonesia's government due to the upcoming landmark elections. Indonesia will hold its first ever direct Presidential election, in addition to nationwide parliamentary elections. We have provided extensive assistance to help these elections proceed smoothly, and we are also assisting the Indonesian government in its implementation of a regional autonomy program. Indonesia's transition to democracy has been a turbulent process, but it is progressing in a very positive and dramatic manner.

Despite continued problems with impunity, corruption, and weak institutions, Indonesian democracy is characterized by a dynamic and burgeoning civil society. The trends are very positive, but require the patience of the Indonesian people, as well as interested international observers, as change is always uneven and often unpredictable. However, real change is only lasting when it comes from within, rather than being imposed from outside.

The eve of an election year is bringing predictable political struggles to Indonesia. Political leaders have an eye on their campaigns to promote their respective parties' own interests.

Bureaucratic infighting increases, and the public seeks avenues to voice its discontent with government policies, including through demonstrations. This is all part and parcel of the democratic process, and should be seen as evidence of continued growth rather than portents of instability.

- Economic Issues

2002 saw a number of positive macroeconomic developments, including steady economic growth, moderating inflation, and a strengthening balance of payments. However, the Bali bombings dealt a blow to Indonesia's tourism sector and investment climate, thus weakening Indonesia's long struggle to recover from the devastating 1997 financial crisis. As a result, economists forecast Indonesia's 2003 economic growth rate at 3.5 percent. While macroeconomic stability has been achieved, Indonesia cannot attract the investment it needs to grow and employ its people because of the uncertainty due to corruption, security concerns, opaque regulations, and a lack of legal clarity. The terrorist threat needs to be reduced to improve the investment climate, and the newly created National Investment Protection Team must be accompanied by reforms to the tax and customs system and the cumbersome bureaucracy. In addition, the practice of treating commercial disputes as criminal cases, a chilling factor on foreign investment, must cease.

Indonesia's long-term economic health also depends on the government tackling tough issues such as the sale of excessive state assets, civil service reform, and corruption in the judicial sector. Indonesia's \$5 billion International Monetary Fund (IMF) program will terminate at the end of the year and the government is not expected to request an extension. While completion of the IMF program demonstrates the success of Indonesia's macroeconomic management in the short-term, the challenge the government now faces is maintaining market confidence in the absence of a donor-approved plan of action. To do so, Indonesia will need to announce and stick to a credible economic program.

- Trafficking in Persons

Indonesia is a major source, destination, and transit country for trafficking in persons for sexual and labor exploitation. Although Indonesia does not yet comply with the minimum standards outlined in the *Trafficking Victims Protection Act*, Indonesia has made notable efforts to bring itself closer to compliance. Some concrete results in combating trafficking in persons include a commitment of increased resources, and the attainment of some benchmarks that are in line with U.S. recommendations. These benchmarks include the establishment of a national action plan and passage of a child protection bill. Police have also become more engaged, freeing approximately six hundred victims in seventeen known cases in 2002, and our police training programs are contributing to this success.

Despite these advances, Indonesian efforts remain weak in the area of investigation and prosecution of traffickers. Many officials and security force members continue to be complicit in trafficking in persons. Indonesia's full compliance with minimum standards will require sustained commitment over the long-term, and we will continue to urge Indonesia's government to work toward full compliance with U.S. standards.

- Religious Freedom

The government of Indonesia generally respects the religious freedom provisions of the constitution, but there continues to be religiously motivated violence and tension. We monitor these developments closely, and are encouraged by recent evidence that there is growing religious tolerance since the Bali bombings. In particular, mainstream Muslim groups and leaders have improved dialogue with their Christian counterparts. The terrorist acts did not, as intended, drive Muslims and Christians apart, but rather brought them together to condemn the attacks and work against the spread of radicalism. We saw this most publicly over the Christmas and New Year's period, when Muslim groups committed their security staff to guard places of worship. This positive development follows the sustained successes of the *Malino Accords* signed in Maluku and Sulawesi, and the reported dissolution of the Muslim extremist group, Laskar Jihad, in

October 2002. In Bali, although Muslims are under greater scrutiny from local Hindus, the harsher backlash that some feared did not take place.

- Human Rights

The Indonesian military's human rights record remains poor, and serious abuses continue to be committed, particularly by Indonesian security forces in outer provinces. Our embassy reported in depth on this issue, and we actively promote respect for human rights and accountability for violations. We have seen some positive trends in Maluku and Sulawesi with the sharp decline of serious abuses last year and a reduced death toll in most conflict zones. In Aceh, the *Cessation of Hostilities Agreement* (COHA) has succeeded in almost halting the violence.

Burma

With respect to Burma, unfortunately I must report that efforts to foster peaceful democratic change have come to a halt. The regime has released only a few political prisoners since late November and those in advance of a visit by the United Nations (U.N.) Special Rapporteur. The regime has made new arrests of political activists in that same timeframe. Most seriously, the junta has not demonstrated a willingness to begin a real dialogue with the National League for Democracy on substantive political issues. Although Aung San Suu Kyi has been able to travel in Burma, her most recent trips were marred by incidents instigated by government-affiliated organizations and believed to be based on orders from Rangoon. An already poor economic situation has been further unsettled in recent weeks, with a banking crisis causing financial uncertainty in the country. This crisis serves as an indisputable illustration of the mismanagement of the economy by the regime.

We continue to support the efforts of U.N. Special Envoy Razali Ismail to broker a solution. Absent progress, we will be forced to consider, in conjunction with the international community, additional sanctions and/or other measures. However, we cannot expect universal support in these measures, and the evident lack of agreement within the international community on the appropriate approach has hampered efforts to isolate and target the regime effectively.

I also must point out that international sanctions on arms transfers to Burma have encouraged the regime to turn to China, North Korea, and Russia, as suppliers, each of which seems prepared to supply both basic and advanced weapons to Burma.

The military dictatorship in Burma severely abuses the human rights of its citizens. There is no real freedom of speech, press, assembly, association, or travel. Patterns of abuse are even worse in ethnic minority areas. These abuses include extrajudicial execution, rape, disappearance, beating, persecution, and forced labor, including conscription of child soldiers, censorship, forced relocation, and the curtailing of religious freedom,

The United States has consistently co-sponsored Burma resolutions at the United Nations General Assembly and the United Nations Commission on Human Rights containing strong language condemning the ongoing systematic abuse of human rights. We have also supported and continue to support United Nations Special Rapporteur for Human Rights Pinheiro's efforts to initiate an independent, credible investigation of allegations of widespread rapes by the Burmese military. For his part, Pinheiro has proposed several options to the regime for establishing a credible mechanism for investigating allegations of human rights violations in ethnic minority areas. The regime has yet to agree to a specific mechanism.

Pinheiro cut short his visit to Burma this week after finding a hidden microphone in a room he was using to interview political prisoners. We regret that the Burmese government has chosen to treat a representative of the United Nations with such disrespect. The U.S. government is supportive of efforts by the International Labor Organization to engage the regime in discussions to develop a viable plan of action to eliminate forced labor.

I would also like to point out our concern about the growing humanitarian crisis of human immuno-deficiency virus/acquired immune deficiency syndrome (HIV/AIDS) in Burma. In 2002,

United States Agency for International Development (USAID) initiated a \$1 million program to address the HIV/AIDS epidemic by funding international non-governmental organizations to undertake prevention activities. In fiscal year 2003, we hope to increase funding to international non-governmental organizations; but no assistance is given to the regime. Discussions with the government continue on allowing international non-governmental organizations to conduct voluntary HIV testing and counseling, as well as on the regime's commitment to more effective prevention, treatment, and care programs, including for pregnant mothers and high risk groups.

Philippines

U.S. and Philippine relations have never been stronger than in the past decade. President Gloria Macapagal-Arroyo is a firm ally who last year characterized our bilateral relationship as a "moral partnership" based on shared values and strategic interests. As a reflection of this strong relationship, President Arroyo will make a state visit to the United States in the spring of this year, only the third state visit in the Bush Administration. President Arroyo has adopted an ambitious program of economic and political reform along with taking strong actions against terrorists in the Philippines. She announced last December she would not run in the 2004 election so that she can focus on her agenda, including poverty alleviation, good governance, economic reform, and reconciliation between the government and insurgent groups in the southern Philippines. The United States supports this agenda, and is providing economic and development assistance. Internationally, President Arroyo is a vociferous supporter of the war on terrorism and supports totally disarming Iraq. She has spoken out on the need for North Korea to accept international non-proliferation norms.

The Philippines is confronting a serious threat at home from Communist and Muslim insurgencies and international terrorists. There has been a recent increase in violence by the Communist People's Party and its armed wing, the New People's Army. The Moro Islamic Liberation Front, the largest Islamic extremist group in the Philippines, is responsible for attacks on both infrastructure and civilians. Philippine authorities recently arrested members of the Moro Islamic Liberation Front in connection with the March 4 bombing at the Davao International Airport. One American was among the many killed in that attack, and three Americans were wounded. The Abu Sayyaf Group has kidnapped several hundred Filipinos and foreigners in the last several years. It has been responsible for the deaths of three Americans. It appears that the Abu Sayyaf Group is no longer interested only in kidnap-for-ransom, but also in bombings and other traditional terrorist activities.

We and the Philippine government are concerned at the growing evidence of links between Philippine and international terrorist groups, including al Qaeda and Jemaah Islamiyah. Similarly, our two governments also are concerned there could be a link between the Abu Sayyaf Group and Iraq. We have formed a strong coalition with the Philippine government to combat terrorism in the Philippines. Last year's "Balikatan 02-1" represented a special counterterrorism-focused exercise on Basilan, at the request of the government of the Philippines. We are consulting to determine the form it should take this year, and going ahead with plans for the annual training deployment, the eighteenth in a series of exercises which began in 1981.

Current programs will further enhance Philippine military counterterrorist capabilities in line with our global campaign against terrorism. These programs are consistent with our robust overall security assistance package for the Philippines. President Bush has told President Arroyo that we will continue to help the Philippines in its efforts against terrorism. U.S. officials traveled to Manila in February to discuss our counterterrorism cooperation. Secretary of National Defense Reyes visited Washington in late February to discuss next steps. General Abaya of the Southern Command has just left Washington after consulting with us and with Department of Defense. We are optimistic that such close consultations will produce a plan that will fit the needs of both sides. We respect the Philippines' sensitivities regarding its constitution and laws. As we did last year, we would send forces only at the express invitation of the Philippine government.

Cambodia

Our main policy and assistance goals in Cambodia are to promote democracy and support Cambodia's adherence to human rights standards. The centerpiece of the current U.S. policy is a robust strategy to prepare for the July 27 National Assembly elections and to promote human rights non-government offices and civil society.

As the anti-Thai riots of January 29 indicate, provocative rhetoric, ethnic tensions, and political violence are a plague on the body politic of Cambodia and serious check on democratization. The government itself is part of the problem, as evidenced by the Prime Minister's provocative public comments in the preceding days and in the slow response by authorities on the night of the riots, and the government's use of the riots as a pretext for harassment of political opposition and independent media.

Killing of political leaders in the run-up to the national election are another major concern. The shooting death in February of Om Radsady, a respected National United Fund for an Independent Neutral, Peaceful, and Cooperative Cambodia (FUNCINPEC) advisor, has focused international concern. Although we have confirmed reports that police captured one of Om's assailants, we continue to stress that we wish to see more prosecutions and convictions in cases of political violence and intimidation. As the July 27 elections approach, we are pressing hard for the government to establish a safe environment for all participants to compete, provide equal media access, and control election abuses. We are steadfast in our resolve. High-level U.S. officials, during visits to Phnom Penh, have made public statements highlighting our concerns. We believe the government is listening but much more needs to be done.

We have asked the Government of Cambodia to provide a full report on the January 29 events and the measures that will be taken to ensure security on the one hand and democracy and human rights on the other. Our strategy for strengthening the election process calls for support of democratic institutions and democratic parties. The U.S. government \$11 million program supports non-government organizations with voter and candidate education, issues media programs, broadcasts of candidate debates, and well-trained cadres of election monitors.

We support efforts to establish a credible tribunal that brings to justice senior leaders of the Khmer Rouge and others who bear the greatest responsibility for atrocities committed between 1975 and 1979. Accountability for these crimes is important not only to bringing reconciliation and lasting peace, but also to promoting the rule of law and developing democracy in Cambodia. U.N. Legal Advisor Hans Corell stated the recently negotiated agreement is in conformity with the U.N. General Assembly resolution passed in December 2002, noting that the Tribunal will exercise jurisdiction in accordance with international standards of justice, fairness and due process. We hope passage and implementation of this agreement will meet the standards set out in the General Assembly resolution to ensure a credible tribunal. We are reviewing the agreement and look forward to the Secretariat's full report once it is released.

Domestic and cross-border trafficking in women and children, including for the purpose of prostitution, remains a very serious problem in Cambodia. As of April 2002, the Government of Cambodia had not fully complied with minimum standards for the elimination of trafficking and had not made significant efforts to do so. Cambodian police have investigated trafficking crimes and some traffickers have been convicted and are serving time in prison. But, corruption, complicity of government authorities, lack of police training and poor implementation of laws facilitate trafficking of persons and similar crimes, such as baby selling.

The Ministry of Women's and Veterans' Affairs takes a lead role in combating human trafficking and alleviating the suffering of its victims. We have already provided assistance to establish a prevention program overseen by the Ministry, and to facilitate the return and reintegration of Cambodian victims. We are examining additional programs that might increase the capacity of the law enforcement establishment to bring trafficking criminals to justice.

We give no assistance to the central government, except in the legislatively prescribed areas of HIV/AIDS, basic education, Leahy war victims, and combating trafficking in persons. Our assistance programs for health, especially on HIV/AIDS prevention and treatment, are also an important area where the U.S. government is giving value added directly to the people of Cambodia.

Bilateral relations with Cambodia are difficult to keep on an even keel in light of the January riots and subsequent political killing; nevertheless, we have close cooperation on several issues of importance to the United States: prisoner of war and missing in action accounting; addressing corruption that caused us to suspend adoptions; and the return of Cambodian nationals deported by the U.S. Department of Homeland Security.

Vietnam

Bilateral relations between the United States and Vietnam have expanded dramatically in recent years. From our original focus on full accounting for prisoners of war and missing in action, which remains central to our concerns, and refugee resettlement, our relations now encompass heightened cooperation on a number of global issues, including counter-terrorism, HIV/AIDS, demining, and disaster preparedness.

One of our primary goals in Vietnam is to stimulate growth and development through economic and legal reform and through promotion of greater transparency in the implementation of law and policy. The *Bilateral Trade Agreement* has become a key catalyst for change in Vietnam, along with parallel reform programs undertaken by the World Bank and the IMF. We also wish to broaden the relationship through public diplomacy, high-level official visits, and regular exchanges and raise the level of our discussions to a strategic dialogue on issues of mutual concern. Another important goal is to encourage political and legal reforms to help bring prosperity and greater stability to the Vietnamese people, and to increase respect for human rights. While the Government of Vietnam's human rights record remains poor and freedoms of religion, speech, the press, assembly, and association are limited, Vietnam is a much less repressive society now than ten, or even five, years ago. We continue to press Vietnam on its human rights record. While we hold an annual Human Rights Dialogue to raise our concerns with the Vietnamese on human rights violations, we have been disappointed by the lack of results from this Dialogue.

Promoting human rights and religious freedom in Vietnam is a significant embassy activity. Mission officers speak with authorities at all levels of government on various human rights issues including religious freedom, and the status of persons of concern detained, imprisoned, or harassed.

We continue to be troubled by reported harsh persecution of the Montagnards in the Central Highlands, and we have been frustrated at the Vietnamese government's refusal to allow us reasonable access to the region for further investigation. We have made clear that we do not support separatist movements in the Central Highlands or anywhere else in Vietnam. But, we do insist that basic, universally accepted standards must be enjoyed by all citizens of the country, including the Montagnards. The United States encourages the Government of Vietnam to ratify International Labor Organization conventions addressing worker rights, and in the context of our expanding trade ties, to promote the recognition of core worker rights. Given our history, the Vietnamese remain wary of our intentions. Progress toward our objectives on all fronts will require patience, consistency, and the building of trust.

Malaysia

Bilateral relations with Malaysia have historically been very good, particularly at the working level. Despite sometimes blunt and intemperate public remarks by Prime Minister Mahathir, U.S. and Malaysian cooperation has a solid record in areas as diverse as education, trade, military relations, and counterterrorism. Malaysia is our eleventh largest trading partner, and we are Malaysia's largest trading partner and investor. Malaysia hosts 15 to 20 U.S. Navy ship visits per year, and Malaysian military officers train at U.S. facilities under the International Military

Education and Training (IMET) program. Bilateral ties have been especially strong since the September 11, 2001 attacks, and reached a high point during Mahathir's working visit to Washington and meeting with the President last May.

However, Malaysian elite and public opinion was irritated by massive visa backlogs last summer after we tightened our regulations; by regrettable indignities suffered by Deputy Prime Minister Abdullah and other Malaysian leaders at U.S. airports; and by leaks of immigration and naturalization service documents incorrectly describing Malaysia as a terror-prone country. We have stressed to Malaysia that we are streamlining our procedures to minimize inconvenience to travelers and that our goal is secure borders and open doors. Malaysia is a staunch partner in the global war on terrorism. The Malaysian government pursues terrorists relentlessly, and currently has about ninety suspected terrorist in detention, including members of Jemaah Islamiyah, which was plotting to bomb U.S. military, diplomatic, and commercial facilities in Singapore. Some of the detainees have links to al Qaeda.

Malaysia's quiet, nuts-and-bolts support has proved crucial to our efforts. As Defense Minister Najib announced publicly last May, Malaysia granted the U.S. military overflight clearance on a case-by-case basis during Operation Enduring Freedom in Afghanistan. The Malaysian government also provides superb on-the-ground law enforcement and intelligence counterterrorist cooperation. It has agreed to freeze assets identified by the U.N. Security Council Sanctions Committee, though to date it has located no terrorist assets belonging to those entities. It requires financial institutions to file suspicious transaction reports on all names listed under U.S. Executive Order 13224, but is not yet a party to the *International Convention for the Suppression of the Financing of Terrorism*.

During Mahathir's U.S. visit, we signed a bilateral *Declaration of Cooperation Against International Terrorism*. Malaysia has also played a lead role in regional counterterrorist efforts in Southeast Asia, and hosted an inter-sessional meeting counterterrorist of the ASEAN Regional Forum March 20-22. The Malaysian cabinet has approved establishment of a Malaysia-based regional counterterrorist training center, in which we expect to play a significant role.

In recent months, the tone of Malaysian rhetoric regarding the United States has soured. We have objected to a series of public remarks made by senior Malaysian officials criticizing America's role in the world, beginning with Prime Minister Mahathir's opening speech at the Non-Aligned Movement Summit in Kuala Lumpur in late February. While we, of course, respect Malaysia's right to disagree with us on Iraq, we have engaged them diplomatically to urge their support for keeping the Iraq case in the U.N. Security Council and to explore other areas of common ground on Iraq.

Notwithstanding our differences on Iraq and on Middle East issues, Malaysia has repeatedly made clear that it will meet its obligations to protect foreigners and related institutions. Its on-the-ground law-enforcement and intelligence cooperation against terrorism remains extremely strong, illustrating the close integration of the Malaysian government with our vital security interests.

Malaysia generally respects the human rights of its citizens, although concerns remain in certain areas. The U.S. has criticized Malaysia over the years when the *Internal Security Act* has been used to stifle domestic opposition, although we distinguish between that use and its current implementation in a counterterrorism context. We consider detained former Deputy Prime Minister Anwar, a political prisoner, based on clear manipulation of his trials. We are following with interest the appeal of his second conviction, which is taking place this week in Kuala Lumpur.

Singapore

Our political, commercial and military relationships with Singapore are excellent across the board. Singapore welcomes U.S. engagement in Southeast Asia as vital to regional stability. We cooperate closely with Singapore in regional and international fora, including Asian-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations and the Association of

Southeast Asian Nations Regional Forum (ARF) and the U.N., where Singapore was a non-permanent member of the Security Council until its term expired at the end of December 2002.

Perhaps the high point of our bilateral relationship this last year was the successful conclusion of two years of negotiations on the *United States-Singapore Free Trade Agreement* (FTA). Singapore ranks twelfth among our trading partners, and the FTA will strengthen our trade relationship, eliminate barriers and tariffs, and phase out significant restrictions in several services sectors (financial, legal and the media), as well as enhance IPR protection. The FTA is now pending before Congress per the requirements of the *Trade Promotion Authority Act*. I would refer you to the U.S. trade representative for specific questions regarding its provisions; I only note here that we at the Department of State see this FTA as a major achievement in our bilateral relationship with Singapore and a positive step for the overall U.S. trade agenda.

As a member of the U.N. Security Council until its term expired in December 2002, Singapore worked hard for the adoption of *Resolution 1441*, giving Saddam one last chance to disarm peacefully. Since leaving the Council, Singapore has strongly supported the U.S. position that Saddam Hussein is a threat to the world who must be disarmed. We are proud that Singapore counts itself among the members of the Coalition for the Disarmament of Iraq, despite the fact that Singapore remains sensitive to the reaction of its Muslim population, 15 percent, to such a war.

Singapore has been also been among our strongest counterterrorism partners and in the forefront of Southeast Asian counterterrorism efforts. The Government of Singapore made two highly publicized major arrests of terrorists who had been planning attacks in Singapore against U.S., British, and Singaporean targets. The first, of thirteen suspects, was in December 2001 and the second, of twenty-one suspects, was in August 2002. The majority of these suspects were members of the Jemaah Islamiyah (JI) terrorist network active in Southeast Asia, including several who had trained with al Qaeda. On October 17, following the Bali bombing, Singapore joined Australia, the U.S., and 47 other governments to designate the JI as a terrorist entity to the U.N.

On the financial counterterrorism side, Singapore is also a regional leader. Since September 11, 2001, the government of Singapore has enhanced its anti-terrorist financing regime, ratified the *U.N. Convention on the Suppression of Terrorist Financing*, passed new legislation to permit its authorities to freeze and seize terrorist assets under *UNSCR 1373*, and implemented asset freeze orders for the *UNSCR 1267* list. To date, no terrorist assets have been identified in Singapore. The Government of Singapore hosted a regional financial counterterrorism conference in January in which U.S. experts trained Southeast Asian and Pacific island countries in their responsibilities under the various U.N. financial counterterrorism resolutions.

Singapore tightly controls charities, requiring reporting on overseas partners and details on transactions. However, Singapore encourages capital influx with bank secrecy laws and lack of currency reporting requirements and does not share financial records with U.S. law enforcement authorities because of the lack of a *Mutual Legal Assistance Treaty* (MLAT). We have been discussing the possible benefits of an MLAT with Singapore.

Singapore was the first Asian port to sign on to the *U.S. Customs Service Container Security Initiative* (CSI) which became operational this month. *Container Security Initiative* allows for pre-inspection in Singapore of goods destined for U.S. ports, and is an important security and efficiency measure. In addition, working with U.S. experts, Singapore has implemented a new strategic trade control system to better control trade in illegal goods that may pass through its port and to enhance worldwide non-proliferation efforts. The new system has some weaknesses, which we are working with the Singapore government to address, but still represents a significant step forward.

Our military relationship is also very strong. Although Singapore is not a treaty ally, it supports a strong U.S. military presence in the Asia-Pacific region and has offered the U.S. increased access to its facilities since the closure of our bases in the Philippines.

The U.S. and Singapore in 1990 signed a Memorandum of Understanding (MOU) allowing the U.S. access to Singapore facilities at Paya Lebar Airbase and the Sembawang wharves. Under the MOU, a U.S. Navy logistics unit was established in Singapore in 1992; U.S. fighter aircraft deploy periodically for exercises, and roughly 100 U.S. Navy vessels per year visit Singapore. The MOU was amended in 1999 to permit U.S. Navy ships to berth at a special deep-draft pier at the Changi Naval Base.

Our two militaries have extensive contacts and participate in combined military exercises regularly, supported by approximately 150 U.S. logistics personnel stationed in Singapore. In addition, Singapore is a major customer for U.S. defense sales in the Asia-Pacific region. A new RSAF Apache AH-64D helicopter training detachment has recently been set up in Arizona. Our relationship with Singapore is as strong as it has ever been. We speak plainly to each other, even when we disagree on details, in pursuing our common goals of a terror free, stable and prosperous world and we look forward to continued good relations in both the short and long term.

Thailand

Relations between the U.S. and Thailand are strong and multi-faceted. Thailand is one of five U.S. treaty allies in Asia, and we have a close and active security relationship with the Thai. Thai troops fought alongside Americans in Korea and Vietnam. More recently, Thailand has provided critical support, including a military engineering unit currently at work in Afghanistan, for Operation Enduring Freedom. Thailand has actively cooperated with us on all aspects of the war on terror.

We recognize Thailand as a fully functioning democracy in Asia. Over the last decade, the military's role in Thai politics has been greatly reduced, due to strong public opinion, through Constitutional reform and Thailand's overall political maturation. This evolution has had the support of the Thai military. Thailand enjoys a generally free and open press.

Thailand is our seventeenth largest trading partner with two-way trade of about \$20 billion. The U.S. is the second-largest foreign investor in Thailand. Last year, the U.S. and Thailand marked another milestone in the commercial relationship with the signing of a *Trade and Investment Framework Agreement*.

Thailand and the U.S. have been fighting drugs together for several decades, and joint U.S.-Thai efforts have led to the elimination of thousands of acres of opium previously grown in Thailand. Thailand is now no longer a significant producer of opium or heroin, though it remains a major transit point. Thailand faces a serious domestic methamphetamine problem.

In response to this situation, the Thai Prime Minister declared a ninety-day war on drugs beginning on February 1, 2003. According to media reports, the war on drugs had led to over 1,500 extra-judicial killings, of which only a handful of the alleged extra-judicial killings are under investigation. We have discussed this matter with the Thai and expressed our concerns.

We continue to work closely with Thailand to address the challenge of trafficking in persons. Thailand has made great strides and has demonstrated regional leadership in the areas of protection and prevention. We have strongly encouraged Thailand to emphasize prosecution measures as a national priority, most importantly to increase law enforcement efforts in going after traffickers and reduce incidents of officials' corruption and complicity. The U.S. government has provided funds to assist Thailand in its efforts.

Thailand is making an effort to improve relations with Burma, in part to achieve cooperation on counternarcotics. The Embassy of Bangkok maintains contact with Burmese refugees and displaced persons in Thailand, including political activists working outside refugee camps. We also provide financial support to non-government organizations active in the Burmese democracy

movement. Thailand's policy towards Burmese refugees and dissidents outside refugee camps is in flux. Thailand continues to accept those fleeing fighting and political persecution, but may become less tolerant of activities that complicate its effort to resolve tensions with Burma.

Thailand's relations with Cambodia were downgraded in the aftermath of January 29 anti-Thai riots in Phnom Penh. The Thailand government froze all aid and economic cooperation with Cambodia, and suspended diplomatic relations. The Thailand government has demanded an apology, compensation for losses, and thorough investigation leading to justice for the perpetrators. The two countries now seem to be repairing the rift.

Brunei

The United States and Brunei have enjoyed friendly relations since Brunei's independence in 1984. The December 2002 working visit of Sultan Hassanal Bolkiah further cemented our relationship with the signing of a *Trade and Investment Framework Agreement*, and the establishment of a Fulbright program to increase bilateral educational opportunities.

The United States and Brunei are also examining ways of increasing military cooperation, especially increased sales of defense equipment and opportunities for training for Bruneian military officers in the U.S. This would supplement the MOU on Defense Cooperation signed in 1994, under which Brunei's armed forces engage in annual joint exercises with the U.S.

Brunei is a strong supporter of counterterrorism efforts in the United Nations and in regional fora, including Asia-Pacific Economic Cooperation (APEC), ASEAN, and Southeast Asian Nations Regional Forum (ARF), where forceful Brunei leadership was instrumental in the adoption of strong counterterrorism declarations. After the Bali bombing, Brunei joined Australia, the U.S., and 47 other governments in the designation of the Jemaah Islamiyah to the U.N. as a terrorist entity. Brunei also has strengthened its legislation to control terrorist financing, and recently acceded to the *U.N. Convention on the Suppression of Terrorist Financing*.

Although a strong supporter of our counterterrorism efforts, Brunei has said it deeply regrets that dialogue and diplomacy failed to avert a war and is calling on the international community to seek a peaceful solution within the U.N. framework.

Laos

U. S. policy in Laos focuses on five primary interests:

- Ensuring the fullest possible accounting for Americans still missing in action from the Indochina War;
- Pressing for progress on a broad range of democracy and human rights issues, including religious tolerance;
- Supporting counter-narcotics efforts;
- Securing the transition of the Lao economy to an open, market-oriented system;
- Cooperation in the war on terrorism.

The United States has maintained uninterrupted diplomatic relations with Laos since 1954. One of the ten poorest countries in the world, Laos is the only country with whom we maintain normal diplomatic relations that we do not have a normal trade relationship, and one of only three in the world without Normal Trade Relations, the other two being North Korea and Cuba. Two-way trade between the United States and Laos amounts to less than ten million dollars annually, with the main Lao exports being hand woven textiles, lumber and coffee. A *Bilateral Trade Agreement* was negotiated in 1997, which requires Normal Trade Relations to go into effect. In February of this year, Secretary Powell and United States Trade Representative Zoellick sent a letter to the Chairs and Ranking Members of the House Ways and Means and Senate Finance Committee signaling the Administration's support and urging the Congress to consider granting

Normal Trade Relations status to Laos. In response, the Trade Subcommittee issued a Request for Public Comment on Normal Trade Relations for Laos, open through April 21.

The promotion of human rights, including religious freedom, is an integral part of our bilateral relationship. We remain deeply concerned about Laos' poor human rights record, and have made human rights an integral part of our ongoing dialogue with the Lao government. We are encouraged to see modest improvements in religious freedom. A Prime Ministerial Decree governing religion seeks to regularize religious practice, and local religious leaders have responded favorably. Isolated problems remain, particularly in Savannakhet province, but many previously closed churches have reopened, and we have seen fewer detentions and arrests and received no reports of new church closings.

We are aware of allegations of U.S.-based groups claiming the use of chemical weapons and "genocide" against Lao minorities, and particularly the Hmong. Our Embassy continues to investigate and evaluate all such claims, but has not been able to verify that such acts have taken place. Ambassador Hartwick traveled to Saisomboun Special Zone this fall and both the Ambassador and other Embassy officers have traveled extensively throughout Laos looking into allegations of human rights abuses both on the ground and through a web of formal government and informal contacts.

We are also cooperating with Laos on the issues of prisoner of war and missing in action (POW/MIA) and counter-narcotics. Approximately 391 U.S. Servicemen remain unaccounted for in Laos from the Vietnam War. Laos government humanitarian cooperation in POW/MIA recovery missions is generally very good; there are five joint task force recovery missions taking place this year. We continue to seek greater Lao flexibility to facilitate our increasing the pace of searches. The League of POW/MIA families recently visited Laos, and reports that they are pleased with Lao cooperation. Laos is the third largest producer of opium in the world behind Burma and Afghanistan. The U.S. provides law enforcement and alternative development assistance to Laos in an effort to reduce opium cultivation. We are encouraged by the decline in the acreage of land devoted to opium cultivation the past two years, but believe that law enforcement cooperation could be enhanced.

To date, counterterrorism cooperation has focused on strengthening Lao capability to prevent use of Laos as a possible target for terrorist activities and in preventing the use of the Lao banking sector for terrorist financial movements.

An Enlarged North Atlantic Treaty Organization: Mending Fences and Moving Forward on Iraq

**By
Colin L. Powell
Secretary of State**

[The following are excerpts of the testimony before the Senate Foreign Relations Committee, Washington, D.C., April 29, 2003.]

I am pleased to testify on the enlargement of the North Atlantic Treaty Organization (NATO) agreed in Prague last November, and on the future of the Alliance. With respect to enlargement, I strongly encourage the Senate to provide its advice and consent to the ratification of the Accession Protocols that will welcome into NATO seven new members, Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. This enlargement is part of an ambitious agenda whose goal is to transform the Alliance.

And Mr. Chairman, before I continue, let me acknowledge your leadership and vision in this process of enlargement. I know that you and your staff have provided invaluable guidance to the entire executive branch team. We could not have asked for better cooperation and support.

The Background

The West's victory in the Cold War and the defeat of Soviet communism signaled a decisive turning point in modern history a victory for freedom and democracy. But the troubles and tragedies of the past decade have made clear that new threats are rising. We have seen these threats take many shapes, from ethnic cleansing in the Balkans to the terrorist attacks of September 11, 2001. To deal with these new threats, the United States has continued to rely on NATO and will do so in the future.

This great Alliance, which has kept the peace for more than fifty years, is more than a treaty for collective defense. It is the central organizing force in a great web of relationships that holds North America and Europe together. It represents a community of common values and shared commitment to democracy, free markets and the rule of law.

This was never more evident than on September 12, 2001

On that day, the Alliance invoked *Article V* of the Washington Treaty and told the world that it regarded the attacks on the World Trade Center and the Pentagon as attacks on all of its members. From this historic decision we know that the NATO has the will to combat terrorism and to address the new threats that face us. But the Alliance must also have the means. So it must transform, militarily and politically, to secure our collective defense on into the twenty-first century and to sustain the trans-Atlantic link. At the historic Prague Summit last November, NATO heads of state and government made decisions that have put us solidly on the path to transformation.

Their strong and unanimous endorsement of the U.S. crafted transformation agenda of new capabilities, new members and new relationships will help ensure that NATO remains relevant in the days and years ahead. President Bush and I were particularly pleased that Senator Voinovich, of this committee, and Senator Frist, along with other members of Congress, were able to join us in Prague. There, our leaders agreed to expand NATO membership to include all of the new democracies in Europe who are prepared to undertake the responsibilities of leadership. Such an enlargement will help to strengthen NATO's partnerships to promote democracy, the rule of law, free markets and peace throughout Eurasia. Moreover, it will better equip the alliance to respond collectively to the new dangers we face.

The Current Enlargement

The United States and other NATO allies signed the *Enlargement Protocols* last month in Brussels. President Bush has transmitted them to the Senate. Your swift action on these protocols will bring us a major step closer to realizing President Bush's vision for a "Europe free, whole and at peace." This enlargement will revitalize NATO by expanding its geographic reach, enhancing its military capabilities and inducting seven countries committed to a strong trans-Atlantic link. It will serve U.S. interests by strengthening both NATO and our bilateral ties with these new allies, who have already done a great deal to support our vision for NATO and collective security. All seven of the invitees have demonstrated that they are in a position to further the principles of the *Washington Treaty* and to contribute to the security of the North Atlantic area.

The countries invited at Prague have been working intensively in NATO's *Membership Action Plan* since 1999. In this process, they have focused not only on security and defense issues, but also on democratic and market reforms. During these intensive preparations, each invitee has received both support and feedback from NATO. The United States has also had its own dialogue with the seven countries about their reforms. In addition to the day-to-day work of our embassies, we sent an inter-agency team headed by Ambassador Nick Burns in February and October of 2002 to visit each of the countries to make specific reform recommendations and to evaluate progress. The prospect of NATO membership helped to create in each country a political atmosphere that encouraged governments to adopt needed reforms. These reforms are in each country's own best interest. In many cases, they would have been difficult to bring about without the demands of NATO candidacy.

The record of each invitee government demonstrates powerfully its commitment to NATO. Reform areas included treatment of minorities, creation of a viable political opposition, restoration of private property, willingness to confront the past, combating corruption, and support for NATO membership. For example, Estonia and Latvia have taken important steps to protect the rights of their Russian-speaking minorities. Their governments have eased requirements for citizenship and adopted other measures, which provide assurances that all of the people of those countries will be treated with dignity and respect. All three of the Baltic States have acknowledged dark times in their histories. When Estonian Prime Minister Siim Kallas visited Washington last September, he publicly recognized Estonians' collaboration with the Nazis and participation in the murder of Jews during the Holocaust.

All seven invitees have also adopted sweeping measures to combat corruption. Parliaments in Bulgaria, Romania, and Slovakia have adopted, or are in the process of adopting, tough anti-corruption legislation. These three states have also established special prosecutors to root out public corruption. The new Latvia government under Prime Minister Repse has instituted a major anti-corruption program. Slovenia has taken important strides in reducing the state's involvement in private enterprise. And Slovenia already has one of the highest Transparency International ratings for clean government among NATO members. The public support for NATO membership in each of the new member states is high. In Romania, it is above 80 percent. In Slovenia's referendum last month, 66 percent voted for NATO membership. A clear majority in Estonia, Latvia, and Lithuania supports membership.

Among the positive developments, there are disappointments. We remain troubled by reports of continuing gray arms sales. Bulgaria and Romania have extensive arms industries with longstanding ties to the Middle East. We have had considerable success in stopping transfers of arms to countries of concern. More important for the long term, we are working with these countries to help them improve their systems of export control and to tighten oversight of defense industries.

We must not forget as well that the seven invitees also bring tangible security assets to the Alliance. Enlargement will bring more than 200,000 additional troops into the Alliance — as many as in 1999. It will extend NATO's reach from the Baltic to the Black Sea, both politically

and geographically. And the new members will make the Alliance stronger and they will bring fresh ideas and energy to it. I am pleased to report that all seven invitees are already de facto Allies in the war on terror. All of them have contributed to stabilization efforts in Afghanistan through Operation Enduring Freedom and the International Security Assistance Force.

Romania has sent its Carpathian Hawks battalion to Afghanistan and did so using its own airlift rather than asking the U.S. for a lift, a feat that several current Allies could not have accomplished. That Romanian battalion is now patrolling and fighting beside U.S. soldiers in the most dangerous regions of Afghanistan.

All of the new members have expressed support for the United States' position on Iraq. In February 2003, immediately following my presentation to the U.N. Security Council on the threat posed by Saddam's regime, they jointly called for the international community to take decisive action against Iraq's continued violation of international law and defiance of the Security Council. They also issued a joint statement at the Prague Summit in November 2002, supporting the United States' position on Iraq.

All of the new invitees sent military liaison officers to Central Command headquarters in Tampa, Florida, ahead of possible operations in Iraq. Several of the invitees are providing military support to the international coalition. A Slovak Chemical Biological Radiological and Nuclear unit is now stationed in Kuwait, incorporated into a Czech unit. The Romanians are providing a similar unit. The Bulgarians provided us with the use of their airbase at Burgas. It is clear that the seven invitees are already demonstrating their military value to the Alliance.

The Shifting Landscape

This value has been particularly noticeable given current circumstances wherein some on both sides of the Atlantic are questioning the health of the Alliance and the solidity of the trans-Atlantic relationship.

I do not want to minimize the challenges that the relationship faces today as we attempt to shape both it and the Alliance for a world no longer fenced off by the Cold War. In February, we had a bruising debate in NATO over providing assistance to Turkey. In the end, we achieved our goal of providing support for Turkey's defense. We would have preferred to make that decision at nineteen, instead of at eighteen, but France would not permit it. The United States and many of its NATO partners found it regrettable that some members so readily discarded their obligations under Article IV to provide purely defensive assistance to Turkey in order to press their own agendas on Iraq.

Make no mistake. The disagreement was serious, and our delay to Turkey's request damaged the credibility of our Alliance. Likewise, outside of the Alliance we have come through another bruising battle, this one at the U.N. Security Council over Iraq. This battle included five current and one future member of NATO. This too has raised troubling voices about the long-term health of the Alliance. But now that the war in Iraq is over and the defensive measures taken in Turkey are ended, we can look back at these disagreements and debates with dispassion and against the backdrop of almost half a century of solid cooperation.

Such cooperation is anything but a thing of the past. On April 16, for example, the Alliance agreed to assume the lead of International Security Assistance Force in August. This action will bring added continuity to the vital mission of helping to stabilize Afghanistan, and take NATO beyond its traditional area of responsibility to address today's threats at one of their sources. This decision was taken unanimously by the North Atlantic Council (NAC) without the rancor that characterized debates over Article IV obligations to Turkey.

Let us be clear. One of the challenges we face is understanding the threat. September 11, 2001 burned itself irrevocably into the mind of every American. To say international terrorism is just another threat is to defy the instinctual reality that every American knows in his or her heart and soul. Every American who watched the World Trade Towers burn, crumble and disintegrate, with

thousands of people inside, and who watched the Pentagon in flames, knows what terrorism can bring to our homeland. That reality leads Americans to conclude that terrorism must be eradicated, especially the terrorism that seeks nuclear weapons and other means of mass destruction.

Some in Europe see it differently. Some see terrorism as a regrettable but inevitable part of society and want to keep it at arms length and as low key as possible. It is our job to convince them otherwise. This is a threat we share and must combat together. Indeed, can only combat together.

Of course there will be disagreements. But the United States must continue to lead NATO to ensure our collective security, as we have for more than fifty years. But we must not forget also that we are democracies in NATO. None of us follows blindly. We debate. We disagree. On those occasions when we disagree, we roll up our sleeves, put our heads together, and find a way to work things out. At the end of the day, that is our great strength. And that is why the trans-Atlantic link will not break. The glue of NATO is too strong and holds us too fast to let it break.

When I was in Europe at the beginning of this month, I stopped in Belgrade to deliver personally my condolences over the death of Serbia's Prime Minister Djindjic, brutally assassinated earlier this year. I was struck by the speed with which the government of President Marovic and the new Serbian Prime Minister Zoran Zivkovic is leading a renewed and vigorous political effort to rid the nation of its dangerous criminal elements, to hand over those wanted by the International Criminal Tribunal at the Hague, and to strengthen democracy in Serbia and Montenegro. I was impressed.

Later that day and the next, in Brussels, I was heartened by the discussions I had with twenty-one European ministers, as well as European Union High Representative Javier Solana and NATO Secretary General Lord Robertson. A majority of these allies had joined the coalition to disarm Iraq. Those Allies who did not have welcomed our success and are now exploring ways to support stabilization and reconstruction.

So I caution those who, yet again, will write about the demise of NATO. We heard this story after the collapse of the Soviet Union and the end of the Cold War. We heard it during the troubled times in the Balkans. I give nay sayers of NATO credit for their persistence; but they are persistently wrong. Any alliance that countries are knocking on the door to get into is anything but dead.

After the heated debate over Turkey, Secretary General Robertson said the damage done to NATO was a hit above the waterline, not below. The same can be said about the fall-out on NATO from the debate in the U.N. Security Council over Iraq. Nevertheless, NATO must continue to adapt to changing circumstances. It must address the challenges central to this era: rogue states, terror, weapons of mass destruction. Increasingly NATO members will have to be prepared to focus their energies beyond Europe, a reality that will require that member nations possess military forces with the capability to go and fight beyond Europe. The alliance will recover. We will persevere.

The Future

It is essential that we recover and endure because there is much work, which needs to be done, and many allies who want to do it. In Afghanistan, we need to ensure the changeover in August goes as smoothly as possible. NATO will take over and run ISAF headquarters in Kabul, coordinate operational planning, appoint the ISAF commander and supervise the troop contribution process. This operation will constitute NATO's largest step to date beyond its traditionally Europe-focused role.

In southern Europe, Bosnia, Kosovo, and Macedonia will still demand our attention and our presence. In Macedonia right now, the European Union (E.U.) has made its first deployment of forces with over 300 troops. These troops and this deployment in no way contradict NATO; in

fact, they reinforce the importance of the alliance and complement its work, as the commander of the E.U. force reports to NATO's Deputy Supreme Allied Command, Europe (SACEUR) through NATO's Regional Command South.

And, as I have referred to, in Iraq we are exploring what NATO collectively can do to secure the peace. All members have said they are prepared to discuss a NATO role in Iraq. We have noted possible Alliance roles in stabilization, humanitarian assistance operations, and NATO assistance to coalition partners. These preliminary discussions, if they lead to concrete results, could be the next big step in NATO's transformation to an alliance willing and able to take on any role in any region where it feels it can make a contribution to the peace or meet a common threat. In line with this new orientation, as SACEUR General Jones pointed out at the beginning of this month, NATO will undergo another sea-change when it stands up a highly ready Allied Response Force with global reach, as agreed last November. So I believe there will be more than enough work to go around, and if NATO can play a role, it should. We should not ask, what can NATO do to prove its relevance? We should ask, what can NATO do to advance the peace?

The essential elements of the Alliance remain firm:

- NATO's integrated military structure creates a reservoir of working, planning, and training together that is irreplaceable;
- The alliance itself can call upon this rich reservoir or, as seems increasingly likely, coalitions of the willing can be drawn from it. For earlier draws on NATO assets and capabilities;
- Moreover, NATO's Council provides a valuable forum for discussing matters of war and peace;
- And fundamentally, NATO binds together nations who share the same beliefs and values. Nations who accept that vigorous debate is the hallmark of an alliance of democratic nations.

NATO is an alliance within which the seven future members invited at Prague, with the advice and consent of the Senate, will be able to join their colleagues and be welcomed to stand and be heard and not be told to sit and be silent. I cannot outline specific roles for NATO in the future. In some instances we will operate as an alliance. In some, as members of a coalition of the willing. We may wage war and we will maintain the peace. For over half a century, NATO was indispensable to security on both sides of the Atlantic. That has not changed. Today the alliance remains indispensable to our security, and to meeting the security challenges in a world of diverse threats, multiple challenges, and unprecedented opportunities. The alliance remains crucial to the link that binds North America to Europe and Europe to North America.

Let me stress that the door to NATO will remain open. Prague was not the end of the enlargement process, just one step on the way. We welcome the applications of Albania, Croatia and Macedonia and other future applicants as well. We will continue to enlarge the alliance as emerging new democracies and perhaps some established ones as well pursue membership, and as they demonstrate their ability to contribute to the security of the Euro-Atlantic community as required under *Article 10* of the *NATO Treaty*.

I ask the Senate to make its vital contribution by performing its own Constitutional duty in helping us transform the alliance. I again urge this Committee to act swiftly to recommend that the Senate provide its advice and consent on the *NATO Accession Protocols* that will welcome our new allies into our Alliance. I understand that the committee will mark up tomorrow and that a floor vote will likely occur on May 7th.

Democratic Change and American Policy in the Middle East

By

William J. Burns

Assistant Secretary of State for the Bureau of Near Eastern Affairs

[The following are excerpts of the remarks presented to the Center for the Study of Islam and Democracy, Fourth Annual Conference, Washington, D.C., May 16, 2003.]

There are many different strategies for addressing an audience as distinguished and well-informed as this one. Mark Twain, one of my favorite American authors, said his approach was to keep talking until I have the audience cowed. I hope that my remarks will simply be part of an ongoing dialogue between my colleagues and me in the American government, and all of you who have thought so long and worked so hard on the question of democratic change in the Middle East. I know this may shock you, but the Department of State has no monopoly on wisdom on any of these issues. If you do not believe me, there is no shortage of people in Washington these days who will confirm that fact for you.

It seems to me that four points are especially important to consider in framing the issue of democracy and American policy in the Middle East. First, the whole challenge of opening up political systems in the region must be given much higher priority on the U.S. agenda than in years past. Second, support for democratic change has to be an integral part of a broader strategy that seeks with equal vigor to solve the Palestinian-Israeli conflict; build a stable, prosperous, democratic Iraq; and modernize regional economies. Third, as all of you know far better than I do, democratization is about gradual, but real, systemic change. It is about more than just conducting elections, it involves the whole painful, difficult, evolutionary, and sometimes risky process of building sound institutions, the rule of law, and vibrant civil societies. Fourth, democratic change must be driven from within societies in the region. It cannot be sustained by outside preaching or prescriptions. But there is lots that the United States and others in the community of democratic nations can do to help support home-grown reform. Let me briefly explain each of those four points.

Giving High Priority to Democratic Change

I have been an American diplomat for twenty-one years, through four Administrations. I have spent much of that time working on Middle East issues. It is a fair criticism of all of our efforts during those years to say that we have never paid adequate attention to the long-term importance of opening up some very stagnant political systems, especially in the Arab world. That is not just a matter of American values, or of ensuring basic human rights, crucial as both of those concerns are. It is also a matter of hard-headed American interests. Stability is not a static phenomenon, and political systems that do not find ways to gradually accommodate the aspirations of their people for participation will become brittle and combustible. The Middle East is no more immune from that reality than any other part of the world. I know that there are some who argue for a kind of Arab or Moslem exceptionalism on this score, but I simply do not agree. Of course, it is true that Arab societies have more than their share of problems and dilemmas to reconcile, and their own peculiarities and unique challenges, but that does not mean that they are incapable of democratic change. Assuming otherwise is both flawed analysis and a dangerous basis for policy.

Some Arab regimes will find it much harder than others to change. Some may not move far enough fast enough. And some may not try very hard at all. Those are the regimes most likely to join the ranks of other failed states around the world. And, as a matter of policy, we also have to recognize that the emergence of more democratic systems in the Arab or Islamic worlds does not necessarily mean that it will be any easier to get our way on particular issues, just look at Turkey's disappointing reaction to our requests during the Iraq crisis. But I believe that it is profoundly in our long-term interest to support democratic change. We ought to keep our eyes open about the

inevitable tradeoffs involved, and seek to help shape the process in a way that minimizes at least some of the short-term risks.

Part of a Broader Strategy

One absolutely essential consideration has to be embedding our support for political openness in a serious, coherent, broader strategy in the Middle East. Democratic change is one element of a wider positive agenda for the region, alongside rebuilding Iraq; achieving the President's two-state vision for Israelis and Palestinians; and modernizing Arab economies. We cannot afford to view this as an ala carte menu, where we seek one objective and ignore others. As President Bush made clear in his important speech at the University of South Carolina on May 9, 2003, the United States is determined to lead energetically in the pursuit of all of these goals, in partnership with leaderships and peoples in the region.

Democratic change is a critical ingredient in our efforts to help Iraq build a more hopeful future. It would be foolish to underestimate the complexities of Iraqi society, and there will certainly be setbacks and disappointments along the way, but representative self-government is an objective that we and our coalition partners are intent upon helping Iraqis to achieve as quickly as possible.

Democratic change is also an integral part of the President's approach to Israeli and Palestinian peace, and of the roadmap which he is committed to implement. Building strong political institutions in preparation for statehood is not a favor to us or to any outsiders. It is deeply in Palestinian self-interest and something of which they are proving themselves entirely capable. Palestinians have already put in place a reformist Prime Minister and a new Cabinet, and have displayed through lively debate in the legislature a strong interest in challenging the status quo.

Without urgent and significant economic modernization, it is hard to imagine how societies in the region will find the space within which to shape stable, evolutionary democratic reform. It will be hard enough even with a renewed sense of economic hope. As things stand now, the economic outlook for many Arab regimes is far from hopeful. Per capita incomes are stagnant or dropping; 45 percent of the population of the Arab world is now under the age of fourteen, and the population as a whole will double over the next quarter century; and unemployment hovers at 20 percent. That is not exactly a healthy environment for constructive political change. And that is why President Bush, in his May 9, 2003 speech, and Secretary Powell, in his Partnership Initiative speech late last year, have laid such heavy emphasis on innovative new steps such as pursuit of a Middle East Free Trade Area.

Gradual but Real Change

Let me turn quickly to my third point. When I and other American officials talk about the need for gradual democratic change in the Middle East, some people may try to interpret our use of the word "gradual" to mean just cosmetic or constantly postponed changes. That would be a mistake. Democratic change in most Arab countries will necessarily be gradual given the host of challenges they are facing, the accumulated political pressures, and the sheer difficulty of building democratic societies and governments anywhere. But though I speak of gradual change, I am still speaking very much of the need for real change.

There is no single path by which countries achieve democracy, no one-size-fits-all prescription. But experience from our own country, and from the dozens of countries around the world that have launched into democratic transitions in the past twenty years, highlights three critical areas that must be part of the process.

First, Arab states will need to expand the space for institutions of independent civil society, independent media, citizen's advocacy groups, women's organizations, and many others to organize and actively carry out their work. I know from personal experience that such groups do

not always make a government official's life any easier, but they are a crucial part of any democracy.

Second, Arab states need to improve their basic practices of governance. This means reducing corruption and cronyism. It means responding better to the daily demands that citizens place on their governments. A key task is working toward the rule of law, through more effective, independent judicial systems and more lawful and humane police forces and prisons.

Third, Arab leaders must take on the hard work of making elections more inclusive and more fair, and giving more power to those institutions whose members are chosen through open elections, like the many parliaments that are now gaining credibility and power throughout the region. As we all know, elections alone do not a democracy make. They are vulnerable to manipulation or distortion, either by parties who will seek to use them only once to gain power; or by leaderships, the most vivid reminder of which may be the image of Iraq's inimitable former Minister of Information smugly confirming 100 percent voter approval for Saddam. Yet without regular, free and fair elections, no country can call itself a democracy.

These are ambitious tasks, ones that countries all around the world have struggled with in their hard climb to a better political future. But to hold Arab states up to any lesser standard is to insult the tremendous capacity for learning and development that the Arab people have demonstrated throughout history.

Enduring Change Comes From Within But We Can Help

Another truism, but one which we as Americans ought to keep carefully in mind, is that enduring democratic change and economic modernization must be driven from within Arab societies. They cannot be imposed from without. What is encouraging across the region today is the extent of self-examination underway, and the tangible steps that some countries are taking towards political reform. The *2002 Arab Human Development Report* has become a kind of, touchstone on this topic, but constant references to it only underscore the eloquence of its authors argument that gaps in economic openness, political freedoms, educational opportunity and women's empowerment obstruct the realization of the vast human potential of the Middle East. The hard truth as we enter the 21st century is that countries that adapt, open up, and seize the economic and political initiative will prosper; those that do not will fall farther and farther behind.

Across the region, there are signs that at least some leaderships and civil society groups grasp that hard truth. Women voted and ran for office in Bahrain's elections last year. Jordan will have Parliamentary elections next month. Qataris approved a new Constitution, and a woman has been appointed Minister of Education. Civil society is growing in Morocco and political prisoners have been released and compensated. In the face of enormous challenges at home, reinforced tragically in the terrorist attacks in Riyadh a few days ago, Crown Prince Abdullah has proposed domestic reforms in Saudi Arabia, as well as an Arab Charter for enhanced political participation and economic revitalization. And in Egypt, Dr. Saad Eddin's own harsh experience culminated in a promising display of judicial independence from Egypt's highest court and a vindication for Egyptian civil society.

There are many things we can do to help encourage and accelerate this process. The starting point is a willingness, not always recognizable in the past, to speak plain truths to our friends as well as our adversaries. There are also a variety of practical programs that we are organizing under the umbrella of the President's May 9 speech and the Middle East Partnership Initiative outlined by Secretary Powell last December. These run the gamut from regional campaign schools for Arab women to Justice Sandra Day O'Connor's visit to Bahrain later this year to launch a regional judicial reform effort.

The essence of the initiative of the President and Secretary Powell is partnership. And that means we in the U.S. government must listen to ideas and advice and criticism and proposals from the region, something which sometimes seems like an unnatural act for American officials. I urge all of you to engage with us in the endeavor, to make it a genuine two-way street. That is also the

purpose of Secretary Powell's and U.S. Trade Representative Zoellick's travel to the special World Economic Forum meeting in Jordan next month, to both promote our interest in economic modernization and democratic change, and build the partnerships with people and leaderships in the region, which are the only way to succeed.

This is a momentous time in the Middle East. I am not naive, nor do I have any illusions about how big the challenges and difficulties will be. But courageous thinkers and leaders in the region, many of you in the audience among them, have begun to identify a path of hope and opportunity. President Bush is determined to do all he can to help.

If we can apply American power with a sense of purpose and perspective as well as humility; if we can support democratic change in the framework of a broader strategy for economic modernization, Israeli and Palestinian peace, and a prosperous new Iraq; if we can understand the connections between those issues and what is at stake for American interests for many years to come, then a time of crisis can become a turning point, a turning point in which hope begins to replace the despair on which violent extremists breed.

Dealing With Trafficking in Persons: Another Dimension of United States and India Transformation

By
Robert D. Blackwill
U.S. Ambassador to India

[The following are excerpts of a speech given at Y.B. Chavan Hall Mumbai, India February 18, 2003.]

Introduction

During the past two years, the United States and India have transformed their bilateral relations by developing profoundly new patterns of collaboration. I am confident that historians will look back and regard this fundamental change in United States and India relations as one of the most important strategic developments of the first decade of this century. A guiding document in United States and India transformation is the recently issued *National Security Strategy of the United States*, a report that bears the personal stamp of President Bush. Let me quote a passage on India:

... The United States has undertaken a transformation in its bilateral relationship with India based on a conviction that U.S. interests require a strong relationship with India. We are the two largest democracies, committed to political freedom protected by representative government. India is moving toward greater economic freedom as well. We have a common interest in the free flow of commerce, including through the vital sea-lanes of the Indian Ocean. Finally, we share an interest in fighting terrorism and in creating a strategically stable Asia. We start with a view of India as a growing world power with which we have common strategic interests.

President Bush and Prime Minister Vajpayee, recognizing and acting upon this strategic vision, have given historic impulse to our efforts at building a close relationship in all fields of bilateral interaction, including diplomatic teamwork, counter terrorism, counter proliferation, defense and military-to-military teamwork, intelligence exchange, law enforcement, public health, including research, and humanitarian affairs.

In my view, these supportive relations between America and India will endure over the long run, most importantly because of the convergence of their democratic values and vital national interests. Indian and American democratic principle including a common respect for individual freedom, the rule of law, the importance of civil society, and peaceful state-to-state relations, bind us.

Our overlapping vital national interests of promoting peace and freedom in Asia, combating international terrorism, and slowing the spread of weapons of mass destruction (WMD) also give concrete purpose to this new United States and India relationship. Consistent with India's rise as a global power, United States and India cooperation has transcended strictly bilateral issues to address international problems that affect the values and national interests of both nations.

In this context, there is an example I want to especially to talk about on this occasion, a deadly scourge usually under the media's radar screen that is global in its dimensions and destructive in its effects. I speak about trafficking in persons, and particularly trafficking in women and children. Here, I am reminded of Graham Greene's judgment that, "Any victim demands allegiance." These tragic individuals, ladies and gentlemen, demand our allegiance. That is why I am here with you in Mumbai today. This heinous crime, which transports people from around the world for purposes of domestic servitude, unlawful industrial and agricultural work, illegal adoption, forced begging, and the sex industry, traps innocents in what amounts to modern-day

slavery. In July 2001, Secretary of State Colin Powell put it like this; “It is incomprehensible that trafficking in persons should be taking place in the 21st century. But it is true, very true.”

Trafficking is, of course, morally abhorrent. The thought that one person should possess another, exploiting the victim’s body, labor, and talents is an outrage. It destroys the lives of blameless human beings. It violates their human rights. There is no redress for their plight from the criminals, the exploiters, and the betrayers. Trafficking denies its victims’ dignity, as its sufferers are often tortured and abused. It corrupts the rule of law when policemen, judges and other government officials are pressured and bribed to look the other way.

The American and Indian governments acknowledge these horrible facts, and both are embarking together on a concerted campaign against this atrocity. Trafficking in persons affects our two nations directly. We are both countries of destination, of transit and/or of origin for these misfortunates. Trafficking in women and children, like other transnational crimes and like human immuno-deficiency virus/acquired immune deficiency syndrome (HIV/AIDS), which it invariably spreads, is a global problem, demanding solutions based on international partnerships and in United States and India bilateral assistance.

Let me say a word about HIV/AIDS. Political will at all levels to deal with HIV/AIDS is essential to avoid disaster. As we have learned in the United States, sustained prevention and promotion of safe behavior are fundamental to the mitigation of HIV/AIDS.

Women and girls are among the most vulnerable to infection. Regrettably, according to the *National Family Health Survey*, only about 40 percent of married women in India have ever heard of HIV/AIDS. To paraphrase Francis Bacon, for these women, knowledge would be power over their own life and death. They must be given the opportunity to protect themselves from unsafe behavior that puts them at higher risk of exposure. In the sex industry, women must be able to make themselves safe from clients who refuse to use condoms.

Both HIV/AIDS and trafficking plague the powerless, and it is important to understand how we can weaken synergy between the two. HIV/AIDS often carries disgrace with it. Fear, ignorance, discrimination, religious and social norms sometime produce persecution of individuals with HIV/AIDS, and lead to harassment of their families. Those with HIV/AIDS are our brothers, sisters, sons, daughters, wives, husbands, relatives, colleagues, friends, and neighbors. We must battle the virus, and not brutalize the afflicted.

It is appropriate to speak on the problem of trafficking in persons here in Mumbai because, among all of India’s major urban centers, this city is a prime magnet for human traffickers and particularly for traffickers in women and girls. Mumbai and the state of Maharashtra, to their credit, and I will return to this later, also stand out as one of the jurisdictions within India that has recognized the full extent of this blight, and worked hard to end it.

The Global Nature of Trafficking

Trafficking in women and children, which Secretary Powell condemns as an abomination against humanity, was a recognized bane long before globalization became a recognized phenomenon. However, more open borders and speedier and more accessible computer and communication technologies have greatly facilitated trafficking on a global scale. This crime finds its nesting place in poverty, structured inequities in society, gender discrimination, erosion of traditional family values, the rise in organized crime, spreading sex tourism, war and armed conflict, and other forms of natural or man-made disasters.

As a result of these factors, the United Nations (U.N.) and other international organizations estimate that at least one million people each year are bought, sold, transported and held against their will for sexual abuse and exploitation or forced labor, in slave-like conditions. Such human trafficking takes place across international borders as well as within countries. Victims are usually taken or enticed from rural areas to urban centers, from quiet villages to city districts of prostitution. The criminal perpetrators of human trafficking typically target and prey upon poor

families and their impressionable children, through the use of deception, including false marriage offers and bogus promises of big city success and financial gain.

The Problem in the United States

An estimated 50,000 women and children are trafficked into the United States each year, according to the U.S. Department of Labor. Mexico is a principal source because of the long border the two countries share. However, the origin of the trafficking problem for America extends to China and into Southeast Asia, including Cambodia and Thailand, and to Eastern European countries such as Albania and Moldova.

An April 2000 study by the U.S. Central Intelligence Agency indicates the following:

- There have been reports of trafficking instances in at least twenty different states, with most cases occurring in New York, California, and Florida (and the) Immigration and Naturalization Service has discovered over 250 brothels in twenty-six different cities, which likely involved trafficking victims. Evidence suggests that state and local law enforcement officials appear to have only scratched the surface of the problem. Trafficking cases are hard to uncover as the crime usually occurs behind closed doors and language and cultural barriers often isolate the victims.

- Women have been trafficked to the U.S. primarily for the sex industry sweatshop labor, domestic servitude, and agricultural work. Women have also been trafficked to provide maid services at motels and hotels, peddle trinkets on subways and buses, and beg. The average age of the trafficking victim in the United States is roughly twenty years old. Some of the Asian women may have been initially trafficked overseas at a much younger age, but then worked in cities such as Bangkok before being trafficked to the U.S.

The inhumane treatment of these victims is heart rending. In the mid-1990s a large number of young women from Vera Cruz, Mexico, were recruited by a Mexican crime family and smuggled over the U.S. border. These women were told they would be given good jobs in the restaurant business in the United States. Instead, they were brought to isolated trailers in rural parts of Florida and forced to engage in prostitution. If they refused, the women were beaten and threatened with death. Some of the women were forced to have abortions. The authorities eventually liberated the women and a number of the smugglers were convicted. Nevertheless, several defendants were able to escape to Mexico before U.S. authorities could arrest them.

Let me give another of many, many painful American examples. Some seventy Thai laborers, predominantly women from impoverished backgrounds with little education, were brought to the United States. The Thai traffickers promised the women high wages, good working hours, and freedom. Once they arrived in America, they were forced to labor in a sweatshop, working some twenty-hour shifts. These Thai nationals were held against their will and systematically abused. They were incarcerated in primitive conditions in a clandestine garment factory. High perimeter walls, razor wire, and corrugated steel panels were erected to conceal the facility. Additionally, around the clock sentries were installed to ensure no one escaped from the compound. The victims were made to pay an indentured servitude debt of between \$8,000 and \$15,000, and forced to write fake letters home, praising their working conditions.

U.S. Efforts to Combat Trafficking

Experts say that one of the most difficult realities in the trafficking issue is the propensity of governments around the world to treat victims as criminals or unwanted, undocumented workers rather than as individuals with basic human rights. A new U.S. law, the *Victims of Trafficking and Violence Protection Act*, is designed to rectify the problem. The act has far-reaching scope, such as giving prosecutors new tools to acquire legal immigration status for victims of trafficking.

In addition, the legislation increases prison terms for all slavery violations from ten years to twenty years, and adds life imprisonment when the violation involves the death, kidnapping, or sexual abuse of the victim. The law seeks to protect victims of servitude who fear reprisals should

they contact the police about their incarceration. Captors intimidate the abused by saying they will be thrown in jail and then deported to their native land, or be killed. U.S. regulations now stipulate that an illegal immigrant reporting this crime will be treated humanely and extended certain rights, including permission to stay in the United States for a period of time.

Reflecting a determination by the Bush Administration to address this issue, Secretary of State Powell will host an International Conference on Trafficking in Persons in Washington, February 23-25. Two-hundred and fifty representatives from all over the world, including thirteen from India, will attend the Conference to share experiences, and to find new and more effective ways to deal with this crime.

The Indian Experience

India is committed to preventing, combating and eliminating human trafficking, even in the face of domestic statutory, institutional and programmatic obstacles. The *Plan of Action to Combat Trafficking and Commercial Sexual Exploitation of Women and Children*, which the Department of Women and Child Development introduced in 1998, is an essential policy statement by the Indian government to determine the nature, scope and direction of future programs in the fight against trafficking in persons. The plan provides to government ministries and departments, both at the center and in the states, an action agenda covering legal and regulatory reform, law enforcement, prevention through public awareness, rescue and shelter of victims, their medical care and rehabilitation, their return to normal family and educational structures, and their economic empowerment and reintegration into the labor market.

Although this Indian government roadmap is comprehensive, only elements of it have thus far been implemented. Several states have created advisory committees to mobilize greater resources for the fight against trafficking. A new concept called Swadhar has been instituted to provide emergency assistance to trafficked women and girls. The Indian National Human Rights Commission has begun to set up a network of state liaison officers exclusively dedicated to the monitoring and investigation of human trafficking.

Among the states, Maharashtra in particular has intensified its campaign against trafficking in persons. It has put in place clear policies governing the rescue of trafficking victims, working in close partnership with numerous non-government organizations. The result has been a significant improvement in the quality of care and protection provided in group homes and shelters for trafficked women and girls. The Maharashtra Ministry of Tourism is collaborating with committed non-government organizations and the transportation industry to identify how transport operators might contribute to the fight against human trafficking, either by alerting police authorities to the presence of suspected traffickers among their passengers, or by steering obviously at-risk and vulnerable women and girls to shelters and safe houses where they might be afforded protection.

India's Challenges

Despite India's efforts in its anti-trafficking agenda, much more remains to be done, just as in America. One frustrating handicap in the fight against human traffickers is the lack of reliable statistics. Campaigners also point to the multiplicity of laws under which trafficking and associated acts can be prosecuted as a complicating factor in trying to distill dependable statistics.

The relatively low rate of convictions against traffickers by judicial authorities is a second barrier to India's progress in the fight against trafficking. Cases are being prosecuted, but because the Indian legal system is overburdened, it takes a long time between filing a case and the final conviction. Legal action appears to be significantly delayed when traffickers are charged only under bailable statutes. Once given bail, they either flee or engage in excessive delaying tactics to avoid trial and possible punishment. The government's 1998 plan of action included a recommendation for the establishment of a trafficking law enforcement bureau, along the lines of the Narcotics Control Bureau. If that proposal were implemented, it would be a formidable new weapon against trafficking.

There are numerous other reasons for the relatively low rate of trafficking prosecutions and convictions in India. This is, after all, the first time that significant emphasis has been put on an offense this complex, which can incorporate rape, fraud, organized crime and torture. Processing these cases for trial requires special investigative and evidentiary collection techniques that the average policeman may lack. Successful prosecution is also undermined by the almost universal problem of corruption, which occurs in the world wherever crime involves large sums of money. What is needed instead, to use Edmund Burke's phrase, is "The cold neutrality of an impartial judge." The same should be true of the police.

As law-abiding citizens and compassionate human beings, we naturally expect the judiciary to convict traffickers. However, for the courts to do so, the police must provide support with incontrovertible evidence of crimes committed. Similarly, although we anticipate that prosecutions will be underpinned by solid police evidence, such work will be for naught if the victims of trafficking, once rescued from their brothel-keepers, are not provided with essential follow-up rehabilitation and reintegration services.

Often, trafficking victims are understandably afraid to press charges, knowing that their abusers will be released on bail pending their trial or sentencing, as is the case under ITPA, and thus be in a position to find them and take revenge. Accordingly, while cases can be booked under ITPA, they are more likely to result in convictions if traffickers are also charged with a non-bailable offense so that they may be kept in custody, at a safe distance from their accusers and available for trial.

A Multifaceted Global Response

Trafficking in persons is a complex problem. Since it is international in scope, it involves multiple sovereignties and jurisdictions, including national, state and municipal authorities.

Statutorily, the United States and India not only have national anti-trafficking legislation on the books, but we have both signed the *U.N. Convention Against Transnational Organized Crime* and its accompanying *Protocol against Trafficking in Persons*. I hope that we will also ratify both instruments, in the near future.

In the area of law enforcement, a number of jurisdictions in both the U.S. and India border control agencies and national, state and local police authorities are responsible for investigating and apprehending traffickers in persons. In addition, prosecutorial services indict traffickers and, of course, judicial systems try and convict those found guilty. India renewed its commitment to combating regional human trafficking when it signed the *SAARC Convention on Combating the Crime of Trafficking in Women and Children for Prostitution* in January 2002.

The innocents of human trafficking, too, have engaged the interest and resources of a host of agencies and institutional players. There are medical facilities and services that endeavor to bring the victims back to physical health, and help them recover their psychological and emotional well being. There are non-government organizations engaged in public education about trafficking; sensitization and training of, among others, transportation personnel to enable them to identify and report traffickers and their victims, as they move across frontiers and boundaries and from countryside to metropolis; rescue of trafficking victims from brothels and strip clubs; and victim rehabilitation and reintegration into family, school and community. Finally, our friends in the business sector in the United States and India should do more to shoulder their corporate and social responsibility. They could provide non-government organizations with financial support for the valuable services these organizations offer. They could design and implement skill training programs that can reach villages where the most vulnerable victims have no access to an economic future. They could promote the reintegration of victims of trafficking into the mainstream labor market.

To sum up, the United States and India should strive for a multifaceted approach to trafficking in persons that will:

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- Provide economic assistance to keep poor and vulnerable populations from being trafficked;
 - Develop awareness of the crime so that community-based monitoring systems can be created to detect when girls go missing, or when strangers in the community seek to spirit them away;
 - Monitor transit locations, including border areas, bus and train stations, and airports to rescue persons being trafficked;
 - Respond swiftly to leads or information that indicate that trafficked women and children are being held against their will;
 - Investigate brothels, factories and other places where trafficked women and children are forced to work, free them, and close down these establishments;
 - Prosecute and convict traffickers and those who aid and abet them under high bail or non-bailable sections of statutes to the full extent of the law; and provide victims with physical, psychological and economic assistance to aid in the recovery process.

As we move toward these goals, the right solutions will inevitably call for a variety of interventions, all of them interdependent and mutually reinforcing. This audience is made up of Mumbai and Maharashtra elected political leaders and legislators, judges, prosecutors, police officials, government social welfare executives, health-care professionals, educators, researchers, corporate chief executive officers, non-government organization principals, and anti-trafficking advocates and activists. You all are a living testament to Albert Einstein's mantra that, "Only a life lived for others is a life worthwhile." The United States and India are together in this noble task of ending trafficking in persons, and the human suffering that goes with it. We must succeed. Our humanity depends on it.

Bulgaria and the United States: Allies in Democracy and Partners in Expanding Freedom

By
Colin L. Powell
Secretary of State

[The following are excerpts given before the Celebration of the 100th Anniversary of U.S.-Bulgarian Diplomatic Relations, Sofia, Bulgaria, May 15, 2003.]

Dobur den, Bulgari! I stand here and see our two flags so close, side-by-side. They look so beautiful. May we always remain as close as our two flags are today. Thank you, Mr. Prime Minister, for your very gracious introduction. Mr. President, Minister Passy, Mr. Chairman, distinguished guests, my friends, representing President Bush and the American people, I am honored to be here, here in Battenberg Square, to begin the centennial celebration of U.S. and Bulgarian diplomatic relations.

On September 19, 1903, a court carriage drawn by four horses and with an honor guard pulled up to the former palace just behind me. Out came Mr. John Jackson, who went inside to present his diplomatic credentials to Prince Ferdinand, who later became the Tzar. Now, today, almost one-hundred years later, I am greeted by the grandson of the Tzar, not as a Tzar, but the freely elected Prime Minister of a free and democratic Bulgaria. Our two countries have much more to celebrate today than reaching a one-hundredth anniversary, for Bulgaria and the United States have become allies in democracies and partners in expanding freedom around the world. Americans are proud to have played a part in Bulgaria's past. We are proud to be your partner as you work to complete your full integration into what President Bush so rightly calls "a Europe whole, free and at peace."

In years past, American diplomats and journalists helped draw the world's attention to the oppression Bulgarians suffered at the hands of foreign powers. And 19th century American missionaries shared ideas about freedom with the founding fathers of an independent Bulgaria. Today, our Peace Corps volunteers are working hand-in-hand with you to strengthen your new democracy. The American College of Sofia, whose wonderful choir will grace our ceremony today, along with the American University in Bulgaria, are both preparing new generations for success in a 21st century world. Today, as we mark one-hundred years of diplomatic relations between our two nations, the American people warmly embrace Bulgaria's dynamic new democracy. Our nations passed another major milestone just last week when the United States Senate voted unanimously to welcome Bulgaria into the North Atlantic Treaty Organization. And the vote was ninety-six to zero! Unanimous! No one voted against!

I must stop to congratulate my good friend, your Foreign Minister, Solomon Passy, for all the hard work that he put into this historic vote in our United States Senate, and also to congratulate your distinguished Ambassador to the United States. They are both doing a wonderful job for the people of Bulgaria. As President Bush said following the historic senate vote: "Americans have always considered the Bulgarian people to be our friends, and we will be proud to call you our allies."

In the span of less than a generation, relations between Bulgaria and the United States have gone from Cold War existence to a warm and growing strategic partnership. Your institutions have grown and moved as your democracy has developed. The seat of your head of state, now democratically elected, has moved to the presidential offices to my right. That is where ambassadors present their credentials today. And across from the presidential offices, the old party house, once a symbol of dictatorship, now holds offices of elected members of parliament. All of these accomplishments reflect the historic choices you have made, choices that demonstrate the vision of your leaders and the values of the Bulgarian people. And as a result of the democratic

path that you have chosen, relations between Bulgaria and the United States are the best they have ever been in all of the past one hundred years.

The American People will never forget Bulgaria's steadfast support following the terrorist attacks of September 11, 2001. And we deeply appreciate your help ever since in the international campaign against terrorism. The vicious attacks a few days ago in Saudi Arabia only reinforce our resolve to eradicate terrorism worldwide. Time and again, Bulgaria has shown leadership and demonstrated its stalwart support on the part of your government leaders and on the part of your parliament.

We stood together on Iraq. I remember well the intense eight weeks at the United Nations Security Council last fall. The United States worked day and night to forge consensus behind *U.N. Resolution 1441* to put maximum pressure on Iraq to disarm peacefully. I remember well, Solomon Passy, your Foreign Minister, when he stood with us for a second resolution and he said to the whole world: "We know what fear is, and we are not afraid." With the solid backing of your parliament, you took a clear position in favor of helping the people of Iraq and ridding the region of a dictator's threats. Bulgaria then made the courageous decision to join the coalition of the willing that freed the world from the threat posed by Saddam Hussein. You stayed true to your principles and had the courage to act.

I want in particular to thank the people of Bulgaria for welcoming American soldiers to Sarafovo. Thank you for making them feel at home and helping them accomplish their important mission. As I speak, the United States and Bulgaria are serving together in Bosnia, in Kosovo, in Afghanistan. Shortly, we will serve together in Iraq. Together, we will bring stability to Iraq, we will help the Iraqi people as they tackle the hard work of reconstruction and establish their own democracy.

Today, Bulgarian and American diplomats serve side-by-side on the United Nations Security Council in New York. And soon we will be colleagues in the North Atlantic Council in Brussels. In so many ways, Bulgarians and Americans are working in partnership to build a safer, freer, better world. A little over a hundred years ago, from a spot just a short walk from here, Aleko Konstantinov set off to climb Mount Vitosha. You have scaled far higher mountains to bring Bulgaria into the Euro-Atlantic family and the worldwide community of democracies. We salute you.

The 21st century holds its perils to be sure. But it also holds tremendous promise for those who cherish the democratic values that Bulgarians and Americans share. Your warm welcome today tells me that together Bulgaria and the United States seize the promise of the future for the next one-hundred years and beyond.

Offsets in Defense Trade

Prepared By The U.S. Department of Commerce

The study in its entirety can be found at: <http://www.bxa.doc.gov>. [The original numbering of the tables, charts and figures are the same as in the original *Offsets in Defense Trade Report*.]

Executive Summary

This is the sixth report on offsets in defense trade prepared pursuant to Section 309 of the *Defense Production Act of 1950*,¹ as amended. The Office of Strategic Industries and Economic Security within the U.S. Department of Commerce, Bureau of Industry and Security (BIS) has been delegated responsibility to prepare the reports required under Section 309.² In order to assess the impact of offsets in defense trade, the Department of Commerce obtained data from U.S. firms involved in defense offsets.

This report covers offset agreements and transactions entered into from 1993 through 1999. In addition, the report:

- Discusses the changes in the industrial base during the reporting period as a result of consolidations and mergers in the defense industry;
- Reports on ongoing U.S. government interagency activity and discussions with foreign government officials on offsets;
- Presents summaries of offset agreements and transactions for the reporting period; and
- Highlights other country practices utilizing offsets.

Summary of Findings

Total offset activity can be measured by the number and value of new offset agreements entered into between U.S. defense contractors and foreign governments, and the number and value of individual transactions related to the agreements that are carried out during the reporting period.

Offset Agreements, 1999

In 1999, U.S. defense contractors reported entering into thirty-two new offset agreements with ten different countries. The total value of new offset agreements was \$1.45 billion, representing 72 percent of the total value of related U.S. defense export contracts (\$2.01 billion). Both the total value of defense exports and the total value of the offset agreements were at their lowest levels in 1999, compared to the rest of the reporting period (1993-1999).

Offset Agreements, 1993-1999

For the period 1993-1999, U.S. defense companies reported entering into 307 offset agreements with thirty-four countries. The companies identified 198 different weapon systems or subsystems with an export contract value of \$40.2 billion; related offset agreements were \$22.3 billion (55 percent of the export contract value). Sales of aerospace weapon systems made up nearly 90 percent of the dollar value of the reported defense export contracts (\$35.9 billion).

1 Codified at 50 U.S.C. app. Section 2099 (1994 and Supp. V, 1999).

2 On April 18, 2002, the name of the Bureau of Export Administration was changed to the Bureau of Industry and Security.

The dollar values of both export contracts and offset agreements varied annually, as did the associated offset percentages. Although the data show a general drop in overall U.S. export contracts and related offset agreements from 1997 to 1999, the value of the offset agreements as a percent of the reported defense export contract value continues to increase.

Europe continues to be the major destination for U.S. defense exports. Although Europe accounted for 42 percent of total U.S. defense export contracts, new offset agreements with Europe accounted for two-thirds of all new agreements. The rest of the world (non-European countries) accounted for one-third of the offset agreements but 58 percent of the export contracts. Asia accounted for 18 percent of the value of new agreements, the Middle East 14 percent, and the Western Hemisphere just 2 percent.

While the non-European nations had higher export contract totals, Europe had a much greater offset impact because of the higher offset percentages required.

Likewise, in 1999, European nations received higher offset percentages per export contract. In Europe, offsets were equal to an average of 100 percent of the value of the export. In non-European nations, the average value of the new offset agreements was 64 percent of the total contract value.

Offset Transactions, 1999

In 1999, U.S. companies reported offset transactions with a total actual value of \$1.81 billion, down 21 percent from the total in 1998 of \$2.28 billion and lower than the transaction value for any of the previous six years. This decline is consistent with the drop in defense sales and the number of offset agreements.

Offset Transactions, 1993-1999

During the reporting period, companies cited 3,869 offset transactions executed in thirty-three countries. These transactions were linked to 238 weapon systems under various existing offset agreements. The total value of these transactions was \$15.9 billion.

Conclusions

U.S. defense exports were negatively affected by both the retrenchment of global military expenditures and the increased enforcement of strict foreign offset policies. At the same time, offsets have become an increasingly important factor in determining contract awards, and thus have a direct bearing on U.S. defense contractors' access to foreign markets. Offset agreements in excess of 100 percent of the contract value are occurring with increasing frequency, and in some cases have exceeded 300 percent. From the U.S. perspective, Europe is clearly the central focus of this trend, dominating offset agreements and transactions with U.S. companies. Because 90 percent of offset agreements are aerospace-related, concerns about the continued economic stability of U.S. prime contractors and the aerospace infrastructure have increased.

Bureau of Industry and Security calculates that export sales facilitated by offsets maintained 38,400 work-years annually between 1993 and 1999, while the offset transactions displaced about 9,500 work-years annually.

In the coming year, using authorities granted under the *Defense Production Act of 1950*, as Amended, the Department of Commerce is committed to work with U.S. industry, the Department of Defense, and foreign governments to analyze the impact of offsets on all parties and to seek ways to mitigate the effect of offsets on competition, thus ensuring a robust and vibrant U.S. defense industrial base.

Background

The Global Defense Environment

Although the United States Government views offsets as an economically inefficient way to conduct trade, offsets remain a policy choice of foreign governments and, therefore, a reality in

the international defense market to which U.S. defense firms must respond. Under these circumstances, U.S. policy makers should take into account the current state of the global defense industry before proposing changes in offset policy and other regulations.

The U.S. defense industry has changed significantly since the end of the Cold War. Globalization of the defense industry and the increased reliance on commercial technology have fundamentally changed the traditional relationships between foreign customers, U.S. suppliers, and the U.S. Department of Defense (DoD). This change in the global defense market coupled with the reduction in DoD's procurement budget challenges U.S. defense firms to expand market share more aggressively worldwide, while attempting to maintain their technological edge.

The end of the Cold War expanded comparative advantages for the United States in defense exports. The collapse of the Soviet Union significantly reduced its ability to export weapon systems in the early 1990s. In addition, European allies reduced investments in the defense sector, especially after the Gulf War.

Although procurement and defense-related research and development expenditures decreased in the 1990s, U.S. defense expenditures still greatly exceed those of its North Atlantic Treaty Organization (NATO) allies. This imbalance has led to a widening defense technology gap, as demonstrated in the 1999 coalition action against Serbia. Armed with more advanced defense technology, the U.S. share of the international arms market has grown to approximately 55-60 percent, even though the global defense export market has shrunk significantly (by as much as 50 percent, according to some estimates).

In addition to the technology gap and the diminished competition from the former Soviet Union, the consolidation of U.S. defense firms contributed to the increase in U.S. market share during the reporting period. The merger of Boeing and McDonnell-Douglas and the acquisitions made by Lockheed Martin and Raytheon created fewer large U.S. defense companies, offering a wide array of defense equipment and services. The fragmented European defense industry was not able to compete effectively against these U.S. mega-firms and initiated its own version of industry consolidation. Two large European firms emerged, British Aerospace (BAE) Systems and the European Aeronautic Defence and Space Company (EADS), to provide an alternative to U.S. defense products. This recent industry consolidation and rationalization in Europe led to increased competition for U.S. defense firms in the new defense market.

Another effect of globalization has been the virtually universal access to commercial technology, and its potential use for both civil and military applications. Many of the most critical technologies (e.g. space, surveillance, sensors and signal processing, simulation, and telecommunications) now are equally available to the United States and its allies.

Although U.S. defense firms have maintained a large share of the defense export market worldwide, increased European support has resulted in much stronger competition from European defense manufacturers. Purchasing nations now have many equipment choices from both European and U.S. sources. Therefore, the decisions of purchasing governments are influenced increasingly by factors unrelated to price, quality, and delivery time. The ability of competing companies to provide industrial benefits or offset packages is one of the most important selection criteria for the purchase of new weapon systems.

Within this new environment of mega-defense suppliers chasing fewer customers, offset packages play a more critical role in global defense procurement competitions. The majority of large arms sales won by U.S. industry since the early 1990s have included comprehensive offsets or "industrial benefits" packages. A sample of the major U.S. arms sales is shown in Table 1-1.

Table 1-1 Major U.S. Arms Sales, 1993-2001

Year	Equipment	Customer Country	Dollar Value
1993	F/A-18 Aircraft	Switzerland	\$2 billion
1995	AH-64 Apache Helicopter	Netherlands	\$1 billion
1995	AH-64 Apache Helicopter	United Kingdom	\$2 billion
1996	Airborne Reconnaissance System	Korea	\$400 million
1996	Light Armored Vehicles (APC)	Kuwait	\$325 million
1996	Replacement Maritime Patrol Aircraft	United Kingdom	\$1.8 billion
1997	F-100 Frigate (AEGIS System, SPY-1D Radar)	Spain	\$740 million
1997	ANZAC Helicopter Program (SH-2G)	Australia/ New Zealand	\$340 million
1998	Patriot Missile System	Greece	\$610 million
1999	F-16 Aircraft	Greece	\$2 billion
1999	AH-64 Apache Helicopter	Singapore	\$1.7 billion
2000	F-16 Aircraft	Chile	\$600 million
2000	F-16 Aircraft	U.A.E.	\$7 billion
2000	Norwegian Frigate Program (AEGIS System, SPY-1D Radar)	Norway	\$800 million
2001	767 Tanker Aircraft	Italy	\$600 million

Source: Industry Press Releases

Many European defense firms receive support from their national governments, including financing for defense exports. U.S. defense firms generally do not receive financing support. However, a major advantage for U.S. defense firms in the worldwide defense market is the broad range of technology (both direct and indirect) and other business opportunities that can be transferred through offset programs. U.S. technology in defense, and more importantly in related fields such as information technology, is extremely attractive to customer nations, both in advanced and newly industrializing economies.

Offset programs have become one of the few distinguishing characteristics between U.S. and European defense products. Higher levels of U.S. investment (in both the public and private sector) in defense and commercial research and development throughout the last decade have resulted in the development of technologies in aerospace and other critical sectors that are very attractive to purchasing nations. These nations use offsets as a means of gaining access to U.S. expertise and markets. In this way, offsets have become an important factor in the success of U.S. defense firms in the global defense market, but at a price to the subcontractor base and non-related industries.

In summary, the transformation of the global defense market in the last ten years has established new relationships between U.S. defense firms, the U.S. Department of Defense, and U.S. allies. U.S. industry responded quickly to the new terms of trade structured by this rapid globalization by consolidating into several large firms that have successfully expanded their market share. The ongoing consolidation in Europe and the increased national government support of European firms, however, have resulted in greater competition for defense export from European firms worldwide.

In this context of a globalized defense industry and market, offsets are a competitive tool vital to success.³ A primary challenge for the U.S. Government and the U.S. defense industry is to find a solution that will reduce the negative effects of offsets associated with defense purchases while maintaining and/or enhancing U.S. competitiveness in this critical industry sector.

Legislation and Regulations

In 1984, Congress enacted amendments to the *Defense Production Act of 1950*, as amended (DPA), which included the addition of *Section 309* addressing offsets in defense trade.⁴ *Section 309* of the *Defense Production Act of 1950* requires the President to submit an annual report on the impact of offsets on the United States to the Congress's then-Committee on Banking, Finance, and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.

Initially, the Office of Management and Budget coordinated the interagency process of preparing the report for the Congress. Other agencies involved in the process included the Department of Commerce, Department of Defense, Department of Labor, Department of State, and Department of Treasury, and the Office of the United States Trade Representative. In 1992, *Section 309* of the *Defense Production Act of 1950* was amended, and the Secretary of Commerce was given the responsibility of preparing the report for the Congress, on the President's behalf.⁵

Under *Section 309*, the Secretary of Commerce is authorized to develop and administer the regulations necessary to collect offset data from the U.S. defense industry. The Secretary of Commerce delegated this authority to the Bureau of Industry and Security (BIS), which published its first offset regulations in the *Federal Register* in 1994. See Appendix B for a copy of the regulations as published.⁶

The 1992 amendments to *Section 309* of the DPA made other changes to the offset data collection process. The amendments lowered the offset agreement reporting threshold from \$50 million to \$5 million for U.S. firms entering into foreign defense sales contracts subject to offset agreements. Firms report all offset transactions for which they receive offset credits of \$250,000 or more. Every June, companies report offset agreement and transaction data for the previous calendar year to BIS. The data elements collected each year from industry are listed in *Section 701.4* of the Department's offset regulations and are shown in Appendix B.

Official U.S. Government Policy

The official U.S. government policy on offsets in defense trade was developed by an interagency offset team and issued by the President in 1990. In 1992, this policy was set into law as follows:⁷

- In General. Recognizing that certain offsets for military exports are economically inefficient and market distorting, and mindful of the need to minimize the adverse effects of offsets in military exports while ensuring that the ability of United States firms to compete for military export sales is not undermined, it is the policy of the Congress that-

3 Generally, offsets are not permitted under the Agreement on World Procurement of the World Trade Organization (WTO). However, defense procurement is not covered under the agreement. For more information, see the World Trade Organization website: http://www.wto.org/english/tratop_e/gproc_e/over_e.htm.

4 See Pub. L. 98-265, Apr. 17, 1984, 98 Stat. 149.

5 See Pub. L. 102-558, Oct. 28, 1992, 106 Stat. 4198; see also *Section 4* of Exec. Order No. 12919, 59 Fed. Reg. 29525 (June 3, 1994).

6 See 59 Fed. Reg. 61796 (Dec. 2, 1994), codified at 15 C.F.R. §701.

7 Congress incorporated this policy statement into law with the *Defense Production Act Amendments of 1992* (Pub. L. 102-558, Title I, Part C, §123, 106 Stat. 4198).

(1) No agency of the U.S. government shall encourage, enter directly into, or commit United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments;

(2) U.S. government funds shall not be used to finance offsets in security assistance transactions, except in accordance with policies and procedures that were in existence on March 1, 1992;

(3) Nothing in this section shall prevent agencies of the U.S. government from fulfilling obligations incurred through international agreements entered into before March 1, 1992; and

(4) The decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, reside with the companies involved.

- **Presidential Approval of Exceptions.** It is the policy of the Congress that the President may approve an exception to the policy stated in subsection (a) after receiving the recommendation of the National Security Council.

- **Consultation.** It is the policy of the Congress that the President shall designate the Secretary of Defense to lead, in coordination with the Secretary of State, an interagency team to consult with foreign nations on limiting the adverse effects of offsets in defense procurement. The President shall transmit an annual report on the results of these consultations to the Congress as part of the report required under *Section 309(a)* of the *Defense Production Act of 1950*.

Offset Terminology

There are several basic terms used in discussions of offsets in defense trade. For more definitions and an illustrative example of an offset arrangement, please see the Glossary in Appendix F.

Offsets

Compensation practices required as a condition of purchase in either government-to-government or commercial sales of “defense articles” and/or “defense services” as defined by the *Arms Export Control Act* (22 U.S.C. § 2751, et seq.) and the *International Traffic in Arms Regulations* (22 C.F.R. §§ 120-130).

Direct Offsets

Contractual arrangements that involve defense articles and services referenced in the sales agreement for military exports. These transactions are directly related to the defense items or services exported by the defense firm and are usually in the form of co-production, subcontracting, technology transfer, training, production, licensed production, or financing activities.

Indirect Offsets

Contractual arrangements that involve goods and services unrelated to the exports referenced in the sales agreement. These transactions are not directly related to the defense items or services exported by the defense firm. The kinds of offsets that are considered “indirect” include purchases, investment, training, financing activities, marketing/exporting assistance, and technology transfer.

Co-production

Overseas production based upon government-to-government agreement that permits a foreign government or producer(s) to acquire the technical information to manufacture all or part of a U.S. origin defense article. Co-production includes government-to-government licensed production, but excludes licensed production based upon direct commercial arrangements with U.S. manufacturers.

Licensed Production

Overseas production of a U.S. origin defense article based upon transfer of technical information under direct commercial arrangements between a U.S. manufacturer and a foreign government or producer.

Subcontractor Production

Overseas production of a part or component of a U.S. origin defense article. The subcontract does not necessarily involve license of technical information and is usually a direct commercial arrangement between the defense prime contractor and a foreign producer.

Overseas Investment

Investment arising from an offset agreement, often taking the form of capital dedicated to establish or expand a subsidiary or joint venture in the foreign country.

Technology Transfer

Transfer of technology that occurs as a result of an offset agreement and that may take the form of research and development conducted abroad, technical assistance provided to the subsidiary or joint venture of overseas investment, or other activities under direct commercial arrangement between the defense prime contractor and a foreign entity.

Countertrade

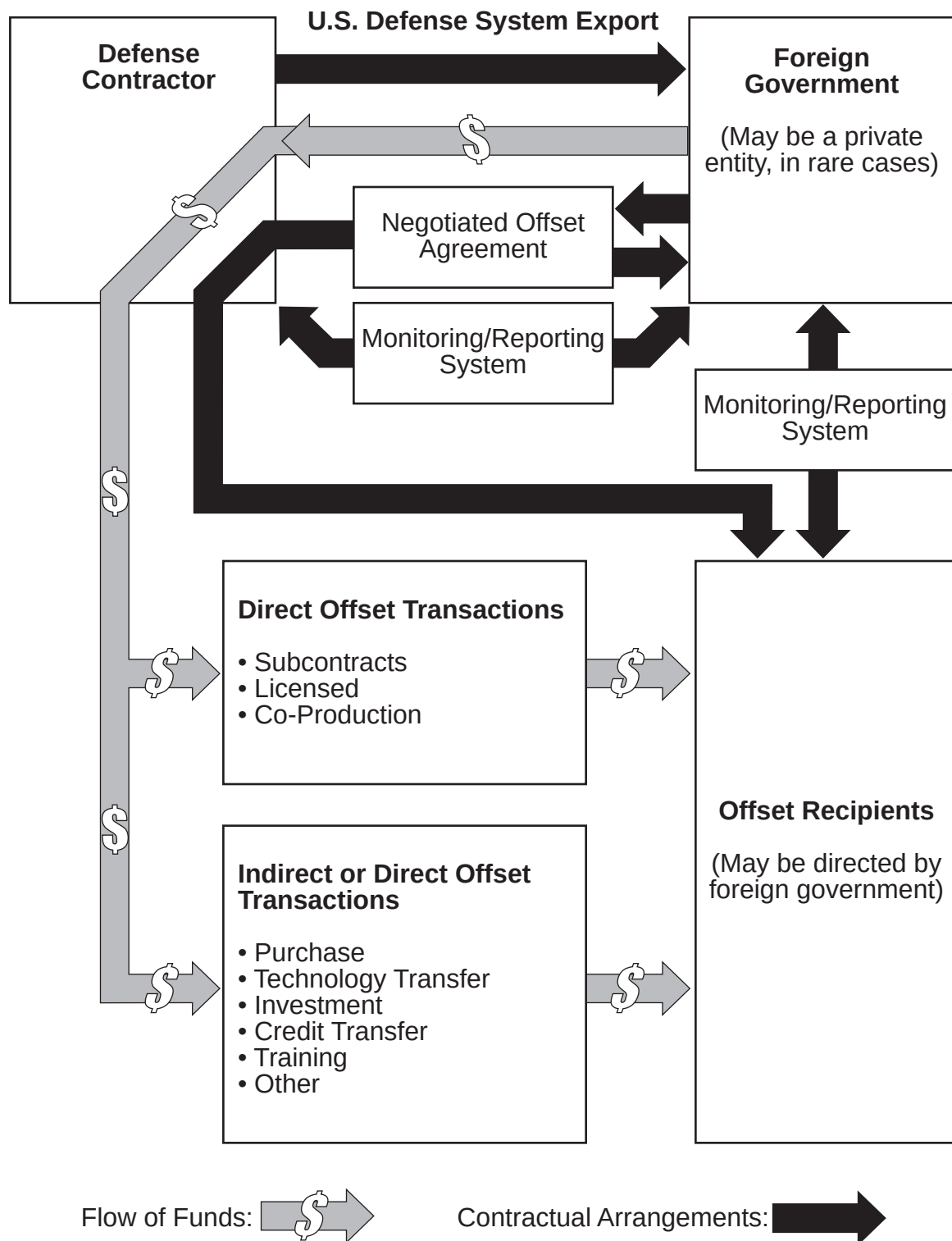
In addition to the types of offsets defined above, various types of commercial countertrade arrangements may be required. A contract may include one or more of the following mechanisms:

- Barter - A one-time transaction only, bound under a single contract that specifies the exchange of selected goods or services for another of equivalent value.
- Counterpurchase - An agreement by the initial exporter to buy (or to find a buyer for) a specific value of goods (often states as a percentage of the value of the original export) from the original importer during a specified time period.
- Compensation (or Buy-Back) - An agreement by the original exporter to accept as full or partial repayment products derived from the original exported product.

Offsets Illustration

Figure 1 shows the contractual relationships and money flows that often are involved in a typical export contract and accompanying offset agreement. The foreign government transfers funds to the defense contractor as payment for the defense article. The defense contractor recovers expenditures associated with direct offset transactions through foreign government payments for the sale. For indirect offsets, the contractors are reimbursed only for administrative costs by the purchasing government; they recover any other costs through resale of or marketing assistance for products manufactured in the purchasing country, by returns on their investments, or by other market mechanisms. Indirect offsets also may be related to the production of defense items other than the defense articles sold. Whether direct or indirect, offset transactions return funds to the purchasing country. The offset funds spent in the foreign country to fulfill offsets are, therefore, a means by which the foreign government redirects public expenditures back into its own country.

Figure 1 Offsets Illustration



Viewed in this manner, foreign governments support local industry through the use of offsets. Foreign governments may use offset transactions to maintain industries that might otherwise fail or to enhance the technology, promote investment, provide markets, and stimulate employment in various sectors in its home country.

Countries and Regions

For ease of analysis, and in some cases to protect company confidentiality, countries actively requiring offsets in defense trade during the 1993-1999 period were divided into the following four geographic regions:

- Europe
- The Middle East
- North and South America
- Asia

The countries found in each region are shown in Table 1-2 found on the next page.

Outline of Report

This sixth report on offsets in defense trade to the Congress was prepared by the Department of Commerce in consultation with the Departments of Defense, Labor, and State, the Office of the U.S. Trade Representative, and the Central Intelligence Agency. The report begins with an overview of the data collected from U.S. industry for 1993 through 1999, followed by an assessment of offsets on the U.S. defense industrial base and a discussion of new offset agreements and transactions for 1999. Next, the report presents detailed sections on offset agreements and offset transactions for 1993-1999, followed by an industry-level analysis of offset transaction data. The report includes a section focusing on the aerospace industry and the impact that offsets have had on the competitiveness of U.S. aerospace firms in the global market. The report ends with an analysis of the offset preferences for the five countries requiring the largest offsets during the seven-year period.

The appendices to the report include:

- Discussion of the actions to date of the Presidential Commission on Offsets in International Trade;
- Glossary of offset terms and an illustrative example;
- Information collection regulations promulgated by the Department of Commerce in connection with offsets;
- Summaries of offset laws and regulations for twenty-five specific nations.

Statistical Overview

The Office of Strategic Industries and Economic Security has received data on offsets from U.S. firms covering the years 1993-1999. The data submitted includes the values of U.S. export contracts and the offset agreements entered into as conditions of acquiring those export contracts, as well as offset transactions executed in fulfillment of previously reported offset agreements. Some of the offset transactions reported referenced offset agreements entered into before 1993 (when the Department of Commerce first initiated reporting requirements).

**Table 1-2 Purchasing Countries and Groups Requiring
Offset Agreements, by Region**

Europe

Austria
Belgium
Czech Republic
Denmark
The European Participating Group (EPG)
(Belgium, The Netherlands, Norway)
Finland
France
Germany
Greece
Italy
Luxembourg
NATO
Netherlands
Norway
Portugal
Slovenia
Spain
Sweden
Switzerland
United Kingdom

Middle East

Israel
Kuwait
Saudi Arabia
Turkey
United Arab Emirates

North and South America

Brazil
Canada

Asia

Australia
China
Indonesia
Malaysia
New Zealand
Singapore
South Korea
Taiwan
Thailand

Source: U.S. Department of Commerce/BIS Offsets Database

Offsets Summary Data

During 1993-1999, a total of 39 U.S. defense companies reported entering into 307 offset agreements with 34 countries. The companies identified 198 different defense systems or subsystems with an export contract value of \$40.2 billion, and related offset agreements of \$22.3 billion. Sales of aerospace weapon systems made up nearly 90 percent of the export contracts' value (\$35.9 billion). The related offset agreements averaged 55 percent of the export contract value and the average term of the offset agreements was 85 months with respect to offset transactions, companies reported 3,869 offset transactions executed in 36 countries. The transactions were linked to 238 defense systems under various existing offset agreements, some of which were entered into before 1993. The value of the offset transactions from 1993-1999 was \$15.9 billion. U.S. companies received \$18.2 billion in offset credits for their efforts, which was equal to 118.9 percent of the actual value.⁸ Table 2-1 provides an overview of the offsets database.

Overview of New Offset Agreements, 1993-1999

On an annual basis from 1993-1999, the dollar values of both export contracts and offset agreements varied greatly, as did the associated offset percentages. The value of the offset agreements as a percentage of the value of the export contracts ranged from 34 to 82 percent. Behind this variance were major individual contracts that affected the data totals, and a wide variation in the countries entering into agreements in any given year – each with unique offset policies and requirements. In general, countries with more advanced economies demand greater levels of offsets than developing countries. Chart 2-1 shows these seven-year values and their volatile nature.

Based on the data from 1993-1999, an apparent trend is the general drop in reported defense exports and related offset agreements, and the rise in the value of the offsets as a percent of the value of the export contract. This is shown on Chart 2-2. The value of U.S. export contracts shows an especially sharp decline from 1993-1999, while the value of related offset agreements show a more moderate decline over the same time period. The steepness of the down trend in export contracts is greatly influenced by two major contracts negotiated in 1993, one with Taiwan and the other with Saudi Arabia, which together totaled nearly \$10 billion. This was accompanied by low percentage offset agreements. If the 1993 export contract data were not considered, the decline in the offsets percentage would be much more moderate. Also, defense spending in Europe, traditionally the largest market for the United States, dropped sharply in the last decade, which has led to less purchasing of U.S. defense systems.

Overview of Offset Transactions, 1993-1999

Offset transactions applied to outstanding offset agreements totaled \$15.9 billion during the seven-year period from 1993 to 1999. Direct offset transactions were valued at \$6.4 billion and represented 40 percent of total offset transactions. U.S. companies reported receiving \$7.4 billion in offset credits for the direct transactions, which translates into 116 percent of the actual value of the offset transactions. Direct offset transactions, as a share of total transactions, ranged from 32 percent in 1993 and 1994, to a high of 62 percent in 1998.

As shown in Chart 2-3, no significant trend in direct transactions is discernable. The high percentage share of direct offset transactions in 1998 is a result of unusually high direct offset totals for Italy, the United Kingdom, Israel and the Netherlands. Italy had the largest value of direct transactions and had no indirect or unspecified types.

⁸ The "credit value" is an incentive that some foreign governments provide for certain kinds of offset transactions. This value varies greatly by country and by the kind of offset transaction (i.e., purchase, technology transfer, investment, etc.), but is normally more than the actual value. The percentage difference between the actual value and the credit value is the multiplier. For the entire database, the multiplier is 118.6 percent, which means the credit value is 18.6 percent more than the actual value. Generally, multipliers are provided only by developing countries.

Table 2-1 Salient Offset Totals, 1993-1999
New Offset Agreements

Year	Countries Companies Reporting	Number of Making Agreements	New Offset Agreements	Export Systems	Export Contracts Value	Values in \$ Billions		Percent Offsets	Average Term of Agreement (In Months)
						Agreements Value	Offset Value		
1993	18	17	29	28	\$13.95	\$4.79		34.4%	87
1994	18	20	49	43	\$4.79	\$2.05		42.8%	79
1995	19	18	45	34	\$7.40	\$6.03		81.5%	93
1996	15	19	50	34	\$2.99	\$2.27		76.0%	94
1997	13	19	58	49	\$5.84	\$3.85		65.8%	79
1998	11	17	44	35	\$3.26	\$1.85		56.7%	83
1999	9	10	32	24	\$2.01	\$1.45		72.3%	75
Totals	*39	*34	307	247	\$40.24	\$22.29		61.35%	84.28

Offset Transactions

Year	Companies Reporting	Number of Countries Involved	Offset Transactions	Export Systems	Values, in \$ Billions		Percent Credit
					Actual Value	Credit Value	
1993	23	27	439	63	\$1.81	\$2.16	118.7%
1994	21	26	550	61	\$1.89	\$2.16	114.3%
1995	20	26	667	76	\$2.66	\$3.33	125.3%
1996	21	26	621	81	\$2.70	\$3.07	113.6%
1997	18	26	576	67	\$2.71	\$3.26	120.3%
1998	19	30	579	79	\$2.28	\$2.60	114.0%
1999	12	24	437	60	\$1.81	\$2.24	124.0%
Totals	*41	*36	3869	487	\$15.86	\$18.82	118.6%

Source: U.S. Department of Commerce/BIS Offsets Database

*These figures represent the total number of different companies and different countries reported over the period.

Chart 2-1 Export Contracts and Offset Agreements, 1993-1999

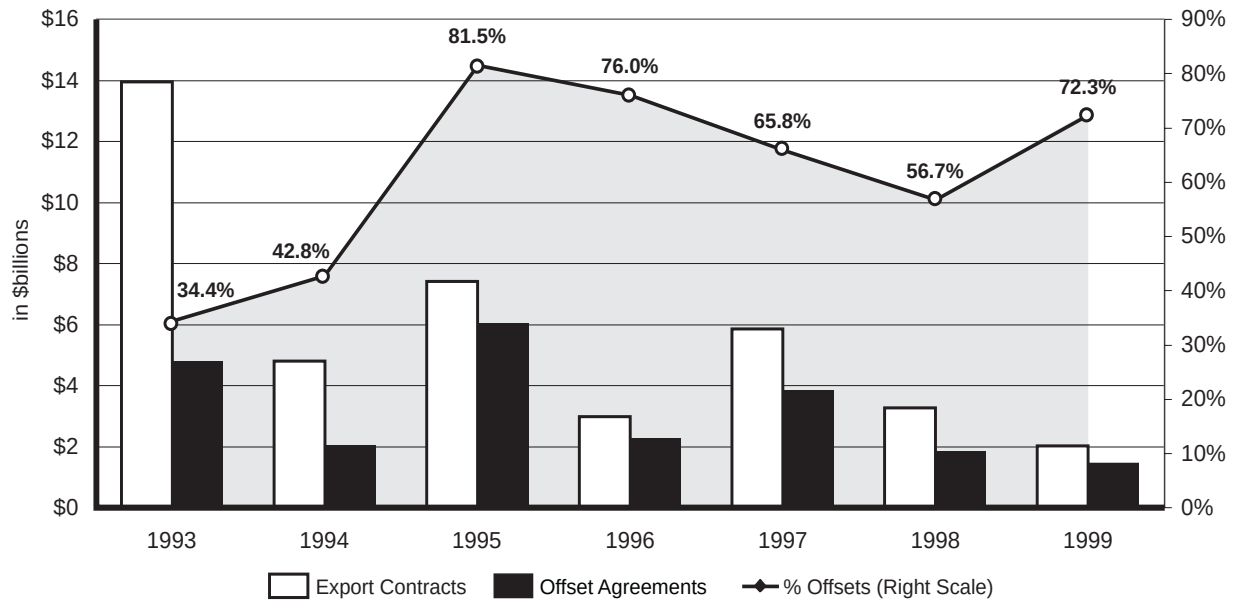


Chart 2-2 Linear Trendlines of Offset Activity, 1993-1999

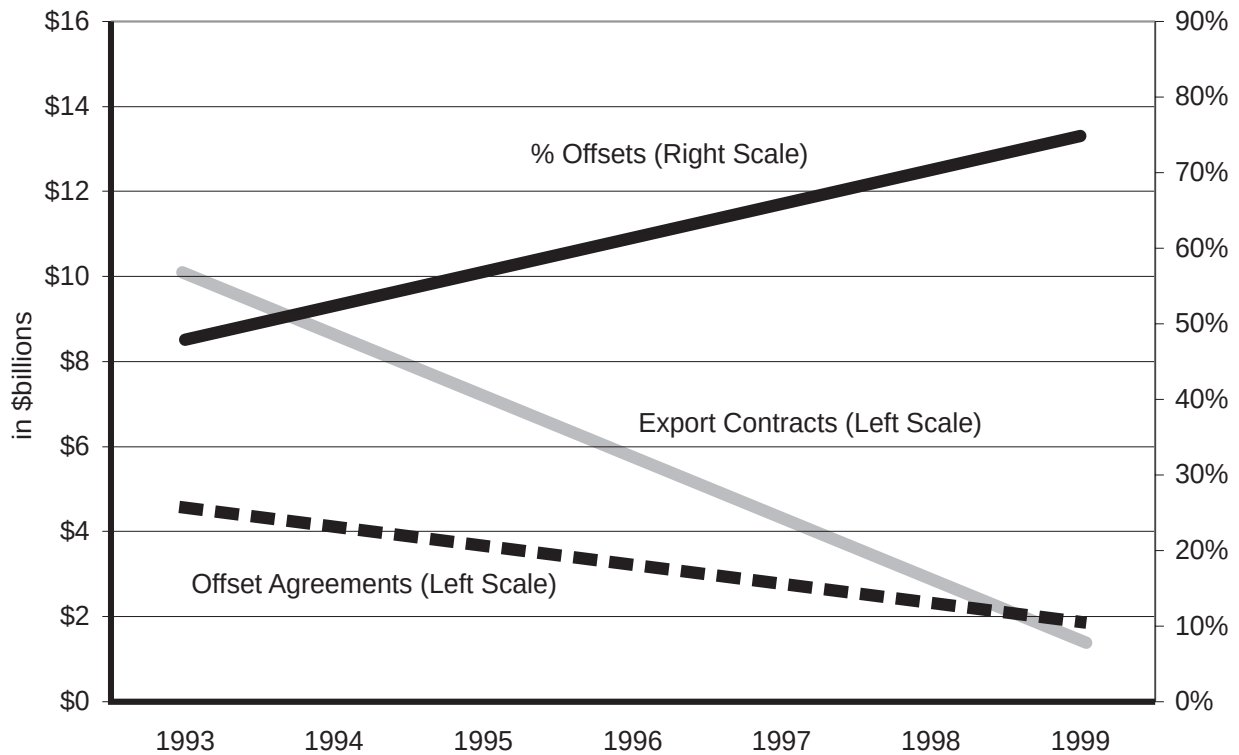
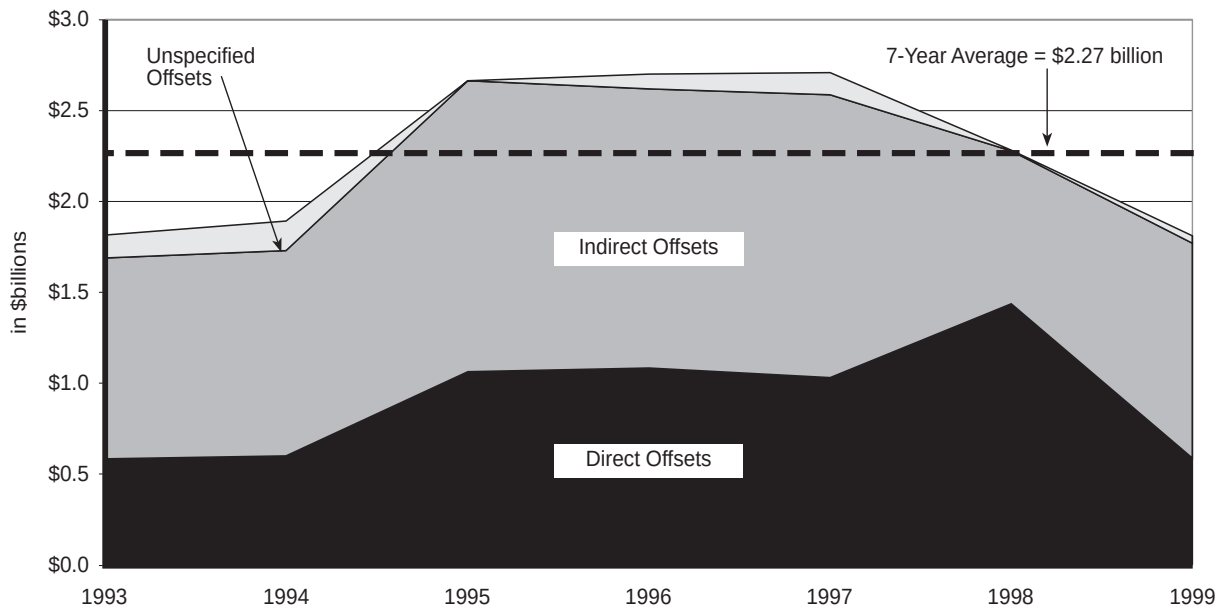


Chart 2-3 Offset Transactions, 1993-1999



During the reporting period, indirect offsets were valued at \$9 billion, and accounted for 56 percent of all transactions. U.S. companies reported receiving \$10.8 billion in indirect offset credits, which translates into 120 percent of reported actual values for indirect offset transactions. As a share of total offsets, indirect offset transactions ranged from 37 to 65 percent over the reporting period. The lowest percentage of indirect offsets (37 percent) occurred in 1998, in juxtaposition to the high direct offset percentage that year. In all other years, indirect offsets accounted for 57 percent or more of all offset transactions.

Unspecified offset transactions (i.e., when companies failed to identify a transaction as either a direct or indirect offset) accounted for only 3.4 percent of total offset transactions during the reporting period. Unspecified offset transactions were valued at \$536 million, of which nearly half involved Israel (\$243 million). Another \$197 million of the unspecified offset transactions involved Australia, the Netherlands, and South Korea. The credit value of unspecified offset transactions was \$674 million, or 126 percent of the actual value.

Concentrated Nature of Offset Activity

Based on the reported data, it appears that offset activity is highly concentrated both in terms of U.S. companies and foreign purchasing countries involved. With respect to U.S. companies, a few high-technology U.S. defense companies dominate the market, and the number of large U.S. defense contractors has fallen with the extraordinary consolidation of the U.S. defense industry in recent years. These U.S. firms and their suppliers offer foreign government purchasers much in the way of know-how, potential technology transfer, and business opportunities for foreign industries. The defense systems offered by these U.S. companies are widely considered to be the best available and, as a result, are very expensive. Indeed, just five U.S. companies accounted for over 82 percent of the value of export contracts reported during the 1993-1999 reporting period. All of these export contracts included offset agreements.

Offset activity also is concentrated in terms of the foreign purchaser countries involved, although not to the same extent as the concentration of offset activity in the U.S. defense industry.

Approximately 55 percent of all new offset agreements, by value, were signed with just five countries;

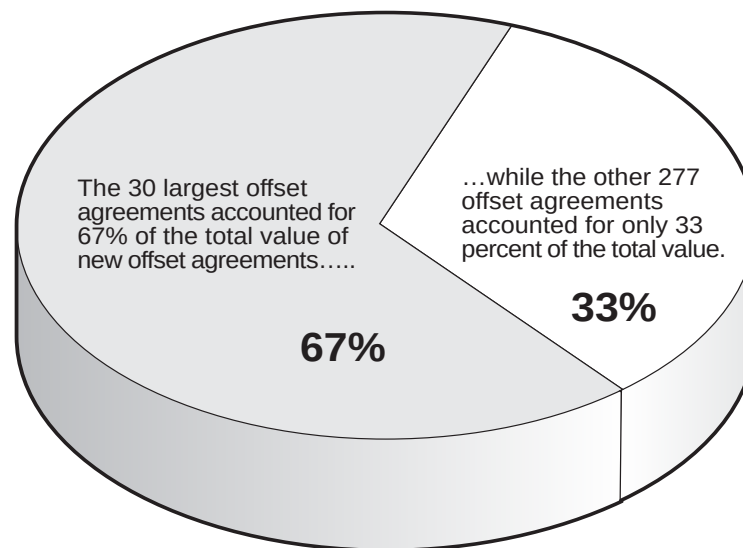
- Finland;
- the United Kingdom;
- Israel;
- Switzerland;
- the Netherlands.

Seventy-eight percent of all new offset agreements were signed with just ten countries. Not surprisingly, each of the ten countries purchased major aerospace defense systems.

Offset agreements, as might be expected, were also dominated by very large contracts. For example, the largest 10 percent of new offset agreements (i.e., the top thirty) represented 67 percent of the total value of all new agreements entered into during the period, while the top 10 percent of export contracts were 72.5 percent of total export contracts. In addition, just 19 of 198 defense systems, again 10 percent, referred to in the export contracts accounted for two-thirds of the export contract values, and 64 percent of the new offset agreements values.

Chart 2-4 compares the value of the largest thirty offset agreements to the remaining 277 offset agreements. The largest thirty offset agreements totaled \$14.9 billion, which accounted for approximately two-thirds of the value of all offset agreements during the reporting period. The other 277 offset agreements reported totaled \$7.4 billion, or less than half the value of the largest 30 offset agreements. Offsets as a percentage of the value of the export contracts were higher, on average, for the largest thirty agreements, 57 percent versus 52 percent for the remaining 277 agreements. The data seem to show that the largest export contracts often result in the largest offset percentages.

Chart 2-4 Concentration of Large New Offset Agreements, 1993 and 1999



307 New Agreements between 1993 and 1999

Total Value = \$22.3 billion

(Source: U.S. Department of Commerce/BIS Offset Database).

Offset transactions also are concentrated among a few U.S. companies. The top five companies in terms of export contracts (and their suppliers) accounted for 83 percent of the total transaction value, and the top nine for almost 93 percent. In terms of countries, the top five countries ranked by offset activity accounted for 58 percent of the actual transaction value and 52 percent of the credit value. The top ten countries accounted for 79 percent of the actual and 73 percent of the credit values.

Impact of Offsets on the U.S. Defense Industrial Base

Defense Preparedness

Granting offsets to foreign buyers of U.S. defense systems has both positive and negative effects on U.S. defense preparedness. By exporting U.S. defense systems, U.S. prime contractors have been able, in many instances, to maintain production lines for systems that would otherwise close due to a lack of sufficient demand from the U.S. military. Maintaining these production lines enhances U.S. defense preparedness because the manufacturing resources and work force remain available should they be needed in a national emergency. This positive effect filters down the supply chain to subcontractors as well, enabling them to maintain their capabilities.

Another positive effect of using offsets to increase defense exports is that greater U.S. defense exports to our allies encourage interoperability between the armed forces. Recent U.S. military actions have shown the value of shared capabilities and logistics between the United States and its coalition partners. In an era of tightened defense budgets worldwide, interoperability allows the United States and its partners to leverage defense spending and increase the effectiveness of joint missions.

However, offsets also have negative effects on U.S. defense preparedness. Offsets that are required by foreign buyers of U.S. defense exports may displace U.S. manufactured goods with foreign products. For example, U.S. prime contractors have utilized foreign manufacturers of engine parts in order to comply with offset agreements. This can create new and enhanced foreign competitors for U.S. subcontractors and increase the proliferation of weapons and technology to nations hostile to the United States. Over time, this might cause U.S. subcontractors to exit the business, and make the defense sector look less attractive to potential new U.S. suppliers. In a national emergency, the potential lack of subcontractor capabilities could limit U.S. defense actions.

Employment

Offsets also can affect employment levels in the defense sector. The data reported show that the export sales facilitated by offsets maintained 38,400 work-years annually, while the offset transactions displaced about 9,500 work-years annually. Similarly, the Presidential Commission on Offsets in International Trade, using a smaller sample of offset agreements and offset transactions generated by U.S. defense exports and a different methodology, found that offset transactions displaced 4,200 work-years annually.

Bureau of Industry and Security Analysis

Offset reports received by Bureau of Industry and Security (BIS) show an accumulated total of \$40.2 billion in defense export contracts from 1993 to 1999, which averages to about \$5.7 billion per year. (Note: these are only export sales that have an offset agreement attached and that are reported.) Aerospace defense systems accounted for nearly 90 percent of the reported value of export contracts from 1993 to 1999, so it is reasonable to use data based on the aerospace industry in this analysis. According to the *Annual Survey of Manufactures*,⁹ the value added per employee in the aerospace product and parts manufacturing industry was \$149,688 in 1999. Dividing this figure into the \$40.2 billion defense export sales total results in a total of 268,558

9 U.S. Census Bureau, February 2002.

work-years that were maintained by defense exports associated with offset agreements over the seven-year period from 1993 to 1999, or approximately 38,400 work-years annually.

To take the calculations one step further, from a starting point of \$22.3 billion in offset agreements during the 1993-1999 time period, \$15.9 billion were executed in transaction data that was reported over the same time period. Of the \$15.9 billion, \$10 billion of the total offset transactions was comprised of subcontracting (\$4.5 billion) and purchasing (\$5.5 billion), both of which likely displace sales from U.S. firms. Averaged over seven years this yields \$1.43 billion in displaced sales per year. Dividing \$1.43 billion by \$149,688 (the value added by each worker in the aerospace industry in 1999) results in the yearly loss of about 9,500 work-years.

The Presidential Offsets Commission's Findings

The Presidential Commission on Offsets in International Trade also has examined the impact of offsets.¹⁰ The Commission's findings on the impact of offsets are as follows:

The Commission staff study found that defense offsets supplant a significant amount of work/jobs that would go to U.S. firms if export sales occurred without offsets. To assess some of the economic effects of offsets, the Commission staff conducted a study of a representative sample of 50 defense offset transactions completed by major U.S. exporters over 1993-1998, representing 12 percent of the value of all defense offset transactions during this time period. The study found that direct offset transactions¹¹ during these six years resulted in the loss of \$2.3 billion in work (\$0.4 billion per year), or 25,300 work-years (4,200 per year), that would have gone to U.S. firms and their workers if the export sales had been made without offsets. Two-thirds of the lost work was borne by suppliers to the U.S. exporters.¹² Of the total estimated lost jobs, those in the aerospace industry amount to about 0.5 percent of total employment in the U.S. aerospace industry and 1.2 percent of employment in the U.S. defense aerospace industry, not an insignificant amount for one of the United States' largest industries.

However, industry estimates and other evidence suggest that offsets do facilitate exports. Under some potential remedies for offsets, such as a unilateral decision by U.S. firms not to enter into offset agreements, the jobs lost from reduced defense export sales estimated by the staff study at 85,800 work-years annually for this potential remedy would likely exceed the jobs gained from the reduction in defense offsets.¹³ These estimates underscore the need for the Commission to develop creative policies to reduce jobs lost through offsets in ways that do not inadvertently cause additional job losses. Possible approaches are discussed in the final section of the report.

In summary, BIS and the Commission agree that offsets have both a positive and negative effect on the U.S. defense industrial base, the U.S. economy, and, by extension, U.S. national security. Offsets can strengthen U.S. national security by:

- Increasing the capabilities of defense firms in allied nations, thereby strengthening our joint defense preparedness and interoperability; and
- Facilitating increased U.S. exports of defense articles, thereby helping to maintain the economic viability of U.S. defense firms and the defense articles they develop.

However, offsets can harm national security by:

10 To read the full *Status Report of the Presidential Commission on Offsets in International Trade* – January 18, 2001, see the Commission's website at www.offsets.brtrc.net.

11 The estimated job loss also does not include losses resulting from commercial offsets.

12 This result is based on information obtained from the U.S. exporters. The Commission staff did not survey U.S. suppliers themselves.

13 Commission members Markusen and Buffenbarger note that this number is speculative and based on estimates provided by the aerospace companies surveyed. A full discussion of this issue is contained in Section VI(C) of the Commission's report.

-
- Increasing the capabilities of foreign defense firms, which in turn may increase the proliferation of weapons and technology to nations hostile to the United States; and
 - Depriving capable U.S. defense firms and their workers of business in favor of foreign firms, thereby eroding the U.S. supplier base, allowing the skills of essential U.S. defense workers to atrophy, and increasing U.S. dependence on foreign suppliers. Further analysis of this issue is warranted.

Offset Activity in 1999

Offset Agreements, 1999

In 1999, nine U.S. defense contractors reported entering into thirty-two offset agreements with ten different foreign countries. The offset agreements were valued at \$1.45 billion, accounting for 72 percent of the total reported U.S. defense export contract values (\$2.01 billion). In relation to the previous six years, both the value of total reported defense exports related to offset agreements and the offset agreement total were at their lowest levels in 1999. It is not unusual to see changes in the yearly offsets totals, as the number and value of defense contracts can vary substantially from year to year. In 1999, there were relatively few deals, and the average value for the deals was low. Another reason for the low levels was that Europe – which typically demands the highest level of offsets– had fewer agreements in 1999 than in previous years.

U.S. companies signed the most offset agreements with South Korea and Greece (five each), followed by Turkey and Israel (four each). The total value for defense items purchased in 1999 by each country is shown in Table 4-1

Taiwan led all countries in offset value, with three new offset agreements totaling \$347.4 million. Israel was a close second with \$340.8 million, and Greece followed with \$290.5 million. In export contracts, Israel led the way with purchases of defense items from U.S. defense contractors totaling \$564.2 million. Taiwan and Greece ranked second and third, respectively, with purchases of \$364.2 million and \$294.6 million, respectively. In terms of percentage of sales value accounted for by offsets, the Netherlands, Denmark, Spain, and Sweden each had 100 percent, while Australia was the lowest with 12 percent. The average offset value required of the defense contractor was 72.2 percent of the value of the exported defense articles. U.S. firms reported that the average term to complete offset agreements entered into in 1999 was 75 months, a decrease from 1998's figure of 83 months and 10 months below the average of 85 months for the period 1993-1999.

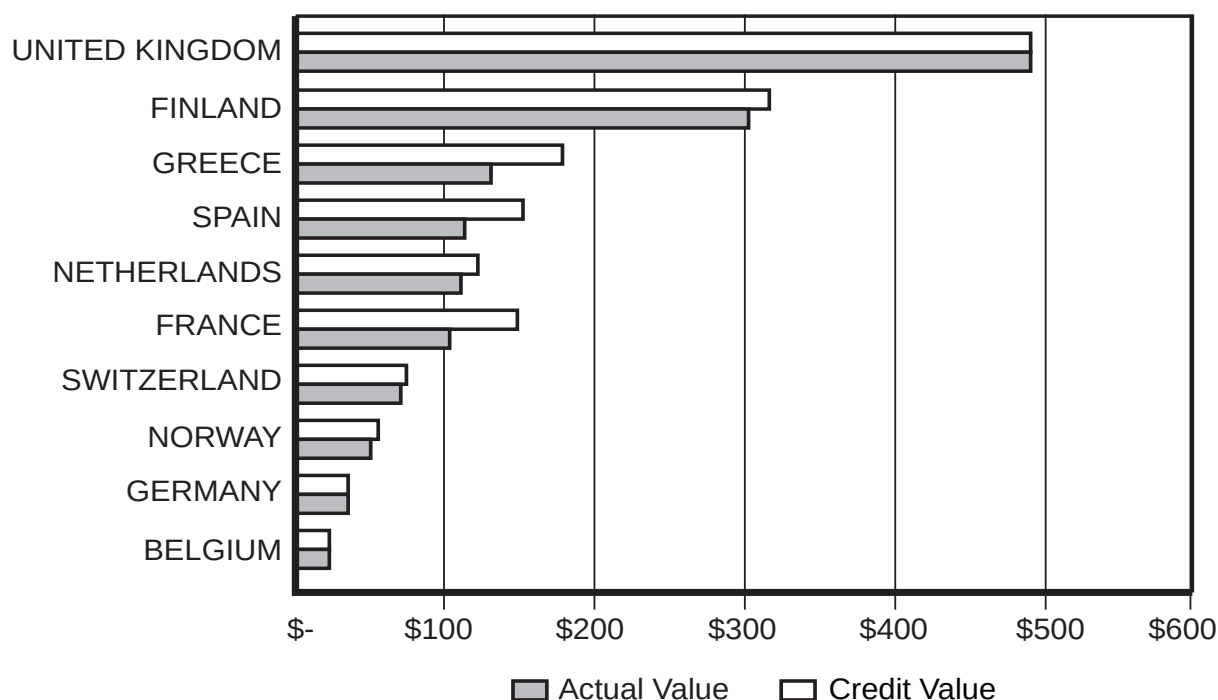
Offset Transactions, 1999

In 1999, 11 U.S. companies reported offset transactions with a total actual value of \$1.81 billion. This figure was down 21 percent from the 1998 total of \$2.28 billion, and was lower than the transaction value for any of the previous six years. With the decrease in defense sales and offset agreements, a similar drop in offset transactions would be expected in the future. The credit value¹⁴ received for these transactions was \$2.24 billion, or 124 percent of the actual value. There were 437 offset transactions reported in 1999, the lowest number reported for any single year from 1993 to 1998. As in previous years, the value of the offset transactions reported was concentrated largely among a few firms. The top three U.S. prime contractors accounted for 85 percent of the total transaction values reported.

Chart 4-1 shows the top 10 foreign countries that received offset transactions in 1999, in order of actual value of the transactions. The United Kingdom was the recipient of the largest amount

¹⁴ The credit value is a value that some foreign governments provide as an incentive for certain kinds of offset transactions. This value varies greatly by country and by the kind of transaction (i.e., purchase, technology transfer, investment, etc.), but is normally more than the actual value. The percentage difference between the actual value and the credit value is the multiplier. For the entire database, the multiplier is 118.6 percent, which means the credit value is 18.6 percent more than the actual value. Generally, multipliers are provided only by developing countries.

of offset transactions (almost \$500 million in 1999). Finland was second with \$300 million of offset transactions. Together, the United Kingdom and Finland accounted for 45 percent of the 1999 total value of offset transactions. Greece, Spain, the Netherlands, and France each received more than \$100 million in offset transactions in 1999. All remaining countries received less than \$100 million in offset transactions during 1999.



1999 Offset Transactions by Region

European countries overwhelmingly dominated all recipients of offset transactions in 1999, with \$1.5 billion of the \$1.81 billion total, or 81 percent of the actual value of all offset transactions for the year. The credit value for these offset transactions of \$1.7 billion, however, was a smaller percentage (74 percent) of the total credit value of all offset transactions. The observed practice for European countries over the past seven years has been to provide less credit for offset transactions than other regions, with the exception of Canada (the dominant offset player in North and South America). In 1999, European credits accounted for 114 percent of the actual offset transaction values.

Asia was a distant second to Europe in value of offset transactions. Asian offset transactions amounted to \$191 million in 1999, accounting for only 11 percent of the total. However, U.S. companies received more than \$347 million in offset credits in the Asian markets in 1999, or 182 percent of the actual offset transaction values. The higher rate of credits is typical for Asian countries such as Taiwan and South Korea. The difference between European and Asian credit percentages is explained by the regions' transaction preferences. A greater percentage of European offsets are based on actual purchase transactions, while Asia has a higher share of technology transfer and training transactions. The Middle East was next with \$132 million in offset transactions. Offset credits of \$192 million were 152 percent of actual transaction values. Offset transactions in North and South America amounted to only \$25 million. No additional credit was granted by the purchasing nations.

Table 4-1 1999 Export and Offset Agreement Values by Country

Country	Number of New Offset Agreements	Export Value (in \$ millions)	Offset Value (in \$ millions)	Average Percent Offset
Taiwan	3	\$ 364.2	\$ 347.4	95%
Israel	4	\$ 564.3	\$ 340.8	60%
Greece	5	\$ 294.6	\$ 290.5	99%
Turkey	4	\$ 158.8	\$ 145.3	91%
South Korea	5	\$ 230.8	\$ 132.5	57%
Netherlands	3	\$ 36.1	\$ 36.0	100%
Australia	3	\$ 229.8	\$ 27.5	12%
Denmark, Spain, Sweden	5	\$ 132.1	\$ 132.6	100%
Total	32	\$2,010.7	\$1,452.6	76.15%

Source: U.S. Department of Commerce/BIS Offsets Database

1999 Offset Transactions by Type and Category

In 1999, defense contractors reported total direct offset transactions valued at \$588 million, for which they received offset credits of \$705 million. Indirect offset transactions were valued at \$1.2 billion for which they received offset credits of \$1.4 billion. The remaining value (\$22 million) were unspecified and received offset credits of \$103 million.

Offsets generally are categorized into nine types of transactions. Table 4-2 shows the total values for each of the nine categories for offset transactions in 1999 reported to the Department of Commerce. Three categories accounted for more than 80 percent of the total value of all offset transactions in 1999.

- Purchase (\$768 million);
- Subcontract (\$405 million);
- Technology Transfer (\$296 million).

Purchases alone accounted for 42 percent of the total 1999 offset transaction value. Also shown on Table 4-2 are credit values and the multipliers (i.e., credit value divided by actual value) for each category of offsets. The multipliers varied greatly by category, ranging from 100 percent for credit transfers and co-production to nearly 6,000 percent (i.e., a 60 fold multiplier) for training. (Note: The 1999 Training multiplier appears to be an anomaly arising from a very small actual value. Since 1993, the Training multiplier has averaged approximately 160.9 percent. The average multiplier for all categories of offset transactions in 1999 was 124 percent.)

The 1999 data shows a significant change in allocation of offset transactions by category from the previous year. In 1999, purchases accounted for 42 percent of the total offset transactions (by value), an increase of 13 percent from 1998. In 1999, defense companies reported 121 offset transactions requiring subcontracts, which accounted for 28 percent of the value of all offset transactions that year. In 1998, by comparison, subcontracts accounted for 53 percent of the value

of all offset transactions. The change in allocation of offset transactions by category from one year to the next can be explained by individual countries' preferences for different categories of offset transactions. (See Appendix E for detailed information on offset requirements for many foreign countries.)

Table 4-2: Offset Transactions by Category, 1999

Offset Category	Actual Value (\$ millions)	Credit Value (\$ millions)	Percent Credit
Purchases	\$768.2	\$782.1	102%
Subcontracts	\$404.7	\$434.3	107%
Technology Transfer	\$295.9	\$361.8	122%
Other	\$249.3	\$358.9	144%
Co-production	\$40.5	\$40.5	100%
Investment	\$26.1	\$191.7	736%
Credit Transfer	\$20.0	\$20.0	100%
Licensed Production	\$3.7	\$26.2	716%
Training	\$0.5	\$27.5	5978%
Total	\$1,808.8	\$2,243.0	124%

Source: U.S. Department of Commerce/BIS Offsets Database

Conclusions

Since the Department of Commerce's first offset report in 1996, there have been many changes in the world defense market. Governments worldwide have decreased defense spending, which, in turn, has increased the international competition among those firms remaining in the defense sector. Because of intense competition for a shrinking number of export sales, offsets have become more important in determining the outcome of weapon sales competitions. Europe, the largest market for U.S. defense exports, leads the world in the level of offsets required, with average offset levels approaching, and sometimes exceeding, 100 percent of the value of the export contract. From the U.S. perspective, Europe is clearly the central focus of this trend, dominating both offset agreements and offset transactions with U.S. companies. Because 90 percent of offset agreements are aerospace-related, concerns about effects of offsets on U.S. prime contractors and the U.S. aerospace infrastructure have increased. Most recently, the press and prime contractors have reported examples of European governments offering extra incentives and guarantees on top of their firms' offset packages, something that the U.S. government has not done and will not do, under the current offset policy. This raises the issue of defense offsets to an entirely new and anti-competitive level.

Offsets in defense trade have a mixed impact on employment in the United States. Based on the data received, BIS calculates that export sales facilitated by offsets maintained 38,400 work-years annually for the period 1993 through 1999, while the offset transactions displaced approximately 9,500 work-years annually.

In the coming year, using authorities granted under the *Defense Production Act of 1950*, as amended, the Department of Commerce is committed to working with U.S. industry, the Department of Defense, and foreign governments to analyze the impact of offsets on all parties and to seek ways to mitigate their effect on competition. Our goal is to support the U.S. defense industry and to ensure a robust and vibrant industrial base.

Direct Commercial Sales Authorizations for Fiscal Year 2002 Overview

By
The Department of State

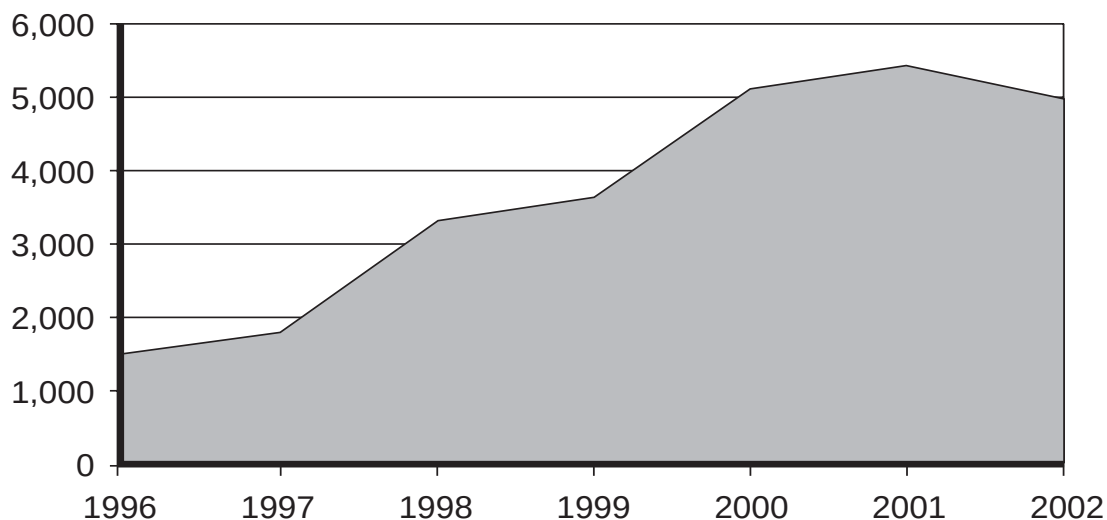
[The following are excerpts of a report prepared by the Department of State pursuant to Section 655 of the *Foreign Assistance Act*. The complete report may be found at www.pdtc.org.]

This report covers defense articles and defense services licensed for export during Fiscal Year 2002 under Section 38 of the *Arms Export Control Act*. It is provided pursuant to Section 655 of the *Foreign Assistance Act* and, as required by that Section, the report shows the aggregate dollar value and quantity of defense articles and defense services authorized to each foreign country. A separate portion reports just on authorizations for semi-automatic assault weapons.

In view of the growing role of manufacturing license agreements and technical assistance agreements, this year's report has a separate section that distinguishes more clearly between authorizations pertaining to defense articles and those associated with defense services. While the overall number of export licenses authorized under Section 38 has remained relatively constant at approximately 35,000 per annum since 1997, the number of manufacturing license agreements and technical assistance agreements submitted has increased since 1996 (Figure 1).



Figure 1
Manufacturing License and Technical Assistance Agreements for Fiscal Years 1996-2002



This trend appears to reflect the growing complexity of commercial defense trade as international joint ventures, co-production, licensed manufacturing and offset arrangements involving offshore assembly or procurement increasingly characterize major sales.

Part 1 of the report details approximately \$15 billion in licenses authorizing the export of defense articles, while Part 2 provides aggregate information by country on authorizations for defense services (i.e., agreements) totaling \$37 billion. Importantly, the value of authorizations provided under Section 38 for defense articles and defense services does not correlate to the value of articles actually transferred during this same time frame. Most munitions licenses issued for

articles shown in Part 1 are valid for four years and may be used throughout their period of validity to carry out the authorized export transactions.

Similarly, manufacturing license and technical assistance agreements set forth in Part 2 of the report cover a wide range of programmatic activities for multi-year periods (generally exceeding the four-year validity period of defense article export licenses). Because the scope of the Department's regulatory authority over such agreements continues for as long as these multi-year agreements remain in effect, authorizations furnished in fiscal year 2002 also include certain activities occurring in prior years. Such post hoc reporting generally is due to instances where the State Department directed an audit of an agreement (including the value of articles produced) in order to ensure compliance with the Arms Export Control Act and, in particular, the oversight by Congress mandated in Section 36 of the Act¹ with respect to major sales and manufacturing abroad of significant military equipment.

The results of such audits frequently disclose higher values than previously reported or initially projected by U.S. defense firms owing to a variety of factors, including extensions in the validity of agreements well beyond the original time frame envisaged. Authorizations under Section 38 in fiscal year 2002 continued to center principally on a relatively small number of friends and allies of the United States. During this period, defense trade with two major allies, the United Kingdom and Japan, reflect a large portion of the dollar value of all authorizations furnished under Section 38 (i.e., the overall DCS program). In past years, the United Kingdom and Japan have been the largest cooperative partners of the United States in relation to defense trade carried out under Section 38 (Table 1).

Table 1			
Defense articles Authorized	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Japan	\$3.6	\$2.6	\$3.0
United Kingdom	\$2.5	\$3.3	\$2.6

Part 3 is a separate report, pursuant to P.L. 107-228, that covers defense articles (that are firearms controlled under category I of the United States Munitions List) that shows the country, aggregate dollar value and quantity of semi-automatic assault weapons, or spare parts for such weapons, the manufacture, transfer, or possession of which is unlawful under 18 USC 922, that were licensed for export during fiscal year 2002.

1 Sales of major defense equipment valued at \$14 million or more or other defense articles and defense services valued at \$50 million or more, and technical assistance and manufacturing license agreements involving the manufacture abroad of significant military equipment, required notification to Congress before an export license may be issued.

U.S. Munitions List Categories

The categories of the U.S. Munitions List referenced throughout this report are as follows:

Category I	Firearms
Category IJ	Artillery Projectors
Category III	Ammunition
Category IV	Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs and Mines
Category V	Explosives, Propellants, Incendiary Agents, and Their Constituents
Category VI	Vessels of War and Special Naval Equipment
Category VII	Tanks and Military Vehicles
Category VIII	Aircraft and Associated Equipment
Category IX	Military Training Equipment
Category X	Protective Personnel Equipment
Category XI	Military Electronics
Category XII	Fire Control, Range Finder, Optical and Guidance and Control Equipment
Category XIII	Auxiliary Military Equipment
Category XIV	Toxicological Agents and Equipment and Radiological Equipment
Category XV	Space Systems and Associated Equipment
Category XVI	Nuclear Weapons Design and Test Equipment
Category XVII	Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated
Category XVIII	[Reserved]
Category XI	[Reserved]
Category XX	Submersible Vessels, Oceanographic and Associated Equipment
Category XXI	Miscellaneous Articles

[Editor's note: - Enumeration of some articles on the U.S. Munitions List (Part 21 of the International Traffic in Arms Regulation (ITAR) have been changed since this report - refer to ITAR, April 2003.]

Crisis and Opportunity: Realizing the Hopes of a Hemisphere

**By
Colin L. Powell
Secretary of State**

[The following are excerpts of the remarks presented to the Council of the Americas' 33rd Annual Washington Conference, Loy Henderson Conference Room, Washington, D.C., April 28, 2003.]

I am always pleased to meet with the Council, and I am pleased that this is the third straight year that I have had such an opportunity, because this Council embodies within its collective presence all the values that we hold dear; free markets, democracy and the rule of law. By trading and investment, that which you are so interested in, you create jobs, you expand opportunity, and you promote development for the people of our hemisphere, so that the people of our hemisphere can see that democracy and the free market system is for them. It is not just for business, it is not just for the purpose of making a profit, but for the purpose of bringing hope into their lives and putting food on their tables, and to giving a better future to each and every one of their children.

In Iraq, we have just come through a time of great peril. You have all joined with me and people around the world watching the brave young men and women of the American, British, Australian and other coalition countries, who came together and liberated the Iraqi people from the yoke of Saddam Hussein and his thugs. I am so proud of those young men and women and I know that you are so proud of them as well. And who among us will ever forget some of the scenes that came across our television sets, the scene of unbridled joy when together, Iraqis and Americans, toppled that huge statute of Saddam Hussein, which dominated Baghdad's central square. As I watched it on television, I was in the outer office of the President; the President was in his office. I had just come out of a meeting, and there on the television set in his assistant's office was this scene.

The President came out, and we all sat transfixed by this image of the statue slowly being pulled over after a great deal of work by two American Marines and the Iraqi people. And as a soldier, I kept looking at it, and I was nervous because these two soldiers were by themselves on their personnel retriever with the crane up. And I kept saying, "Where is their security?" "Is not there a war going on?" And they were just two Marines who would not miss this opportunity. But at that moment, they had help, not from fellow Marines, not from fellow soldiers in the Army, but from the Iraqi people who were there in the square, who welcomed them, who saw they were having trouble, so helped them as, together, Iraqis and Americans tore down this statue, the statue that celebrated despotism, terror, weapons of mass destruction.

Who will forget the photographs of tens of thousands of Iraqi Shiites marching on a pilgrimage to their holy city of Karbala for the first time in a quarter century peacefully? For twenty-five years, they had been prevented from practicing their faith in this noble way by somebody who claimed to be faithful, somebody who claimed to be a believer, somebody who claimed the faith of Islam, said he was a Muslim but would not let Shiites practice their faith. And here, in this one moment, suddenly they were free to assemble by the tens upon tens of thousands, without a bunch of soldiers guarding them. We kept our distance so that they could peacefully participate in this important pilgrimage. This all may seem faraway and distant. Baghdad may seem far from Bogota and the cares of Iraqis far removed from the daily struggles of Argentina. But the countries of our hemisphere have had, and continue, to have an important role in eliminating the threat from Iraq's weapons of mass destruction and bringing new hope to the Iraqi people. Seven of our Latin American friends are members of the coalition of the willing that President Bush assembled to free Iraq.

And I also want to thank the Presidents of Colombia, Costa Rica, the Dominican Republic, El Salvador, Nicaragua and Panama for their courageous stand for what is right, what is necessary, and what is just. And now we are counting on the Latin American members of the United Nations Security Council to join us in making sure that the Council can fulfill its vital role in the reconstruction of Iraq. Security Council membership brings important responsibilities and requires tough decisions, and it is no secret that there was disappointment when some of our friends did not agree with us on the need for a follow-on to *Security Council Resolution 1441*, which gave the Iraqi regime one last chance to disarm peacefully.

But that is behind us now. Saddam and his regime are gone. The statues lie in the dust and we now have an opportunity to come together to make sure that the Security Council lives up to its responsibilities. We all join together to help the Iraqi people build a better nation, to give Iraqi children hope, just as we wish every child in our own hemisphere to have hope and a brighter future. Iraq is very important and it has certainly dominated the headlines and dominated political life, not only in Washington but around the world for a number of months now, but President Bush has a foreign policy agenda that goes well beyond Iraq or the particular military crisis of the moment.

Last fall, the President issued a document called *The National Security Strategy of the United States of America*. And in that short, simple document of thirty-odd pages, he laid out his agenda for all to see. Many people saw that document and they jumped at just a couple of sentences that talked about the tactic of preemption, a way of taking military action, and suggested that this whole document was about preemption. But nothing could be further from the truth. Preemption is just a small section in the document, and not a strategy. If you really looked at the whole document, you would see a strategy emerge, a strategy that talks to the role of the United States in helping people around the world to meet their aspirations, and the role that we intend to play to help them do that. The President's agenda, you would see from that document, is focused on people's desire for human dignity and well-being. The document talks about working with friends and allies. It talks about building up our alliances. It talks about economic development. It talks about sustainable development. It pledges cooperation with our friends and allies, not only to meet today's security threats, but also to boost trade, conquer infectious disease and strengthen democracy. That is an agenda that is directly relevant to our hemisphere, and that is the agenda of President Bush and all of the members of his cabinet.

None of our goals are more important than the war against terrorism, of course. Barely a year and a half after the attacks of September 11, 2001, the world is still at war with terrorists in Iraq and Afghanistan and everywhere that they plot their crimes. There can be no respite, no rest until the terrorists are defeated, and they will be defeated. From day one to this day, the nations of our hemisphere have stood together against terrorists. It was on September 11, 2001, that my colleagues in the Organization of the American States, when we were all together in Lima, were the first to come together to condemn the attacks on the Pentagon and the World Trade Center.

Since then, in word and in deed, the democratic countries of the region have cooperated to search out terrorists, dismantle their networks and freeze their funds. We must continue to cooperate with equal vigor to meet the many other challenges confronting our hemisphere, from the danger to Colombia from terrorists and narcotraffickers to the peril to Venezuela from political upheaval. We must do a better job of reducing the threat to our citizens from trafficking in drugs and arms, and especially trafficking in people. We have an opportunity to come together and defeat human immuno-deficiency virus/acquired immune deficiency syndrome (HIV/AIDS), the greatest weapon of mass destruction on the face of the earth today, putting millions of lives at risk right now, as we sit here, throughout the world.

Our human ties are our most precious bonds. Over thirty-three million Americans proudly trace their heritage and their descent from the nations of Latin America. Our challenge is to work together on borders and immigration to make sure that we continue to welcome legitimate travelers while screening out terrorists. We must remain and we will remain an open, welcoming

nation. We are a nation of nations. We are touched by every nation and we, in turn, touch every nation on the face of the earth, every nation in this hemisphere.

And so in the post-September 11, 2001 aftermath, there was a need for us to know who is coming into our country, and we are doing better at that. We are putting in place better systems to check the backgrounds of people who want to come here. We will speed it up, we will make it easier, because we understand that America has to be an open place, has to be a welcoming nation. History has taught us that no country, not even a superpower, can meet challenges such as the challenges we face alone. Solutions must be hemispheric solutions. So, too, with opportunities. The spread of democratic and economic freedom has opened unprecedented opportunities to lift millions of men, women and children out of misery.

Trade is the most powerful engine for development, and neighbors are natural trading partners. The *North American Free Trade Agreement* (NAFTA) shows how freeing trade across borders helps people. In less than a decade, trade among the NAFTA partners has more than doubled, bringing more and better jobs. In Mexico, the export sector has created over half of all new manufacturing jobs, and these are jobs that pay, on average, 40 percent more. To expand this circle of prosperity, we are working toward freer trade at every level and every day. Bilaterally, we have concluded a free trade agreement with Chile that will remove the disadvantages American companies currently face while helping Chile grow, grow even more than it has in the past. It has had a remarkable record of growth and development, and with this free trade agreement it can do even better.

We also support strengthening economic relations with groups of countries in our hemisphere. We have implemented an expanded trade program with the Andean nations that provides duty-free access to the U.S. market for some 5,600 different items. In addition to stimulating trade and development, this program also provides incentives to Andean farmers to find alternatives to illicit crops. We are working with the Central American nations to finish free trade talks with them by the end of this year. At the same time, we have launched programs to help the Central American countries compete in the modern, global economy. The fifty projects included in this program include funding for computers to make government agencies more efficient, projects to help increase civilians and citizens involved in trade negotiations, and assistance to strengthen food safety inspection systems. This may all sound rather mundane, rather down to earth, but these are the everyday details, the everyday programs that can determine whether a country can attract the capital and investment that it needs to grow.

At the regional level, we place a high priority on linking our entire hemisphere in a Free Trade Area of the Americas. Two years ago at the Quebec Summit of the Americas, our presidents and prime ministers committed themselves to creating, by January 2005, a free trade area that would create greater prosperity for nearly 800 million people in thirty-four countries of our hemisphere. To move negotiations forward, the United States has announced a bold, comprehensive offer to eliminate tariffs and trade barriers. All of this activity is taking place against the backdrop of our efforts to expand global openness, growth and development through a successful Doha development round of World Trade talks. The next World Trade Organization ministerial meeting will be held in this hemisphere in Cancun, Mexico. Bob Zoellick, the U.S. Trade Representative, is leading the charge to make that meeting a complete success. We will do our part to open the hemisphere to the benefits of freer trade and investment. But our friends, public and private, must also get involved to ensure that the final agreements give the biggest boost to our economies and offer the greatest benefit to our citizens.

We need other governments to negotiate in good faith, with the well-being of their citizens uppermost in mind; and we need business people, like you assembled here today, to advise us and push us to conclude and ratify strong agreements. We can combat terrorism and trafficking, we can fight disease, we can strengthen human ties, we can expand trade, but none of our efforts will be enough if men and women lack confidence in their democracies and their prospects for a better future.

Last year, standing before this group, I warned of a lingering dissatisfaction with the quality of democracy and the results of economic reform. Despite some progress over the past year, dissatisfaction remains. In part, such feelings are a measure of how far our hemisphere has come, politically and economically. I remember vividly back in the 1980's, the late 1980's, when I was National Security Advisor to President Reagan, too much of the hemisphere was ruled by generals and dictators. We were worried about infiltration from other parts of the world of communist influence that would cause nations on a path to democracy to reverse course and go the other way. But today, every country but one has a freely elected president or prime minister. Former adversaries compete in the democratic arena of electoral politics.

The sole exception is the well-known exception, Cuba. The Castro regime is cracking down on Cuban citizens who dare ask for a voice in how they are governed. Far from offering liberty and hope, the regime is turning to arrests and harsh prison sentences, ten, fifteen, twenty, twenty-two years for speaking out, all in a vain effort to stamp out the Cuban people's thirst for democracy. We applaud the nations of Latin America that introduced and supported the recent resolution in the United Nations Commission on Human Rights, insisting that Cuba accept a special human rights envoy. The Castro government's refusal to accept the U.N. inquiry only condemns it further, proves the case against it.

Why would Castro reject scrutiny if he has nothing to hide? We know the reason. He has everything to hide. Now the Organization of American States (OAS) is taking up Cuba's human rights practices. We look to our friends in the OAS to live up to the ideals we share and take a principled stand for freedom, democracy and human rights in Cuba. We look to them to join us in developing a common hemispheric approach to supporting Cubans dedicated to building a democratic and free Cuba. We can do no less, for our hemisphere will not be fully free until the Cuban people are free.

Political progress in the region has gone hand in hand with the economic reforms. Although many countries face severe economic challenges, the old demons are gone: inflation is largely tamed; countries are increasingly open to foreign trade and investment; economic setbacks occur but no longer lead inevitably, as the night follows the day, to economic crises affecting the whole hemisphere. These improvements have created increased expectations for good government and broader responsibility and prosperity. People have sacrificed and they want to see the results in their pocketbooks, in their pay packets and in their polling places.

But too many people still suffer from weak governments and ineffective institutions. In too many places, rule of law and property rights are honored mainly in the breach of those rights and the breach of the law. Children are not adequately educated for jobs in a globalizing world or citizenship in a democracy; health care systems are failing; corruption still saps the marrow of democracy and, like terrorism, it is all too widespread; economic stagnation and even deep recession retard development. So the challenge to the governments of the region, of the hemisphere, are clear. They must meet their people's just expectations for a better future. To do so, they must see political, institutional and economic reforms through to completion, no matter how difficult. To do so, they need support from friendly governments, but also from friendly businesses. The election of President Lula in Brazil is a powerful example of voters using the democratic process in search of better lives.

It is important for the hemisphere that this experiment in reform, this experiment in reform through democracy, succeeds to be an example for the entire region and the entire world. The people of Argentina are also seeking an electoral route to better lives. Yesterday they voted in the first round of presidential elections. We all hope that the new government, when selected and in place, will be able to move that great nation forward. Paraguayans, too, have elected a new president, and we wish the president all the best in his efforts to strengthen Paraguay's democratic institutions.

The challenges that our hemisphere confronts and the solutions to those challenges are intertwined, totally intertwined. Political stability and security require and reinforce economic

growth. Good governance is essential to all. The problems are difficult, but they are not insufferable. The coming years can, and should, be a time of progress, a time of success. Hemispheric progress requires continued American engagement in trade, in security, in support for democracy, and across the board we are deeply involved in expanding peace, prosperity and freedom in this hemisphere. These are the essential elements of the President's foreign policy agenda and these will not change.

Progress also requires the deep commitment of the countries of the region. We are seeing commitment, but more needs to be done to complete the reforms needed to give new generations new hope. And progress requires business activity, investing, trading and doing business where good policies are in place; spreading best practices where they can make a difference; and supporting responsible policies that free entrepreneurs, educate children and improve the health of all.

In the final analysis, progress relies on partnerships between different governments, between governments and their citizens, and between governments and business. In the Council of the Americas, the governments of the Americas have a wonderful partner for progress.

I want to thank you for all that you are doing to achieve our mutual goals. I congratulate all of you for your energy, your commitment and your impact. And as I have said to this group on previous occasions, never lose sight of who we are doing this for; not for those of us assembled in this room, but for the poorest of our citizens, who will not read any of these speeches, who will not watch any of this on television, who will go to bed, perhaps, a little hungry, who will wonder about whether their child will be clothed and whether their child will go to school or whether their child will have a better life than they are having. They are what it is all about. We told them that democracy would work. We told them that if they went down this road, there would be a better life for them. We told them that the free market economic system would work. We told them that if they moved in this direction, if they were not afraid of globalism, they would find a better life. We told them that there would be opportunities to educate their children for the kind of jobs that are going to be out there. We told them there would opportunities to improve their infrastructure so that they can convert their countries into more fertile ground for investment because there is an adequate infrastructure. We told them many things. We made them many promises. And now they look to us here in this room and to political leaders throughout the hemisphere to deliver. And if we collectively do not deliver, then democracy has no meaning, the free market system has no meaning, and it is possible for us to go backward. But I am not worried about going backwards. I am only thinking about moving forward because I believe we are committed to doing all of the things that will be necessary to make sure that the hope that we have put in their heart is realized in the better life that they will see in the future.

PERSPECTIVES

Graduation Ceremony for Students of International Relations and International Studies

**By
Lincoln P. Bloomfield, Jr.,
Assistant Secretary of State for Political-Military Affairs**

[The following speech was presented to the Wendy and Emery Reves Center for International Studies, The College of William and Mary, Williamsburg, Virginia, May 10, 2003.]

I know this must be a moment in your lives that summons a range of emotions. Your minds are clear, all the anxiety of meeting course requirements, taking exams, writing papers, is behind you, although many of you will have nightmares for the next twenty years about forgetting you had signed up for a course and having two days to cram for the final. Now, you can look ahead and see what is out there, waiting for you. You may know what you plan to do next, or you may intend to take a little time before digging in to a major new commitment. Either way, this is a day for feeling proud of all your hard work, and excited about all the good things awaiting you somewhere along your path to the future. When you study international affairs, it sometimes seems as though all the big questions have been answered. This is an understandable impression. Governments speak with an air of certainty. Academic experts write with a tone of intellectual authority. News media present their stories with an aura of credibility.

And there are times when it all seems so right and orderly that there is nothing left to figure out. In 1899, Charles Duell, the U.S. Commissioner for Patents, announced that everything that can be invented has been invented. That was right before the greatest century of invention by any country in the history of man. It was also a century that brought mankind the bloodiest wars, the most fearsome weapons, the most monstrous crimes against humanity, and the most dangerous ideological movements, fascism and communism, ever seen on earth. That is what drew me toward international affairs, and into government service, the huge importance of world events; the belief that U.S. foreign and security policy was all that protected the human race from Soviet tyranny or a war of unthinkable destruction. And then, as the 20th century drew to a close, the Cold War ended. Nations long held captive in the communist empire were freed. The threat of nuclear Armageddon between ourselves and the Soviet Union went away. And in the 1990s, Americans talked about schools, health plans, and stock portfolios. Some called it the end of history.

In 1993, I left government after twelve years of exciting work as a young official in the Pentagon, the Department of State and the White House. After a few years trying my hand in the business world, I thought it really was the end of an era. Foreign affairs did not dominate the news. Five years ago, I was certain that that part of my life was over. Even when Colin Powell did me the great honor of inviting me to join his leadership team in the Department of State after the 2000 election of President Bush, I was very pleased to accept the challenge, of course; but I still did not anticipate lots of foreign policy headlines during the new Bush Administration.

The topics of the day, if you will recall, were long-term trends globalization, the digital divide, the Pacific century, missile proliferation and missile defense. Interesting issues but nothing that would shake us from our peaceful daily lives. How much the world has changed in a few short years. How different foreign policy and national security issues look now. You will not hear me

talking about the end of history. Because for billions of beating hearts and aspiring minds all over the globe, history is just beginning.

September 11, 2001, affected every person in this ceremony. For all of us sharing an interest in the international field, think about what September 11, 2001 meant beyond our borders. What caused a group of people, holding at least forty nationalities mainly in the Arab-Islamic world, known as al Qaeda, to harbor such intense hatred of the United States, and such determination to do us terrible harm, to the point of giving their own lives in the process? The search for security has taken us down many roads. Much of the effort is about how terrorists might harm us: with governments all over the world we are sharing law enforcement information, searching financial flows and monitoring bank accounts, tightening airline security and customs procedures for people coming into the country. We are, of course, also vigilant in looking for weapons of mass destruction in the hands of terrorists. But there is an entire other dimension that U.S. foreign policy must address; that dimension concerns the hearts and minds of millions of Arab and Islamic young people, wanting a good life for themselves, and idealistic in their search for dignity and justice.

We cannot put a perfect security wall around the United States; our security depends on engaging the world's peoples, coming to a better understanding of their aspirations, and trying to build an image of America among peoples in the Middle East that is closer to the way we see ourselves. In other words, peace and stability in the 21st century means strong security measures, but we also need, as a people, to get closer to the rest of the peoples of the world, so that we can acknowledge and accept one another's humanity. That is a challenge I offer to each of you; and if you take me up on it, you will be at it for the rest of your lives whatever your chosen field of endeavor.

Foreign affairs specialists have drawn lesson after lesson from the Cold War, and from the crises of failed states after the breakup of the Communist empire, from the humanitarian interventions of the 1990s, and now from the Global War on Terrorism since the September 11, 2001 attacks. In our perpetual search for orderly conduct among nations and perfect logic in our foreign policy, there have been debates about how much world order is too much; whether the United Nations can step into crisis situations instead of the United States; whether nation-building is a proper or improper use of U.S. military forces; and whether the U.S. should aspire to be the world's only superpower, now and forever. In the government, we react to those threats we can readily recognize. Terrorists threaten us, so we mobilize a global campaign to disrupt and incapacitate them. Urgent military tasks arise, so we seek out governments to form coalitions of the willing. Missiles proliferate, so we build missile defenses. All of this is valid and necessary work. What remains, however, is to understand who is doing this terrorism, who is committing these acts of war, and who is proliferating these weapons of mass destruction and these missiles. If we are interested in who, we are interested in why they are doing these things.

Now, if any among you think that all the answers exist, let me simply point out that a large portion of the six billion people outside our borders are closer to your age than to mine. So if I need to understand why a young male in the Islamic world is ready to leave home, throw away his entire future and consummate his life's meaning behind the wheel of a truck bomb crashing into an American facility abroad, I am probably going to look to you to figure that out. We go to universities and study the past. We plunge into our international careers or one kind or another and become consumed with the present. And yet, so much of what motivates you, so many of the answers about how the world works, relate to the future. Today, as we speak, twenty-six million Iraqi people are feeling a mix of relief and anxiety about their future. They know that the Saddam Hussein regime that brutalized them, denied their freedom, their prosperity and their dignity, is finished. And yet, their needs are great. Electricity and clean water, adequate food supplies, fuel for cooking and transportation, and salaries to pay for family needs, all of these are in the process of being restored. But today, they are scarce. In many cities and towns throughout Iraq, personal security is a problem. People are armed, and gunfire is commonplace, mostly from banditry rather than organized political violence. Once more police and stability forces can be put in place, it will

be safe for humanitarian and reconstruction experts from around the world to enter Iraq in far greater numbers. But right now people are on edge.

There are mass graves being discovered in the north and the south of Iraq. Enraged relatives will want to see an accounting for the monstrous crimes of the Saddam Hussein regime before many Iraqis can move on. Thus, our forces are guarding these terrible grave sites. If that were not enough, Iraqis who never knew life except under a dictator must now find their own way forward in choosing representatives they trust for an interim Iraqi authority, creating a new constitution, and proceeding to a fully democratic government of their own design. You and I can see that the future should be very bright, even limitless. Most Iraqis do not know that yet. Only now are newspapers, radio, and television that tell the truth coming into being in Iraq. Soon, the population will know that \$3.5 billion dollars has been pledged by governments to help them get to the future. One day, if we are skillful and patient, they and millions of other Arab and Islamic peoples will know America and its allies did all these things not to enrich ourselves and steal from their future, but to connect our destinies as true friends and free peoples.

So, what is my message to this distinguished group of graduates? It is this: we are at the beginning of history it is your life, your times, your era, your century. And you will know as you take up the challenge that it is your country, too, and the shape of the future is not just your opportunity, but ultimately your responsibility. The great issues of the day are still in search of answers.

- Can the human condition ever improve if the most educated societies shrink while the poor keep growing with high birth rates?
- Can the earth withstand continuous new development, or will we encroach too much on nature?
- Will international relations one hundred years from now still run on the basis of sovereign states, even though we see a trend toward transnational identification, such as among followers of Islam, and multinational concepts such as the European Union?
- What will happen when China's economy grows during this century to more than twenty or thirty times its current size? That is no wild prediction, but a reasonable estimate.
- Should America always say, we are number one, and act like it? Will we still be number one when you come back here for your 50th reunion?
- Will the world ever truly be at peace?

I can no sooner offer you answers to these questions than tell you whether the Red Sox will ever win the World Series. But what I can say is that you are every bit as likely as any people on the planet to influence the future. You already have brains and education that has now been certified. Let me end by urging each and every one of you to recognize the other simple but precious assets already in your possession for the path ahead.

- The first is your passion; no one can stop you from caring about the fate of the world.
- The second is your interest and intellect; if you look at life as a search for answers, it will not feel like hard work.
- The third is your integrity; no temporary gain is worth the lifelong regret if you are found to be acting unethically. Even when no one is looking, especially when no one is looking, take pride in acting honorably.
- The fourth asset is the courage to say what you truly believe; keep doing that, and others will keep listening.
- And fifth is the consideration and tact to say it in a way that does not diminish or offend others.

Those are not unreasonable tools to take with you: passion, curiosity, integrity, candor and tact. Those will take you far. But there is one more that will truly lighten your load along the way. Be sure that whatever you choose to do is fun for you. I have my hands full at work, but I would not trade my experiences for anything; and most of my college mates would say the same about theirs. A new century, a new history and timeless questions await you outside the gates of this beautiful campus. My wish is that each of you may follow a long and fulfilling road to the future.

English Language Training as a Projection of Soft Power

By

Thomas Molloy

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Introduction

I have worked in the English language training (ELT) field for almost forty years, thirty-seven of those years with Defense Language Institute English Language Center (DLIELC). At the end of this year, I intend to retire. Before retiring I wanted to share with the Security Assistance Training Program (SATP) community my thoughts about the importance of English language training to the SATP. I would also like to emphasize the immense power of English language training to wield influence. In recognition of the predominance of the English language, desperate parents around the globe are making huge financial sacrifices to provide English language instruction for their children. Hypothetically, the demand for access to English language training gives the United States enormous leverage. Yet, in practice, English language training is a vast untapped resource. The SATP community tends to regard English language training not as a potent weapon in the soft power arsenal, but as an obstacle to be overcome on the way to follow-on training (FOT). In a word, we have something the whole world desperately craves, but we are seemingly oblivious of the leverage this gives us.

I apologize if parts of this article are polemical, but I passionately believe that the United States is missing an enormous opportunity by underutilizing English language training to project soft power and reap a bonanza of good will.

The Importance of the SATP and the Role of English Language Training in its Success

One might ask two questions to ascertain the success of the SATP. First, “Did the international military students (IMs) succeed in their technical or professional military education (PME) courses?” Second, “Did the IMs have a favorable opinion towards Americans and American institutions when they departed continental United States (CONUS)?” I think most of us would agree that the answer to the second question is more indicative of the success of the SATP. Simply stated, we would hardly judge the SATP to be successful in the case of an IM who, having graduated at the top of his professional military education class, could not wait to get back to his country to apply acquired knowledge and skills to plan the destruction of the United States.

Most of us who have had experience with the SATP are staunch believers in its efficacy. Indeed, many of us are veritable missionaries, who incessantly preach the many benefits that accrue to the United States from this inspired program. Based on our contacts with IMs, we know that most of them leave America with a favorable impression. Many of them also leave behind one or more close American friends. Periodically, when the accountants demand that we provide hard data demonstrating that the International Military Education and Training Program (IMET) component of the SATP is cost-effective, we are amazed that the benefits of the IMET program are not immediately self-evident. achieves an understanding of America and Americans? And is it not obvious that their achievement of such an understanding is generally in our own best interests? It is to my colleagues and me. So over the years when the inevitable request for “measurable” data has hit my desk, I always want to respond, “So what is to measure, already?”

The IMET program is not a philanthropic endeavor. It is a calculated, hardheaded, practical one. It is an inventive stratagem for helping to erase the stereotypical image of the “Ugly American” from the minds of the IMs. That is to say, the IMET program, while it is indeed beneficial to its recipients, is rooted in enlightened self-interest. In frequent, amicable contacts around the world with IM alumni of American military schools, I am often soothed by the realization that most of these alumni would kill Americans only with the greatest reluctance. The basic premise of the IMET program is “To know us is to love us”. The simple fact is that people who love us, or at least like us, are less likely to want to kill us than people who loathe us.

Although we can not quantify all the benefits of the IMET program, they are, nonetheless, self-evident.

It some ways, the experience of American Peace Corps volunteers is analogous to that of IMSs attending professional military education under the auspices of the IMET program. Both the American Peace Corps and the IMSs are totally immersed in the host-country environment. They come to understand the psyche and mores of their hosts. I was an American Peace Corps participant in Turkey from 1963 to 1965. Many of my fellow Americans and I came away from the experience indelibly imbued with a love of Turkish culture and have become life-long students of Turkey, its language, literature, and history. Many of us still seize every opportunity to visit Turkey. In conversing with former American Peace Corps volunteers who served in other countries and in talking with IMSs who have graduated from U.S. military schools, I find that they share similar sentiments. IMSs gain invaluable insights into America. They return to their native lands knowing that America is more than just a hodgepodge of Hollywood schlock, junk food, inane advertising, 1000 deodorant brands, and bad music. They can interpret America to their contemporaries. They are the antidote to the anti-American poison spread by toxic tabloids. The knowledge they possess about America can dispel many ugly stereotypes about Americans. They know that the virtue of American women is not quite as easy as hollywood would lead one to believe (at least, based on my personal experience); that the typical American is not a materialistic charlatan; that American institutions really are remarkable; that democracy actually works; and that Americans love their parents, their children, and their pets. As one who, based on years of international experience, steadfastly subscribes to the basic IMET premise, I believe that only those who do not understand the IMET program doubt its benefits.

English language proficiency is a sine qua non for the success of the IMET program. Those IMSs who do not possess the required degree of English language proficiency need not apply for admission into most U.S. military schools. Moreover, the English language is the prism through which IMSs interact with their American hosts and through which they construct their hypotheses about Americans. Not only is the English language crucial to the effectiveness of the IMET program, it is a key element in globalization. Since the Second World War, English has emerged as the world's lingua franca. For all practical purposes, individuals wishing to be players on the world stage must have a mastery of the English language. International commerce, politics, and military affairs are increasingly conducted in English. Even the French are learning English. English language proficiency is crucial to scientists, businessmen, merchants, doctors, scholars, and other professionals who want to stay abreast of the latest developments in their professions. In many foreign military forces, young officers aspiring to achieve high rank must demonstrate a high level of English language proficiency. A country's capability to participate in peacekeeping missions, joint military exercises, and coalitions is directly proportional to the English language proficiency of its officer and noncommissioned officers corps.

Differing Perceptions of the Importance of English Language Training (U.S. Government vs. International Military Students)

During my thirty-seven years of tenure with DLIELC I have traveled to thirty odd countries as an English language training instructor, manager or advisor. I have conducted English language training surveys in many of those countries and briefed host-country officials on how best to organize and manage their English Language Training Programs (ELTPs). It dawned on me not long ago that, in all those years and in all those countries, not once did I have to sell an official on the importance of English language training. They all know that a countrywide lack of ELP can label their nations commercial, political, and cultural backwaters. It is axiomatic that the surest way to determine the importance of one's mission in a foreign country is the level to which one delivers the exit briefing. At the conclusion of English language training surveys, I have typically given briefings on my findings and recommendations to deputy ministers of defense, chiefs of general staffs, and service chiefs. Why was I granted access to these high-level officials? I wish I could say it was because my reputation had preceded me, but the fact is that I personified English language training, an issue of the highest national priority.

In many discussions with many IMSs over many years, I have discovered that there is frequently a disparity between our English language training expectations and those of our IMSs. We serve up English language training to our IMSs as an appetizer; they, contrarily, often view it as the main course. We insist that they need to achieve only that level of pidgin English necessary to take some scheduled follow-on training course, but many IMSs frantically aspire to master English so they can achieve their cherished life-time goals. Our IMSs want much larger portions of the “appetizer”, but we often encourage them to bolt down the “appetizer” and savor the main course. We simply need to listen to the aspirations of the IMS and, consequently, understand that many IMSs view English language training, not follow-on training, as the piece de resistance. To use another analogy, many IMSs desperately want to learn to fish and we tell them, “Shut up, you ingrate, and eat your fish”. Our IMSs realize that the professional military education course they attend will have some immediate utilitarian value, but they also realize that a mastery of the English language, rather than just the attainment of the ELP level required for follow-on training, may have a far greater impact on their future aspirations.

Here I would like to recount one example from my personal experience. I established the English language training program at the Marshall Center. During my three-year tenure (1995 through 1998) at the Marshall Center, it came as no surprise to me that the Marshall Center IMSs were eager to improve their English and clamored for more and more class hours. Apparently, the enthusiasm with which the IMSs pursued English language training was an unpleasant surprise to some of my superiors and college professors, who frequently reminded me that English language training was just a sideshow that should not detract from the more lofty goals of the Marshall Center. Neither my superiors nor the professors were malevolent people; they were highly dedicated, competent, intelligent individuals. It is just that when it came to the subject of English language training, some of them just did not understand. None of my superiors ever openly accused me of fomenting unrest among the IMSs by ballyhooing the relative importance of English language training. In fact, I never had to convince any IMS of the importance of English language training. The IMSs already knew it. One major from a former Soviet block country summed up his opinion of the relative importance of the Marshall Center curriculum vis-à-vis English language training by stating, “Democracy is important, but unless I can talk about democracy in English, I will not get a good job”. My point is not that English language training should replace the Marshall Center curriculum, but that the U.S. government consistently underestimates just how important English language training is to IMSs. Again, we serve English language training up as an appetizer; many IMSs want it as the main course.

Since ELP is an indispensable component of the SATP, one would assume that the SATP community would comprehend the enormous power of English language training to generate good will towards the United States. I have been a member of the SATP community for thirty-seven years and I can say that, with a few prominent exceptions, members of the SATP community regard English as an obstacle to be overcome on the way to follow-on training. Very few question the wisdom of the policy that precludes sending an IMS to DLIELC for English language training unless the English language training is in preparation for follow-on training. Yes, it actually requires a waiver to send an IMS to continental United States solely for an English language training course.

English Language Training as a Projection of Soft Power

In at least one taxonomy, there are three dimensions of power: economic power, military power, and soft power. It is becoming increasingly evident that the economic and military dimensions do not routinely win the good will of other nations. Many believe that projecting soft power is the means to offset the good will deficit caused by the other two dimensions. The projection of soft power gives the “Ugly American” a facelift.

Given the importance of English, logic dictates that English language training would be a centerpiece in U.S. policy for projecting soft power. The power to grant or withhold English language training gives the U.S. enormous leverage. Concisely stated, English language training

equals soft power. Perhaps, it takes a bit of a Middle Eastern rug merchant's mentality to comprehend the simplicity of this English language training equals soft power formula. The rug merchant knows that the customer wants something from him and he wants something from his customer. To the rug merchant, who understands this simple proposition, the rest is all a matter of trivial details. The successful rug merchant does not look at the sale of a rug as an obstacle to be overcome; rather, he views it as a chance to extract what he wants from his customers.

English language training is a commodity that can extract enormous quantities of good will from our customers. When we offer an IMS the treasured opportunity to become proficient in English, we are offering him the ticket to a bright future. Good will aside, how can we begin to measure the commercial ramifications of foreign officials proficient enough in English to read our books, periodicals, newspapers, websites, and catalogues; to attend our institutes of higher learning; and to collaborate with Americans on scientific, military, and economic enterprises? English language training is not only the gift that keeps on giving to the recipient; it keeps on giving to the giver. Talk about a win-win situation!

While the world is starving for ELP, the U.S., in the form of DLIELC, has the know-how to alleviate this famine. DLIELC, which has established its preeminence in the English language training world through its tried and true training system, could, given the charter and the resources, be the spearhead for launching an English language training blitzkrieg to project muscular soft power around the world. [In the event that the reader smells a rat, an attempt to feather my own nest, I would like to remind the reader that I am leaving the DLIELC nest for retirement at the end of this year].

At a time when the image of the United States is being attacked by a steady barrage of vehemently anti-American propaganda, offering the gift of ELP to current and future leaders in countries around the world would go a long way towards counteracting the damaging effects of this barrage. English language training may not be a panacea for vituperative anti-American propaganda, but it is one cost-effective, powerful remedy. It is a potent weapon in the soft power arsenal. The miraculous power of English language training to generate good will is not just an article of faith at DLIELC; it is a matter of fact. We witness the miracles every day, reveling in the abiding gratitude of our alumni.

On the DLIELC crest, appears the inscription, "Peace through understanding". Seemingly powerful words, but to those of us in the business of dispensing English language training, this motto is a tautology.

Summary

English is the world's lingua franca and ELP is a vital asset for international military, corporate, and government leaders. The U.S. government could reap an enormous harvest of good will by establishing a system for providing English language training to a world hungry for ELP.

What would the blueprint for a worldwide English language training offensive look like? Well, this is grist for a future article.

About the Author

Thomas Molloy is currently the Chief of Institutional Relations at the Defense Language Institute English Language Center in San Antonio, Texas. He joined the DLIELC faculty some thirty-seven years ago after serving for two years in the Peace Corps. He has spent eighteen years of his DLIELC service on permanent change of station tours overseas, serving in Germany, Morocco, Iran, Somalia, Turkey, and Yemen. He has also done consulting work in twenty other countries. His last two jobs were Chief of the Evaluation Division and Chief of the Programs Division.

EDUCATION AND TRAINING

The Defense Logistics Information Service Teaches North Atlantic Treaty Organization Codification in Eastern Europe

**By
Steven Arnett
Defense Logistics Information Service**

Introduction

The Defense Logistics Information Service (DLIS) is helping countries in Eastern Europe achieve their goal of the North Atlantic Treaty Organization (NATO) membership by teaching them the fundamentals of the NATO Codification System (NCS). Since 1999, DLIS has conducted seven seminars about the NCS and the Federal Catalog System (FCS) in countries that were formerly members of the Warsaw Pact. The seminars have helped those countries understand and integrate into the NATO system of logistics. The trips have also provided a fascinating look at the people and cultures of those countries for the DLIS staff members who participated in them, and have helped establish relationships between DLIS and the countries' National Codification Bureaus (NCBs) that will promote cooperation for many years to come. Except for the Poland seminar, all of these events were sponsored by the mil-to-mil teams located in the countries. The mil-to-mil offices were set up to build defense cooperation between the United States and the former members of the Warsaw Pact and the former Soviet republics. The Office of Defense Cooperation at the U.S. Embassy in Warsaw sponsored the event in Poland. Other events DLIS has participated and conducted seminars to include:

- 1999 Poland;
- 2000 Macedonia, Bulgaria, and Romania;
- 2001 Latvia;
- 2002 Lithuania;
- 2003 Czech Republic;

What are DLIS and the Nato Codification System?

Located in Battle Creek, Michigan, DLIS is part of the Defense Logistics Agency (DLA). The primary mission at DLIS is to manage the Federal Catalog System (FCS) for the armed forces and federal civilian agencies. All military supplies and equipment, from nuts and bolts to fighter jets and submarines, are listed in this catalog. It plays a vital role as the common frame of reference that enables Department of Defense buyers to communicate with the nation's military suppliers. The catalog lists nearly seven million active items and provides more than one hundred different pieces of information on each item. The information is standardized across all military services to provide maximum interoperability. Other important missions at DLIS include managing the Central Contractor Registration System. All companies that want to do business with the federal government are required to register there. They also manage the Military Engineering Data Asset Locator System. This is an automated information system that serves as the central index of technical data for the Defense Department.

Because of the FCS mission, DLIS serves as the U.S. National Codification Bureau (NCB) and the point of contact for all matters related to the NATO Codification System. The system is based on the FCS and provides for interoperability among NATO members and other allies. It enhances the effectiveness of logistics support by assisting in the logistics data exchange among the NATO countries and other users of the NCS. The system has been adopted by all signatories of the alliance for use in identifying equipment and supplies. Its use is prescribed under two NATO Standardization Agreements:

- Uniform System of Supply Classification STANAG 3150
- Uniform System of Item Identification STANAG 3151

The system is governed by the NATO Group of National Directors on Codification (AC/135) and implemented through each country's NCB. Ironically, the NCS is used by more non-NATO countries than NATO countries and serves as the worldwide standard for military item identification.

The information provided in those identifications helps users do their jobs from acquisition through disposal. Among other things, these numbers tell users who manages items, where they can be purchased, how much they cost, whether they are repairable, their shelf life, whether they contain hazardous materials, and how they should be disposed of when they are no longer needed. They promote interoperability among countries and prevent waste and duplication by ensuring that every item the United States and its allies use has only one stock number. Such numbers are the vital link that ties together the supply system.

How are the Seminars Conducted?

For most of these seminars, DLIS has sent a team of two or three people. As DLIS's manager of international policies and procedures, I have participated in each of the events, but the other team members have rotated. The members have included Jake Beyer, Chris Yoder, Dennis Shipe, Kathy Dillon, John Zellers, and Celia Torres. All of the team members have a strong knowledge and experience of the NCS or the systems that support it.

Although the seminars have followed the same basic format, there have been differences depending on the goals and each country's previous knowledge of the NCS. For example, when we visited Poland in 1999, the people knew they would soon be invited to join NATO; so they needed to get a very detailed knowledge of the NCS in a short time. Their NCB staff already had some knowledge of the NCS, so we spent several days with them answering questions and conducting a sophisticated dialogue in addition to the standard presentations. The DLIS team also gave an overview presentation at the Polish military academy for logistics. In Macedonia, on the other hand, the country was unfamiliar with the NCS and needed to start from scratch. The audience size for these seminars has varied from about twelve in Latvia to more than seventy in Czech Republic and Macedonia.

Yet another situation existed in the Czech Republic during our February 2003 visit. There, the country had already implemented an NCS-compliant cataloging system. However, they still had many questions about different aspects of the NCS. Also, although the NCB staff in the Czech Republic has become very knowledgeable about the NCS, they still needed to educate their user community. As a result, the audience there consisted of a broad range of military and civilian people from all of their services and all areas of logistics and acquisition. The Czech Republic NCB staff believed they would have better success selling the benefits of the NCS if the words came from the United States or another NATO country that has used the system for a long time and could vouch for its functionality and benefits.

"During our visit to the Czech Republic, members of their NCB set aside time to discuss detailed, specific questions about NATO codification policy and processes," Team member Dennis Shipe said. "It was remarkable to see how quickly they had adopted the NATO Codification System, and are now working through the routine questions and issues that are dealt

with by all NATO countries. It is quite refreshing to hear the thoughts and ideas about the NCS from someone just recently exposed to it and striving to learn all they can.”

What are the Benefits?

Our teams know from the feedback they received from each event that the seminars have been very useful to the countries. Participant surveys are taken at all military-to-military events, and we have received high marks at each place we have visited. In Macedonia, the military-to-military staff reported that DLIS received the highest rating of any team that had come there, not bad considering that most military-to-military offices host dozens of events per year. Additionally, all of the events have led to closer cooperation after they ended. At all the events, we have been impressed by the dedication and interest of the countries.

“I was most impressed by the sense of determination on the part of the military,” Mr. Schmoll said of his participation in the Lithuania seminar. “The people we met seemed focused on elevating the status of their country by joining NATO. I had the sense I was working with patriots.”

Dennis Shipe, who has participated in seminars in Bulgaria, Latvia, and the Czech Republic, was equally impressed. “It is truly amazing to have the opportunity to visit countries that, as I was growing up, were considered our enemy,” he said. “To meet the people reveals just how much we have in common. The people in the countries I have visited were proud to show us how far they have come since the fall of the Soviet Union, yet they were very eager to learn as much as they could from us in the short time that we were there. They were passionate in sharing with us their history and culture and embraced us as if we were lifelong friends.”

Although the teams have helped these countries to build NCS compliant systems, members also believe they benefited. The experiences I have had in these countries left me with memories that will last a lifetime, and I have seen things that very few people ever get to see. I am also a big believer in the value of the human side of these events. The friendships I have made on these trips have helped me deal with these countries much more positively. Despite how easy electronic communication has become, you just cannot build the solid relationships with people that you can during face-to-face meetings. Without personal visits, I do not think I could have ever gained as detailed an understanding of each country’s needs. The fact that I have developed these friendships has also made my work with these countries much more rewarding.

What are the Cultural Experiences?

Participants in these events must be prepared for the cultural differences. Seminars normally include a day of sightseeing, sometimes more when they last more than a week and there is a weekend available. We have found in all cases that the countries we visit are very proud of their cultures and are anxious to show them off. The cultural visits have also helped give us insight into the kind of people we are dealing with.

Some of the cultural experiences in particular stand out, such as the tour of the Rila Monastery that Dennis Shipe and I took in Bulgaria. The monastery is decorated with a great number of murals depicting scenes from the Bible, in an eerie and picturesque mountain setting, one of the most remarkable things the author has ever seen. Another notable experience was the visit to Ceausescu’s Palace in Romania. Built almost entirely of marble by the last Communist dictator of Romania, Nicolae Ceausescu, the tour guide told us that the materials alone cost \$3 billion. It is said to be the second largest building in the world, topped only by the Pentagon, and contains things such as tapestries the size of a football field.

The Future

A DLIS team will return to Poland to conduct an advanced seminar and consultation in October 2003. The Croatia and Slovak Republic NCBs hope to arrange for a seminar during the next year, and DLIS expects other countries to request new or follow-up visits as well. In any

case, DLIS expects its cooperation throughout Eastern Europe to grow as seven new countries join NATO in 2004.

If you would like to learn more about DLIS, go to the DLIS web at <http://www.dlis.dla.mil>. To learn more about the NATO Codification System, go to <http://www.nato.int/structur/AC/135/welcome.htm>. For a complete list of countries that use the NCS, go to <http://www.dlis.dla.mil/nato/sponsorship.asp>.

[Editor's note: For additional information see the DLIS CD-ROM article starting on the next page in the *DISAM Journal*.]

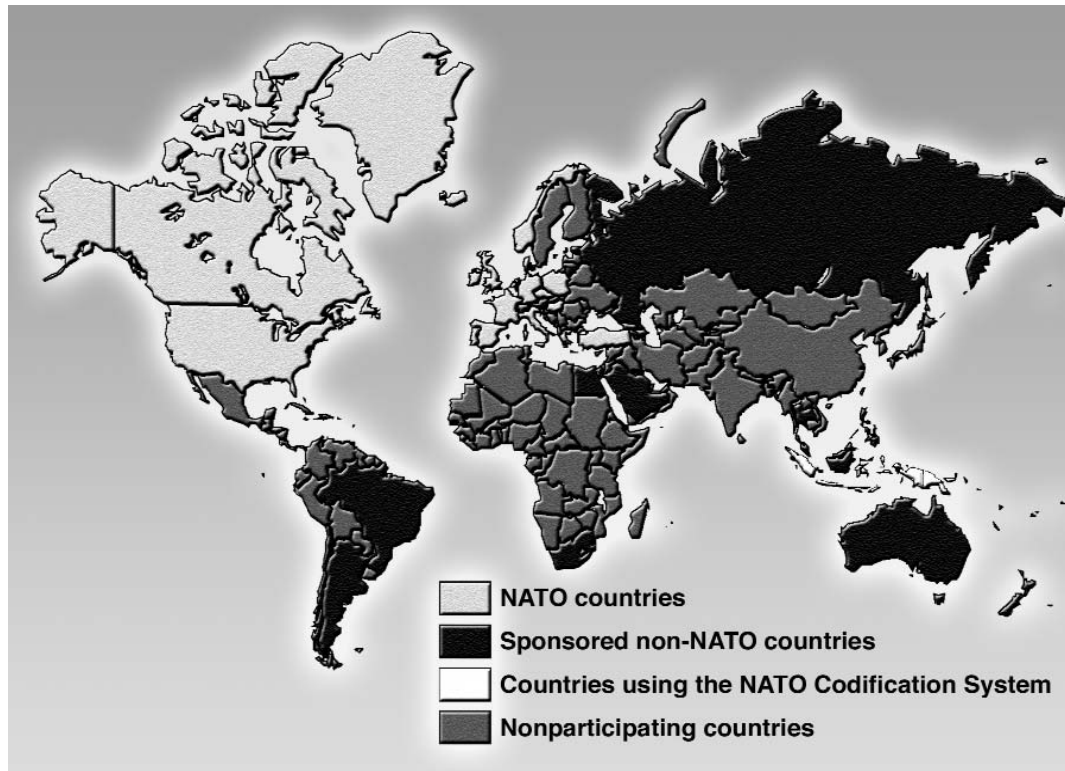
About the Author

Steven Arnett manages international policy and procedures for the Defense Logistics Information Service in Battle Creek, Michigan. He has worked in the field of international logistics for seventeen years and has represented the United States at many NATO meetings in the area of codification. Before joining DLIS, Mr. Arnett spent seven years with the Air Force Cataloging and Standardization Center (CASC). Mr. Arnett has a bachelor's degree from Michigan State University and a master's from the University of Maine.

Defense Logistics Information Services Ties Together International Logistics

By
Ann Sajtar
Defense Logistics Information Services

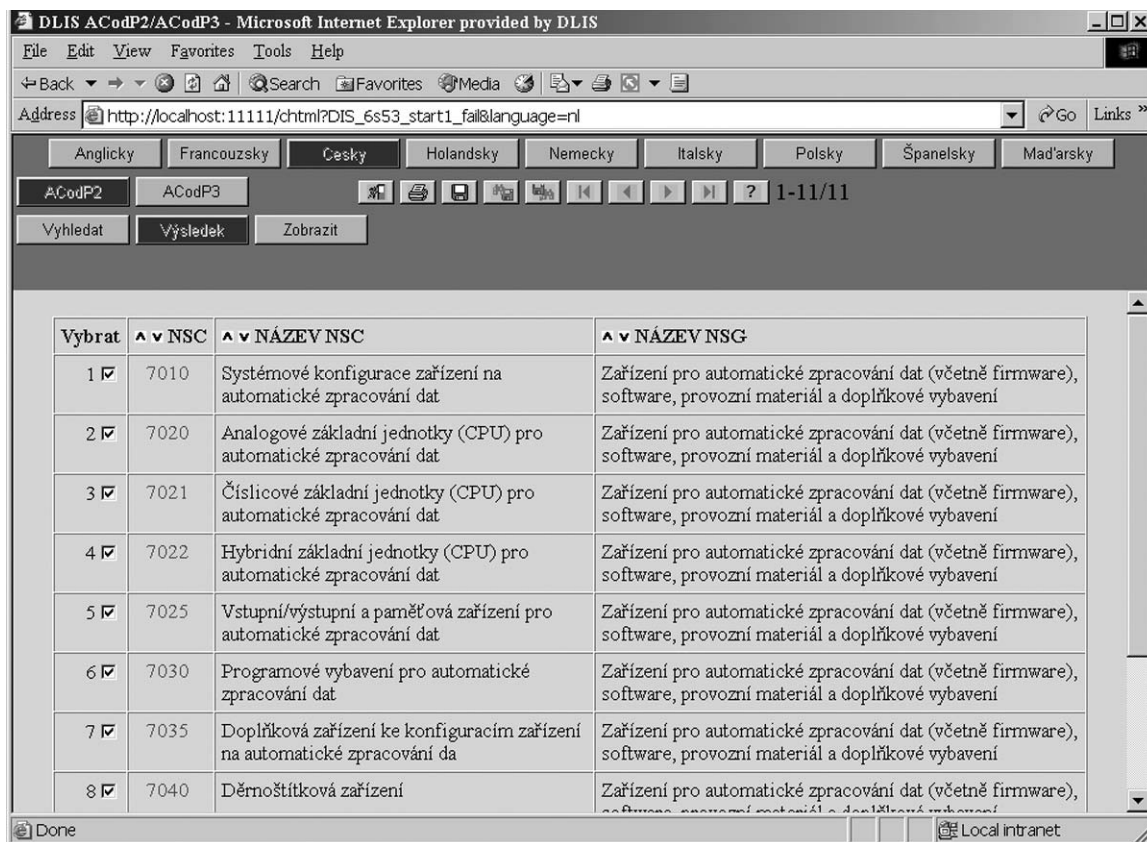
The Defense Logistics Information Services (DLIS) produced the first edition of the Multilingual A CoD P-2/3 Cd-ROM in April 2003. This CD-ROM is a logistics tool many countries have long anticipated.



The end of World War II found the U.S. Defense Department with no common methods for cataloging materials. This lack of commonality had led to significant duplication, waste and inefficiency. The *U.S. Federal Cataloging System* (FCS) was established to provide a “common language”, and quickly this language became international, through the adoption by the North Atlantic Treaty Organization (NATO) of these same cataloging standards. Internationally, they are now referred to as the *NATO Codification System* (NCS). The rules for naming, classifying, describing and numbering supply items are an important contributor to logistics interoperability between the United States and its allies. The NCS is used by not only the nineteen member countries of NATO, but has now been adopted by twenty-seven other nations. In addition, the Electronic Commerce Code Management Association (ECCMA) has declared the NCS to be a best practice and is using it as a baseline to establish a standard for use in Electronic Commerce.

The two official languages of NATO are English and French. Historically, DLIS has produced a bilingual catalog of the *Classification and Naming Standards* as one of the cataloging handbooks on the “H-Series” CD-ROM publication. Now, working with the national cataloging centers of eight other nations, DLIS has produced these standards in *nine* languages. Languages currently included are Czech, Dutch, English, French, German, Hungarian, Italian, Polish and Spanish. Plans are underway to incorporate many other languages into this product in the future.

The new CD-ROM product includes the *NATO Supply Classification Handbook* (A CoD P-2) and the *NATO Item Name Directory* (A CoD P-3). The Multilingual A CoD P-2/3 is available in a 32-bit configuration only, the Department of State version is not available, and will be published semi-annually, in April and October.



This resourceful, user-friendly product is now available to military, government and private industry customers around the world. Users can select the language in which they want to view the data and navigate easily between languages. The buttons on screen, data, “Help” and instructions appear in the language selected. The A CoD P-2/3 can be a useful tool for naming and classifying items of supply in accordance with the NATO Codification System, whether for day-to-day operations, emergency preparedness or combat readiness. Plans are to phase out the current A CoD P-2/3 (French/ English only version) which is now included on the “H-Series” CD-ROM publication.

The Multilingual A CoD P-2/3 can be ordered through a military publications account, a foreign military sales case, or by direct purchase from DLIS. The web address for details concerning the purchase of the *Federal Catalog System CD-ROM* is <http://www.dlis.dla.mil/cd.rom.asp>.

About the Author

Ann Sajtar is a Supply Systems Analyst with the Defense Logistics Information Service (DLIS) in the International Codification Division of the Directorate of Cataloging. She has worked for twenty-six years at DLIS, with the last ten years being in the International Codification Division as a cataloger. Ann’s current job responsibilities include Program Manager of the Multilingual A CoD P-2/3, cataloging U.S. manufactured items for NATO nations, training new employees, and providing demonstrations/briefings to NCB College students and visitors from NATO nations.

International Affairs Professional Development Certifications

Last fall 2002 Lieutenant General Tome Walters Director of The Defense Security Cooperation Agency appointed the Defense Institute of Security Assistance Management as its executive agent for the International Assistance Career Program. This program consists of a Masters program through Tufts University; an International Assistance Internship developed and operated by each service; and an International Assistance Personnel Certification.

International Assistance Professionals can become certified by achieving the standards and complying with guidelines contained in each service's International Assistance Career Program Implementation Plan. The Navy has jumped out ahead on this program and recently conducted an award ceremony for the first recipients.



Photo of first group earning the International Affairs Development Professional Certification

RESEARCH AND CONSULTATION

Is there a security assistance procedure, requirement and/or program guidance which is [or has been] presenting a significant problem in accomplishing your security assistance function? If so, DISAM would like to know about it. If you have a specific question, we will try to get you an answer. If it is a suggestion in an area worthy of additional research, we will submit it for such research. If it is a problem you have already solved, we would also like to hear about it. In all of the above cases, DISAM will use your inputs to maintain a current “real world” curriculum and work with you in improving security assistance management.

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