

9. ADVANCING UNITED STATES LEADERSHIP IN THE WORLD

Nations are now setting the international ground rules for the 21st Century, laying a foundation for security and prosperity for those who live within them, while isolating those who challenge them from the outside. This system will develop and endure only if those who follow the rules of peace and freedom fully reap their rewards. Only then will our people believe that they have a stake in supporting and shaping the emerging international system.

President Clinton
September 1997

Americans have a tremendous stake in world events. The establishment of democracy and market economies in the former Soviet bloc, the safe disposal or storage of weapons of mass destruction in Russia and elsewhere, the identification and control of deadly tropical diseases in Africa, and the maintenance of healthy economies in Asia and Latin America—all of these are important to the security, health, and prosperity of the American people.

American diplomacy, implemented through international affairs programs, is the means by which the United States leads abroad on many important issues. For several years, the resources that Congress provided were inadequate to ensure that leadership. In 1998, however, the Administration and Congress worked successfully to build major bipartisan support for an increase in international affairs spending, including special legislative provisions to facilitate support of international financial institutions and the United Nations (UN) and other international organizations.

Despite welcome congressional action on international affairs programs, an unfinished agenda remains in areas critical to U.S. national interests. Most striking, the Federal Government must provide more resources for key programs. To support continued U.S. economic growth, Congress should continue to support the decisive action of the International Monetary Fund (IMF) and U.S. leadership in that institution by providing the

supplementary contingent IMF funding that the Administration sought and replenishing the IMF's basic financial resources. For the UN, whose Security Council deals with security issues from Iraq to Bosnia, and for related international organizations dealing with such issues as health and labor conditions, Congress should take steps to pay \$1 billion in U.S. arrears on treaty-mandated contributions. Congress should also continue to pay off arrears to the multinational development banks and the Global Environment Facility (GEF), which total \$638 million.

In the area of trade, where the growth in exports has been so critical to our recent economic prosperity, Congress should give the President traditional negotiating authority to help fuel our surging exports into the next century. Congress also should enact legislation promoting trade with Africa and the Caribbean Basin. The Administration proposes more export financing to take advantage of opportunities emerging in regions such as the New Independent States (NIS) of the former Soviet Union and to match the government financing offers of other countries. The Administration also proposes to maintain or expand programs that support democracy and free market economic systems in the former communist countries and in Africa by encouraging trade and investment, not only for America's security but also for creating sources of future export demand.

In providing \$19.6 billion for regular international affairs programs and \$502 million for arrears, the budget proposes an activist approach to advance U.S. leadership around the world (see Table 9-1). It would complete last year's unfinished business and target funding increases to the most effective programs to achieve foreign policy objectives, rejecting outmoded activities and poorly-performing projects. This request would strengthen U.S. leadership and benefit the American people, while costing just a third of one percent of our national income.

Protecting American Security and Promoting Democracy

Protecting America's key strategic interests remains a timeless goal of our diplomacy. As we move toward the 21st Century, we have a great opportunity to expand the scope of democracy, further ensuring that our interests remain unthreatened. Facing the dilemmas of peacekeeping, regional crises, and economic change, the international community has generally been unable to act effectively without the United States as a

leader and a full partner. Advancing U.S. interests in a global economy brings expanded missions to our diplomacy, our trade strategy, and our assistance programs. A less-orderly world also creates new challenges to our security—such as the proliferation of weapons of mass destruction, international terrorism and crime, narcotics, and environmental degradation.

Developments in the NIS will prove important to U.S. national security. Progress in most of those countries toward democracy and free markets has been steady, but sometimes slow and uneven. In Russia, the key to regional security, a freely elected government is gradually creating the legal framework and governmental infrastructure for democracy and a sound economy. Across the NIS, America's continued leadership will be key to maintaining international support for this crucial transition.

The budget proposes \$925 million for assistance to the NIS, 20 percent above the 1998 level. These funds will advance work under the Partnership for Freedom program

Table 9-1. INTERNATIONAL DISCRETIONARY PROGRAMS

(Budget authority, dollar amounts in millions)

	1997 Actual	1998 Estimate	1999 Proposed	Dollar Change: 1998 to 1999	Percent Change: 1998 to 1999
International development and humanitarian assistance ¹	6,494	7,036	7,427	+391	+6%
International security assistance	5,980	6,044	6,159	+115	+2%
Conduct of foreign affairs ¹	3,890	3,741	4,146	+405	+11%
Foreign information and exchange activities ²	1,116	1,134	1,134	.....	.....
International financial programs	670	619	782	+163	+26%
Subtotal, International discretionary programs	18,150	18,574	19,648	+1,074	+6%
Multilateral Development Bank arrears .....	.....	360	502	+142	+39%
International Organization arrears ³ .....	.....	100	.....	NA	NA
Total, including Arrears	18,150	19,034	20,150	+1,119	+6%

ANA = Not applicable.

¹ Excluding arrears payments.

² Pursuant to Section 309(g) of the Foreign Relations Authorization Act, 1994 and 1995, the President hereby determines that continuation of funding for Radio Free Asia for 1999 is in the interest of the United States.

³ The Administration will transmit its request for arrears later.

to use trade and investment measures, private sector partnerships, and cooperation with non-governmental organizations to stimulate free market economic growth. One new activity is the Presidential Management Training Initiative, to which Presidents Clinton and Yeltsin recently agreed, that will enable NIS business managers to receive training and internships with U.S. firms, benefitting the managers, the firms, NIS economies, and U.S. foreign policy.

After nearly a decade of U.S. and international support, the transition to democracy and free markets in Central and Eastern Europe has been remarkably successful. Our assistance to the governments of most of the countries in the northern portion of the region has ended, or will soon. These countries are moving toward economic integration with the United States and Western Europe. Last year's highlight was NATO's decision to accept three countries—the Czech Republic, Hungary, and Poland—as members. As a result, the budget will provide over \$100 million in security assistance to help integrate these countries' military forces and to aid other potential candidates for NATO membership. In addition, this budget projects increases in NATO's three common-funded budgets for the coming years to reflect certain costs associated with NATO's enlargement. In December, NATO estimated that the costs of enlargement that it will bear within these three budgets will be about \$1.5 billion over the next 10 years, of which the United States will pay about one-quarter, or less than \$40 million a year on average during this period, from Defense Department funds.

The budget proposes \$465 million in economic aid for Eastern Europe and the Baltic States, \$225 million of which would support the firm U.S. commitment to see the Dayton Accords fully implemented for Bosnia. Assistance to Bosnia will complement the continuation of U.S. troops in that troubled nation, particularly by financing training and other support for local police to foster effective, fair, and professional public safety forces. Economic assistance will strengthen the emergence of a vital private sector. The Bosnians

are beginning to realize the benefits of free markets, and we must strongly foster their nascent prosperity to demonstrate that a return to hostilities will hurt all Bosnians.

For the other southern-tier countries of Eastern Europe, U.S. assistance will apply the lessons learned elsewhere in the region to accelerate economic reform, particularly in Romania, where the United States has offered a reform-oriented partnership with the newly elected government. During the Cold War, private civil institutions in Eastern Europe eroded greatly, and fully reconstructing them within the short time since then has not been easy. Thus, the budget proposes to create an innovative \$100 million Civil Society Trust Fund, financed half by Federal funds and half by private contributions, mainly from foundations. In countries where our official aid has ended, the Fund will foster grass roots political activity and viable non-governmental organizations.

Our strategic interest in peace in the Middle East is as strong as ever. The peace process has achieved much already. The need for reconciliation remains urgent, and America continues to play a unique leadership role in the effort to craft a durable, comprehensive regional peace. The budget proposes \$5.3 billion for security assistance to sustain the Middle East peace process. The assistance program provides \$100 million for the third year of a Middle East Peace and Stability Fund that will provide aid mainly to Jordan in recognition of that country's needs and King Hussein's important continuing contributions toward peace and reconciliation.

The rest of our security assistance programs are designed to support peace and democracy in countries and regions where our leadership has helped those processes emerge. Under the budget, economic support funding for Haiti would double, to \$140 million, to ensure the success of that country's hard-won democracy. The budget also would support reconciliation and peace in Guatemala and strengthen the capacity of African governments to provide regional peacekeeping on that troubled continent.

Ensuring America's Leadership in the International Community

Following World War II, the United States assumed a unique leadership role in building international institutions to bring the world's nations together to meet mutual security, economic, and humanitarian needs. We sponsored and provided significant funding for the UN, NATO, the IMF, and the World Bank, along with other specialized regional security and financial institutions that became the foundation of international cooperation during the Cold War.

To ensure financial stability for this international community, members of many of the UN and related international organizations (IOs) entered into treaties or similar instruments committing them to pay specified shares (or, "assessments") of IO budgets. Congress ratified these agreements, making them binding on the United States. For the multilateral development banks (MDBs—that is, the World Bank, its regional development bank partners, and the GEF), the developed countries, including the United States, make firm commitments to regular replenishments of their resources, in our case subject to the congressional authorization and appropriations processes.

By 1997, America's leadership in this international institutional network had seriously eroded due to past congressional cuts in appropriations needed to meet our assessments and commitments. The resulting arrears to the IOs had accumulated to almost \$1.5 billion, and arrears to the MDBs were nearly \$900 million. In the 1998 budget, the Administration proposed to pay off the bulk of our arrears on assessments over two years if the IOs undertook budget and management reforms, including lowering the U.S. annual assessment percentage in the future. It also proposed to pay off MDB arrears over three years in light of program and management reforms already under way.

As part of last year's bipartisan budget agreement, Congress provided room in the budget resolution to pay most of the accumulated arrears while still funding ongoing international affairs programs at an adequate level. Under this arrangement, Congress cleared over a third of the Nation's MDB

arrears. The Administration and Congress also developed bipartisan support for authorizing legislation to clear many of the assessment arrears over three years in return for specified IO reforms, and Congress passed an initial 1998 appropriation of \$100 million, subject to enacting the authorization. But the legislation stalled, thus undermining U.S. diplomatic efforts to achieve budgetary reforms and leading to a serious loss of U.S. credibility in the UN and other IOs.

With the U.S. failure to address its sizable arrears, the UN General Assembly in December 1997 established assessment rates for the next three years without reducing the U.S. percentage. Due to a major U.S. diplomatic effort, however, UN members agreed to reconsider the three-year decision in June 1998—provided that the United States resolves its arrears situation. To effect UN rate changes, the Administration and Congress must enact legislation by May 1998. The Administration will shortly transmit a proposal that seeks early legislative action to pay over \$1 billion of the \$1.5 billion of accumulated arrears. The proposal will give the Administration the statutory flexibility it needs in June to reduce our assessment rates and achieve other key reforms over the next two years. The Administration is prepared to work with Congress to shape the legislation. In addition, Congress must appropriate \$931 million to meet 1999 assessments—more than would have been required if Congress had passed last year's authorizing package.

In addition, the budget proposes \$502 million to continue the planned payoff of MDB and GEF arrears and \$1.15 billion to pay current commitments to these institutions, which provide most of the assistance to those poor countries around the world that are undertaking promising economic reforms. The United States has convinced the MDBs to do more, while asking less from the American taxpayer. As a result of recent negotiations, U.S. commitments for all the MDBs have been cut by 40 percent and are now below what we once paid for the World Bank's International Development Association affiliate alone.

Supporting International Monetary Programs

As the world becomes more economically integrated, the smooth functioning of its monetary system becomes more critical to every nation's economy. Severe disruptions in Asian economies demonstrate the world-wide impact of crises in major economies. Even the U.S. economy is not immune, despite its size, strength, and depth. The Administration is having urgent consultations with Congress on the most effective means to foster an early, tenable return to more stable international monetary conditions.

For 1998, the Administration proposed a one-time appropriation to a special international facility, the New Arrangements to Borrow (NAB). With credit commitments from 24 other nations, including most industrialized countries and several emerging market economies, NAB would provide a set of contingent credit lines to supplement IMF resources, if necessary, when a monetary crisis in one or more countries threatens the entire system. Congress did not enact the appropriation. These funds are urgently needed as a reserve in case the emergency demands on IMF quota resources deplete the IMF's liquidity so much that it cannot maintain international monetary stability.

As the global economy and capital markets expand, the IMF's basic (quota) resources must rise so that it can carry out its ongoing responsibilities to promote monetary stability and healthy economies. Since its inception in 1945, the IMF has played a major role in fostering the unprecedented growth in world prosperity. Recent IMF programs to provide crisis assistance in Asia have drawn heavily on the Fund's quota resources. The United States needs to provide its share of the IMF's proposed \$87 billion increase in regular resources so that the IMF can continue to meet members' anticipated demands while coping with additional exceptional calls under current crisis conditions should they arise. In consultation with Congress, the Administration expects to request a 1998 supplemental appropriation of \$14.5 billion for a U.S. quota increase for the IMF and of \$3.4 billion for the U.S. credit commitment to the NAB. Because they

are monetary exchanges, neither the quota increase nor the credit commitment to the NAB would entail budget outlays.

Increasing American Prosperity Through Trade

The Administration remains committed to opening global markets and integrating the global economic system, which has become a key element of continuing economic prosperity here at home. This goal is increasingly central to America's diplomatic activities. The Administration is helping to lay the groundwork for sustained, non-inflationary growth into the next century by implementing the North American Free Trade Agreement and the multilateral trade agreements concluded during the Uruguay Round. Specifically, the Administration is working hard to ensure that America receives the full benefit of these agreements, as recently illustrated by the December 1997 conclusion of a key agreement on financial services.

To promote more mutually-beneficial trade relationships, the Administration last year proposed fast track legislation to give the President authority to negotiate trade agreements on which Congress would get a simple up-or-down vote, without amendments that would require renegotiation. Such trade agreements would further promote U.S. export growth, creating high-wage jobs for Americans. Congress should give the President this traditional negotiating authority.

The Administration also will propose to extend the Generalized System of Preferences, which cuts tariffs on many imports from the developing countries, beyond its current expiration date of June 30, 1998, and to give expanded trade benefits to the eligible countries under the Caribbean Basin Initiative. Also, as part of a larger trade and investment initiative for Africa, the Administration will propose special trade benefits to African countries that are reforming their economies to encourage economic growth.

As various trade agreements offer opportunities for exports, the demand for trade finance and investment support increases. The main U.S. trade finance agency, the Export-Import Bank, has expanded its direct and guaranteed loans and export insurance to countries that

Investing in Trade Promotion

Trade plays a growing role in the U.S. economy. A third of America's economic growth of the last five years has come from trade, while exports of manufactured goods, high-technology products, and agricultural goods have risen by over 40 percent. Exports grew to 11.4 percent of Gross Domestic Product (GDP) in 1996, compared to 4.8 percent in 1960, while imports grew to 12.6 percent in 1996, compared to 4.3 percent in 1960. Today, exports support over 11 million U.S. jobs—including one in five manufacturing jobs—and have generated nearly two million new jobs in the past four years alone.

But the Nation has huge opportunities for further growth. While America accounts for 22 percent of the world's wealth, it has only four percent of its consumers. The greatest export opportunities lie in the emerging market economies of Latin America, Asia, the Middle East, Africa, Central and Southern Europe, and the New Independent States of the former Soviet Union. Middle- and lower-income countries accounted for 80 percent of the rapid U.S. export growth of the past eight years.

Trade barriers in these new markets often remain high, however, while some developed nations provide export subsidies to their home-grown businesses. U.S. trade promotion programs are designed to open foreign markets, combat foreign subsidies, finance and insure U.S. trade and investment where the private sector does not, provide information, develop foreign markets, and provide government-to-government advocacy.

This budget invests heavily in trade promotion. It provides substantial increases for the Export-Import Bank, which finances U.S. exports, and funds the Overseas Private Investment Corporation, which insures U.S. investments abroad. In addition, the budget proposes increases for the Commerce Department's International Trade Administration, which promotes U.S. trade through its Export Assistance Centers and overseas foreign commercial offices. The multi-agency Africa Initiative and higher funding for the Agency for International Development will help foster growing economies and future trading partners. Also, the budget proposes to extend the Generalized System of Preferences and to provide expanded trade benefits for Caribbean Basin Initiative countries.

cannot get import financing at reasonable terms and to match the government export financing offers of other industrialized countries. The Bank expects particularly heavy demand from the NIS for exports that will benefit both the U.S. and the countries that receive them, and contribute to economic and political reform across the NIS. The budget proposes \$825 million for the Bank, 18 percent above the 1998 level. It also continues support for the investment insurance and finance programs of the Overseas Private Investment Corporation, which also increase exports, and for the Trade and Development Agency's (TDA) grants for feasibility studies of capital investments abroad that can generate follow-on exports. A special TDA program will focus on creating trading opportunities in China. In addition, the budget provides an 18-percent increase, to \$20 million, for the Commerce Department's Market Access and Compliance Unit, whose members monitor

trade agreements and identify compliance problems.

Supporting Development Assistance

Development assistance through the MDBs and, bilaterally, through the U.S. Agency for International Development (USAID) helps many of the poorest countries give their peoples more effective governments and higher living standards. This assistance, including projects that create the conditions for economic growth, promote democracy, enhance human health, and provide basic education, serves long-term U.S. interests and diminishes the need for short-term crisis intervention.

The Administration has streamlined USAID lending as well, focusing it on countries most vigorously committed to the reforms that will generate sustainable development. The budget proposes \$1.8 billion for USAID's development assistance programs. Along with ongoing African aid programs, the budget proposes \$30 million of special development

aid programs to support the broader trade and investment initiative for the continent. In addition, the budget proposes \$35 million in special debt relief to African countries eligible for the initiative. Complementing these programs, another \$35 million of security assistance will go to the Great Lakes region in the interior of Africa to promote the rule of law and conflict prevention among the warring parties there, thus creating political conditions favorable to achieving the economic growth that the area so badly needs.

The Peace Corps has helped spur the development of many countries while promoting better understanding among nations, and the American people strongly support the program. The budget proposes \$270 million, 20 percent more than in 1998, to enable the agency to begin increasing the number of volunteers abroad—with the goal of 10,000 volunteers by the year 2000.

Leading the Response to New International Challenges

Another fundamental goal, and an increasing focus of our diplomacy, is meeting the new transnational threats to U.S. and global security—the proliferation of weapons of mass destruction, drug trafficking and the spread of crime and terrorism on an international scale, unrestrained population growth, and environmental degradation.

In 1997, the Administration sought and obtained Senate ratification of the Chemical Weapons Convention, which will begin imposing controls on a class of destructive weapons not well regulated in the past. Congress has not ratified the Comprehensive Nuclear Test Ban Treaty, which the Administration transmitted in September 1997 and which is so important to our national security. U.S. diplomacy and law enforcement activities are playing a key role in preventing the spread of weapons of mass destruction to outlaw states such as Libya, Iraq, Iran, Syria, and North Korea. In addition, U.S. support for such organizations as the International Atomic Energy Agency and the Korean Peninsula Energy Development Organization is critical to meeting our non-proliferation goals.

U.S. bilateral assistance programs are critical to tackling other important transnational problems. Our international counter-narcotics efforts are making continued progress in drug-producing countries. After several years of cutting deeply the Administration's funding proposals for counter-narcotics, Congress has begun providing the requested increases in order to cut the supply of illegal drugs, particularly cocaine. The budget proposes a 20-percent increase in anti-drug funding, to \$255 million, which will permit the United States to intensify its efforts to curb cocaine production in the Andean countries by offering growers attractive economic alternatives.

In addition, USAID development assistance and U.S. contributions to international efforts, such as the GEF, support large and successful programs to improve the environment and reduce population growth. The GEF works closely with the MDBs, promoting sound responses to climate change, depletion of the ozone layer, and the extinction of species. The United States is the recognized world leader in promoting safe, effective family planning projects.

Conducting and Administering Diplomacy

Effective diplomacy is the critical foundation for meeting our foreign policy goals. The budget supports a strong U.S. presence at over 250 embassies and other posts overseas, promoting U.S. interests abroad and protecting and serving Americans by providing consular services. The basic work of diplomacy at these posts—the reporting, analysis, negotiations, and other efforts that often go unnoticed—are at the core of all U.S. foreign policy achievements, allowing us, among other things, to anticipate and prevent threats to our national security as well as discover new opportunities to promote American interests. The overseas posts also serve as the administrative platform for the many other U.S. agencies with personnel abroad, from USAID to the Departments of Defense, Justice, and the Treasury.

In 1997, the Administration took two major steps to improve the management of our diplomacy. First, a new management system, the International Cooperative Administrative Support Services, will more fairly allocate—

among all agencies with an overseas presence—the administrative costs that the State Department used to bear on its own. Agencies, in turn, will be able to use the administrative services that most suit them. Second, the State Department will reengineer its procurement system, eliminating cumbersome procedures, providing services much quicker, and significantly cutting costs.

The budget proposes \$2.8 billion for the State Department to maintain its worldwide operations, take major steps to modernize its information technology and communications systems and ensure year 2000 compliance, and accommodate security and facility requirements at posts abroad. It proposes two major initiatives—construction of a new embassy

building in Berlin, where U.S. personnel have been in temporary facilities since their move to the new German capital, and an embassy and related facilities in Beijing, where current arrangements are inadequate to house the representation appropriate to diplomacy with an important world power and to ensure security.

Finally, the Administration expects Congress to enact legislation in early 1998 to implement its proposal to consolidate the Arms Control and Disarmament Agency and the U.S. Information Agency into the State Department, thus better integrating arms control and public diplomacy into the mainstream of foreign policy.