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DEVELOPMENT**

**COUNTRY FIELD SUBMISSION
FY 1971**

**EAST ASIA
REGIONAL DEVELOPMENT PROGRAM**

**DEPARTMENT
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SEPTEMBER 1969



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FIELD SUBMISSION FOR FY 1971

EAST ASIA REGIONAL DEVELOPMENT PROGRAM

August, 1969

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EMBASSY OF THE
UNITED STATES OF AMERICA
Bangkok, Thailand

August 2, 1969

Dr. John A. Hannah
Administrator
Agency for International Development
Department of State
Washington, D.C. 20523

Dear Dr. Hannah:

I am pleased to transmit, for your review and approval, the Field Submission of the East Asia Regional Development Program. I do so, actually, in behalf of the Ambassadors of all of our Missions in Southeast Asia because the program is expressive of U.S. concern and support for the entire effort toward regionalism in Southeast Asia, even though implementation is carried out by this Embassy through its Office of Regional Development.

As the presentation indicates, regionalism in Southeast Asia has come a long way in the past ten years, thanks to the remarkable growth of indigenous interest and support as well as to the moral encouragement and material assistance lent by the U.S. Although Asian regionalism is still a fragile movement compared to its older and sturdier counterparts in Western Europe or Latin America, it has made a good beginning and has acquired a momentum of its own. It is already making a significant contribution to the economic growth of the region through cooperative programs in regional education, transport/communications, Mekong River basin development, and the regional activities of ECAFE and the Asian Development Bank. Similarly, it is providing a new element of political strength and stability in Southeast Asia through the consultations which are periodically taking place in the forums of ASEAN and ASPAC. This is not to say that regional cooperation in Southeast Asia is indestructible nor that it is a panacea for the area's problems. But it is clear that the movement is heading in the right direction and that it holds great promise for the area's future.

Of particular importance to the U.S. is the role which regionalism can and should play in shaping Asia's future

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after the end of the Vietnam war. Economically, regional cooperation -- and eventually even a measure of integration -- is increasingly regarded by Asia's statesmen as a necessity for higher rates of development and for more wisely allocating resources. Politically, regional cooperation holds increasing attraction as a means by which the Asians can lessen their dependency on the U.S. and play a more confident and constructive role in world affairs. These regional trends present major opportunities for advancing U.S. policy objectives in Southeast Asia. In particular, as the day of a settlement in Vietnam draws nearer, support for Asian regionalism is an increasingly important means by which the U.S. can accelerate the region's development, encourage habits and techniques for collaboration, and promote a degree of political cohesion and strength that will in due course permit the U.S. to begin to shift some of the responsibility for the region's security to Asian shoulders. Clearly, a program serving these objectives merits strong U.S. support.

Accordingly, the attached presentation proposes an assistance strategy calculated to put the U.S. in an advantageous position for dealing with the problems and opportunities which are likely to confront us in Southeast Asia in the 1970's. First attention will be given to establishing and consolidating the promising Asian programs that have already been initiated with U.S. support. Concurrently, we propose to help strengthen and expand the functions of regional organizations likely to play significant roles in Southeast Asia after the war. Particular emphasis will be given to furthering the work of the U.N.-sponsored Mekong Committee in which Vietnam is collaborating with its riparian neighbors -- Cambodia, Laos and Thailand -- in the development of their greatest common resource. In this connection, I believe that greater use should be made of the Asian Development Bank and the World Bank for channeling U.S. help, mobilizing other donors, and helping to organize the planning and execution of this vast project. Third is the need for selective assistance and guidance to a number of surveys and studies that are planned or moving forward on a regional basis and which will greatly influence the pattern and priorities for regionalism in the 1970's. Particular attention will be given to those likely to stimulate private sector development. Finally, we propose efforts

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to broaden external support for Asian regionalism, particularly through the World Bank, the Asian Development Bank, the Development Assistance Committee and by encouraging a greater effort from Japan.

While the details for implementing such a strategy are presented in the attached submission, I want to make it clear that they imply an intensified U.S. effort on at least four fronts. In the first place, it will require an expansion of U.S. assistance in support of Asian regionalism (much of it through multilateral agencies) in the magnitude of the "Level A" projection for FY 1971. Secondly, we will need to increase the staff of the Regional Development Office by four positions if we are to effectively implement our proposed program. Third, we must adopt a greater open mindedness and willingness to innovate in considering new approaches and techniques for supporting Asian initiatives and Asian regional organizations such as ECAFE, ASEAN and the Mekong. Finally, we must help the Asian Development Bank augment its resources for financing sound regional projects by making good on our pledge to contribute to the Bank's Special Funds.

In my review of the Regional Development Program, I have kept very much in mind the suggestions contained in your June 28 message and I believe that the attached presentation is highly responsive to those priorities. For instance, I can think of no better examples of "new and innovative use of technical assistance" than the way in which regional centers of excellence in graduate education are being brought into being in Southeast Asia, and the way we are using U.S. expertise under Asian leadership to help establish institutions responsive to Asian needs. As regards making "full use of multilateral institutions", our entire effort is implemented through, or coordinated with, multilateral agencies, i.e. ECAFE, the Asian Development Bank, the Mekong Committee, the Southeast Asia Ministers of Education Secretariat, and the Coordinating Committee of Southeast Asian Officials on Transport and Communications. Indeed, the Regional Development Office has been instrumental in helping Asians to establish the latter two international agencies. I believe that high marks should also be given to the Regional Development Program in regard to encouraging "private enterprise in developing countries"

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and to "eliminating obstacles inhibiting its development". The private sector in Southeast Asia is a major beneficiary of the investments being made on a regional basis in education, physical infrastructure and Mekong Basin development. For example, many of the graduate engineers trained by the Asian Institute of Technology have quickly risen to responsible technical and even executive positions in the private sector. As another example, the investments recommended for improving the Straits of Malacca will significantly lower costs for U.S. and other private shippers. A third example would be the support given to the Asian Industrial Development Council of ECAFE which has resulted in a proposal by a leading U.S. firm to establish a \$400 million integrated steel mill operation in Southeast Asia. I should add that we have made a special point of using private U.S. contractors for regional studies wherever feasible.

In its recent report, the East Asia Regional Evaluation Team concluded: "The Team believes that most of the regional innovations and institutions which the U.S. has fostered in Southeast Asia will survive because they meet the recognized needs of the Asians. The governments of Southeast Asia still need and want both a U.S. presence in the region and low key U.S. support and guidance for their own regional initiatives." The attached program is consistent with the Team's conclusion and merits, in my judgment, your strong support.

Sincerely yours,



Leonard Unger

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EAST ASIA REGIONAL DEVELOPMENT FIELD SUBMISSION

PART I Background, Trends, Objectives and Strategy

A. Background

One of the striking developments of the decade of the 1960's has been the emergence and growth of a new and dynamic spirit of regional cooperation among the countries of Southeast Asia.* A sense of regional identify among these countries was virtually nonexistent ten years ago. During the late 1940's and the decade of the 1950's the governments of Southeast Asia (with the exception of Thailand) were absorbed in the process of disengaging themselves from colonial status, establishing functioning national authority over their domains, creating a sense of national identity, combatting Communist uprisings and subversion, and embarking on national development programs. In their international relationships, the Southeast Asian governments tended to look outward toward the former metropolitan powers -- London, Paris, the Hague and Washington -- rather than toward

*These countries are Thailand, Malaysia, Singapore, Indonesia, the Philippines, South Vietnam, Cambodia and Laos. Burma is a potential participant in Southeast Asian regionalism as may be, eventually, North Vietnam. Brunei participates in some regional activities, particularly the Southeast Asia Regional Transportation and Communications Program.

each other. Early efforts by individual Asian leaders to promote regional political consultation were greeted with disinterest or suspicion. A United States attempt in the mid-1950's to promote Asian economic cooperation, through the offer of foreign aid on a regional basis, was rejected by the intended beneficiaries.

Discernible changes in the foregoing pattern began to appear about a decade ago. As with all important political trends, the causal forces of Asian regionalism are complex. First has been the growth of unplanned yet important regional contacts and relationships -- such as the opening of bilateral diplomatic relations, the establishment of a multitude of Asian professional groups, the sharp increase of intra-regional travel, tourism and student exchanges, growing attention on the part of the news media, etc. -- all of which have contributed to the growth of a regional outlook on the part of both political leaders and Asian professional elites. Second has been a new awareness by Asian governments that regional cooperation in the economic and technical fields can contribute importantly to economic growth. The possession of resources in common (such as the Mekong River with respect to Thailand, Laos, Cambodia and Vietnam),

the efficiencies of planning infrastructure investments on a regional basis, the advantages of integrating small national markets for particular products, the benefits of increased intra-regional trade and capital movements, the efficiencies of training scarce skills on the basis of regional centers for regional deficiencies -- all point to the need for greater economic and technical collaboration. Thus, regionalism is seen as an increasingly important means of realizing the developmental goals that are so strongly and widely shared in Asia.

A third and more recent factor which has promoted regionalism is the growing concern of the Southeast Asian countries with external threats to their security and the need to draw together as a means of mutual protection. Having won their national struggles for independence, the Southeast Asian governments have become increasingly aware of their vulnerability in relation to China's dominant position to the north. The Thai Foreign Minister expressed a growing prevalent view when he recently warned, "We in Asia must organize ourselves to face the Communists. Either we close our ranks or be picked off one by one by the more ruthless and better organized communist regimes. We must make the choice to pool our resources or we will not be able to face the threat from the outside".

In this context, the American decision to intervene in Vietnam had a significant impact on Asian attitudes in at least two respects. It checked the immediate threat and bought previous time in which the free Asian nations could develop their own strength and begin to develop the institutions and habits of regional collaboration. Moreover, the realization of the region's present dependence on U.S. power and the realization that they cannot depend upon it indefinitely has stimulated a search by Asians for the ways and means of beginning to provide for their own security through regional arrangements. Southeast Asia's emerging realization that it will have to stand more on its own feet in a political-security sense -- to become a participant rather than simply a target in world affairs -- is potentially one of the most significant international developments of the 1960's.

A fourth crucial factor favoring regionalism has been the strong encouragement and support provided by the U.S., especially since 1965, as well as a growth in support by other donor countries, Japan in particular. U.S. backing of Asian regionalism, as pronounced in President Johnson's Johns Hopkins speech, coupled with the decision to defend South Vietnam, provided a measure

of assurance and confidence necessary for the Asians to move forward together on a variety of fronts. Similarly, U.S. economic assistance, together with that from other Free World sources, has provided the margin of external resources necessary to help translate new Asian aspirations and plans into functioning programs and institutions. Thus, the U.S. decision to intensify its support of Asian regionalism came at a time when the Asians themselves were ready to strike out in new directions. This combination of indigenous motivation and external support has produced a remarkable upsurge of cooperative activities focussed on Southeast Asia.

This is not to say that Asian regionalism has reached the degree of commitment, maturity and sophistication that has evolved in Western Europe or even in Latin America. Regionalism in Asia started later and it lacks many of the common historical, cultural and linguistic ties which have strengthened the foundations of regionalism in those latter areas. Narrow national aspirations continue to feed intra-regional disputes and to impede efforts at cooperation. Thus, regionalism in Asia is still a relatively fragile movement and has a long way to go. But though still in its infancy, it has a great potential for the future of the region, and will be a factor in formulating future U.S. policy.

B. Trends, Institutions and Programs

It is far beyond the scope of this presentation to provide a detailed history of recent Asian regional activities. Rather, the focus here will be on the highlights of what has been happening in the past few years in specific fields of cooperative endeavor and their significance for A.I.D. and for U.S. policy generally.

Asian regionalism is evolving in an almost bewildering array of organizations with differing origins, purposes, programs and country memberships (a chart of Asian Regional Organizations is attached as Appendix A). Some, like ECAFE and the Mekong Committee, owe their origins to an earlier period but have taken on new tasks and moved in significantly new directions during the past few years. Others of more recent origin like the Asian Development Bank, SEAMES and COORDCOM are pioneering in new economic, functional and technical fields of high priority for Asian development. Still others like ASEAN and ASPAC are providing a framework within which a greater measure of Asian political cooperation can evolve. This is of potential significance for the settlement of intra-regional disputes as well as for giving Southeast Asia a greater voice, and a more active and independent role in the aftermath of a Vietnam settlement.

1. ECAFE The 29-member United Nations Economic Commission for Asia and the Far East (ECAFE), founded two decades ago, has had a profound effect on Asian regionalism. Criticized as a mere "talking shop" with a second-rate staff, ECAFE has more than demonstrated its value in a number of ways. Through its meetings and activities it has served as the principal forum through which a broad cross section of the elites of Asia have come to know and understand each other. Its influence in the cultivation of an "Asian outlook" and a regional point of view has been immeasurable. In addition, it has played a key role as an innovator and generator of practical proposals for regional development. And its ability to mobilize support within its membership and in the U.N. for such proposals has made it a force to be reckoned with. ECAFE sponsorship has, in large measure, led to the establishment of such organizations as the Mekong Committee, the Asian Development Bank, the Asian Industrial Development Council, the Asian Institute for Economic Development and Planning, the Asian Coconut Community and the Asian Council of Economic Ministers. It can be expected to play a continually important role as a spokesman of the economic interests of Asia and proponent of regional programs. Of particular potential significance to the U.S. will be ECAFE-

consists to date of only about 20 per cent of the total resources assembled by the Committee -- an indication of the extensive support this program has received from a broad range of donors.

Several aspects of these investigations are of particular interest to the U.S. One of these is the series of feasibility studies that are underway or being planned on several major mainstream projects with potential construction costs running in the neighborhood of \$3 billion -- the upstream Pa Mong multi-purpose dam near Vientiane between Thailand and Laos, one of two possible major projects in Cambodia, (Sambor or Stung Treng) and an extensive system of dykes and levees to control the waters of the Vietnamese Delta. The Pa Mong and Delta studies are U.S. financed. Concurrently with progress on specific project investigations, an overall plan for the development of the Basin is being prepared by the Mekong Committee with ECAFE, U.S. and Dutch assistance. A comprehensive status report on the "Amplified Basin Plan" will be completed this year. It will seek to evaluate the priorities, scale and sequence of development projects viewed not only from their individual benefits but as parts of an integrated system. Finally, increasing attention is being given to the non-engineering

aspects of Mekong development including, in particular, the problems of introducing farmers to irrigated agriculture, the maximization of the fishery potential of Mekong reservoirs, problems of resettlement, and above all, the thorny international legal, administrative and institutional arrangements that will need to be concluded on the financing, construction and operation of mainstream facilities. Thus, much study and analysis remains to be done. Nevertheless, the day is not distant when the Mekong countries and the international community will be faced with major investment decisions.

In addition to its developmental role, the Mekong Committee has been a positive political factor in a region torn by historic rivalries and exacerbated by the more recent conflicts in Vietnam and Laos. It has improved the political climate by requiring consultation, cooperation and decisions by its member countries. It has served as an enduring link between Cambodia and its neighbors, even after the severance of diplomatic relations with South Vietnam and Thailand. Its sponsorship of the Nam Ngum tributary project in Laos and the My Thuan Bridge in Vietnam has symbolized international confidence in the future

of these war torn countries and their prospects for peaceful development. Indeed the great attractiveness of the Mekong program, particularly for the U.S., lies in its potential for developing closer political and legal relationships among the four riparians and for serving as a framework for dealing with the post war development problems of Vietnam and its neighbors.

3. The Asian Development Bank The establishment of the Asian Development Bank (ADB) in 1966 was the direct result of another ECAFE initiative which gained impetus following President Johnson's Johns Hopkins address and the U.S. decision to support its creation. Establishment of the Bank has already resulted in a net increase in financial resources available for regional development. Although much of this increase represents contributions by non-regional donors, the ADB is neither in image nor fact dominated by the donor members and is rapidly becoming a focal point for Asian cooperation over a broad field of needs. Additionally, it has already become an important channel through which the Asian nations communicate on mutual economic problems. Through its sponsorship of basic regional studies in agriculture, transportation and industry, the ADB is performing a unique planning function for the more rational development of the region as a whole. In addition, it has recently taken on a

study of economic problems and policies in Southeast Asia in the 1970s. Its special mandate to favor regional projects and its technical assistance and project preparation activities will result in the financing of more sound regional infrastructure projects than would otherwise have been the case.

Although still in its infancy, the role of the ADB as a positive indigenous force for regionalism is bound to grow. It has won the confidence and respect of the Asians without sacrifice to sound developmental criteria. However, its potential role will be greatly affected by the willingness of major donors, particularly the U.S., to contribute to the Bank's resources for concessional lending for regional projects. This bottleneck will become increasingly acute as the Mekong program, and the regional agricultural and transportation programs, generate attractive projects for financing.

4. Functional Cooperation: The Regional Education and the Transport/Communications Programs The Regional Education and Transport/Communications Programs are illustrative of the way in which the SEA nations, during the past five years, have pragmatically learned to work together to achieve concrete and measurable objectives of high value to the development of the region. They have also shown themselves to be an effective

method of developing stronger habits of cooperation on practical problems regardless of intra-regional political disputes which arise. They are of further significance in that, like the ADB, while they owe much of their origins to U.S. support, they nevertheless are the product of Asian plans and reflect Asian priorities.

Asian cooperation in education has taken root through the activation of the Southeast Asia Ministers of Education Council (SEAMEC) and in the establishment of an Asian Institute of Technology (AIT). Under the aegis of SEAMEC -- which has headquarters in Bangkok with a small international secretariat headed by a Director -- centers of regional excellence in higher education have been established or are being planned with costs being shared by the U.S. and the Asians on a matching basis. Well underway are centers for teaching, research and consultation in English language (Singapore), tropical agriculture (the Philippines) and science and mathematics (Malaysia). Additionally, regional centers are planned in tropical biology (Indonesia), educational innovation (Vietnam) and in a regional program of teaching and research in tropical medicine coordinated out of Bangkok.

While organizationally separate and of different origins than the SEAMEC centers, the AIT also represents an effort to meet regional manpower needs by establishing a center of excellence in graduate engineering which would be prohibitively costly for a single nation, acting on its own, to establish for itself. Formerly the SEATO Graduate School of Engineering, the AIT has substantially expanded and diversified its enrollment and has made progress in developing new sources of financial support. Plans are now underway for further expansion of enrollment and a diversification of the curriculum through the construction of new facilities at a new campus.

Although still in the survey and study stage, the Regional Transportation/Communications Program has evoked great interest and enthusiasm among the participating countries and has already begun to identify opportunities for priority investments in regional infrastructure. Initiated by the Malaysians in 1967, the program has led to the implementation with U.S. financing of 12 feasibility studies of promising regional projects, the identification of several more for financing in the current fiscal year, and the launching of an Asian Regional Transport Survey under the auspices of the ADB and with financial backing

have also been moving toward increased political collaboration. Indeed such collaboration owes much to the prior existence of cooperative economic organizations and programs. Regional developmental activities have provided a kind of cement holding together the still fragile political relationships. Also indispensable, as noted earlier, has been the U.S. security shield, symbolized by the SEATO treaty commitment and actualized by the deployment of U.S. power in the area.

In this context, the five-nation Association of Southeast Asian Nations (ASEAN), founded in 1967, represents a development of real potential significance for future economic and eventually political collaboration in Southeast Asia. A purely Asian undertaking, ASEAN support stems directly from the Prime Ministers and Foreign Ministries of its members and represents a degree and level of indigenous commitment unequalled by any other Asian regional body. As such, it has provided a forum for high level economic and political consultation. These very qualities, however, have tended to draw it directly into intra-regional political disputes, such as the

Sabah problem between the Philippines and Malaysia. Thus, its efforts at practical economic cooperation -- a joint fund, an economic study and regional measures in transportation and communications -- have yet to get off the ground in the two years since ASEAN's inception.

Nevertheless, there are grounds for some optimism on ASEAN's longer term prospects, either in its present form or as a stepping stone toward a stronger regional arrangement. First, there is a continuing Asian awareness and emphasis on the developmental benefits that would accrue to the member countries through increased economic cooperation. Second, as the prospect of a Vietnam settlement becomes more imminent, there is a growing Asian awareness of a potential political role for ASEAN. This was well expressed by the Singaporean Foreign Minister who, noting the imminent withdrawal of British power from the Far East and the prospect of a lessened U.S. presence in the 1970's pointed out: "The case for ASEAN is stronger today than it was when we (originally) endorsed it. For the first time in centuries, Southeast Asia will be on its own. It must fill what some people call the power vacuum itself or

resign itself to the dismal prospect of the vacuum being filled from the outside." Thus ASEAN or a successor organization could become a key element in future U.S. strategy in support of Southeast Asian regionalism.

The nine-nation Asian and Pacific Council, ASPAC, represents another approach to the region's economic and political concerns. A broader and more heterogeneous grouping than ASEAN, it combines four Southeast Asian nations -- Malaysia, the Philippines, Thailand and Vietnam -- with the developed countries of the Pacific -- Japan, Australia and New Zealand -- as well as with the Republic of Korea and the Republic of China. Its main functions to date have been periodic consultations on political developments in the area. As such, it has served a useful purpose for the exchange of views. Given its mixed and geographically dispersed membership, it is doubtful whether it can evolve into a forceful economic or political grouping.

C. U.S. Objectives

U.S. support for Asian regionalism is based on several clear cut political and economic purposes. As a general proposition, the U.S. has traditionally been sympathetic to regional arrange-

ments and regional organizations among free nations as a means of building a more stable world order. Beyond this, it has been a U.S. objective of long standing to assist the free nations of Asia in defending themselves against aggression and externally-directed subversion. Thus, U.S. support for Asian regionalism is essentially political in purpose -- the fostering of a more cohesive grouping of free nations on the rimland of Asia that can effectively discourage Communist aggressive ambitions. As Ambassador Unger noted recently, "We are persuaded that if the nations of this region can build up a habit of association and cooperation there is a benefit in the evidence this puts before the world, in particular as it puts before a potential aggressor, of the solidarity of such a grouping. This could be a prime deterrent in the future, a political deterrent to be sure, even though today and for some time to come it does not represent great military strength."

Accordingly, Asian regionalism will have a vital bearing on the political evolution of Southeast Asia after a settlement is reached in Vietnam, and the U.S. has a vital interest in maintaining the regional momentum generated to date to help compensate for reduced U.S. involvement.

A second major purpose of U.S. policy is the economic development of the countries of Southeast Asia. Although the U.S., for various reasons, is not directly involved in providing economic assistance to all of these countries, it has a basic interest in seeing the region prosper. Hence, the more effective allocation and mobilization of local resources through regional cooperation, planning and even a measure of regional integration can be powerful means of accelerating the growth of national economies. So can the regional planning of international river basin programs, international infrastructure projects and the meeting of scarce manpower skills.

In promoting regional economic cooperation, however, the U.S. is seeking the establishment of arrangements which will not only benefit the region but will also redound to its major trading and investment partners, including the U.S. itself. This means discouragement of policies or arrangements which would lead to regional autarchy and discriminatory trade and payments practices. As with Western Europe, the U.S. seeks an outward-looking regionalism in Southeast Asia.

A third underlying U.S. purpose is the enlistment of support on the part of other friendly countries and institutions in

behalf of Asian regionalism. Multilateralism -- economic and political -- complements regionalism by increasing the external resources available for regional activities and providing additional external political support for Asian regional arrangements. Thus, the U.S. has encouraged Japan, Australia and others to become more actively involved in financing regional programs, has supported the establishment of the ADB, has urged the IBRD to move into the Mekong, and has encouraged the formation of ASPAC in which Japan, New Zealand and Australia hold periodic consultations with a number of other Asian nations.

D. A U.S. Strategy for Regional Development

A long range strategy in support of the foregoing objectives must be flexible enough to take into consideration a number of imponderables in Southeast Asia which face the U.S. at this time. One of these is the timing and nature of the settlement in Vietnam. This is bound, among other things, to have extensive impact on Asian attitudes and the prospects for regionalism. A second is the fact that a series of regional, sector and project studies are in the mill, the results of which could appreciably

affect development strategy and the choice of priorities.* Many of these studies will not be completed for two years. What is proposed, therefore, is an interim strategy addressed to the obvious current priorities but looking beyond to the emergence of new opportunities and flexible enough to adapt readily to new contingencies. Such a strategy is calculated to put the U.S. in an advantageous position for dealing with the problems of effectively assisting Asian regionalism in the 1970's.

The major elements in RED's proposed strategy are the following. First, is the consolidation of progress in regional cooperation in the education and transport/communications fields

* Planned regional macro-economic studies include an ADB study for the Southeast Asia Ministers of Economic Development of "Economic Problems and Policies of Southeast Asia in the 1970's," an ECAFE-sponsored study for ASEAN on priorities for economic integration and joint projects, and a study by a "Task Force" established by the Asian Council of Economic Ministers (an ECAFE-sponsored body) to prepare proposals for increasing intra-regional payments and trade. Sector studies, in addition to the completed Asian Agricultural Survey, are a Regional Transport Survey (which will also look at regional economic prospects) under ADB auspices and an Asian Industrial Survey sponsored by the Asian Industrial Development Council. In addition, an Amplified Basin Plan of the Mekong River is being prepared which will identify priorities for basin development. Major Mekong project studies are nearing completion for the Pa Mong multipurpose project and for controlling the waters of the Vietnam Delta.

through the completion of the planning, legal, institutional and funding actions necessary to establish these programs on firm Asian foundations. Clearly the completion of what the Asians have already initiated with U.S. encouragement is a top priority item on RED's agenda. Second, and concurrently, is the need to seek the strengthening of the structure and functions of the Asian regional organizations which are likely to play important and constructive roles in the economic development and political stability of Southeast Asia after the war. These include, in particular, the Mekong Committee, ECAFE and ASEAN. The problems of U.S. relationships with each of these organizations are very different but it is not too soon to begin to formulate and act on fairly specific approaches. Third is to support, participate and assist in guiding the extensive economic planning effort that is proposed or going forward in Southeast Asia at a number of levels: regional liberalization of trade and payments, sector development (e.g. industry, transportation) and river basin planning. These surveys and studies are bound to influence greatly the pattern and direction economic regionalism will take in the 1970's. RED's role should be to help assure that these efforts are competently directed, to assist, where necessary, with the financing or the provision of

experts for such studies and to identify significant gaps in the research and see that these are filled.

A related element of RED strategy is to broaden external support for regional development in Southeast Asia. While the U.S. is expected to continue to be the principal source of external financing for regionalism for some time to come, there will be a growing need for increased support from other donors as the program gathers momentum and capital costs rise. A principal candidate for such help is, of course, Japan. Growing roles for the ADB and the IBRD can also be foreseen and the recent decision of the World Bank to become more fully involved in the Mekong program represents a large and significant step forward. In addition, there is potential for increased contributions from Canada, Australia, New Zealand, Taiwan and the European countries. The appeal and attractiveness of the Mekong program is well calculated to elicit substantial new support from such donors. The Transport/Communications program also has strong potential for attracting external capital for regional infrastructure projects. The same can be said for some of the ECAFE programs and for regional education projects such as the AIT. RED strategy, then, will be to assure that investment

proposals arising from regional programs will take fully into account their potential for attracting external financing from non-U.S. sources. In addition, full advantage should be taken of DAC's decision to hold a meeting on Southeast Asia as a means of increasing the understanding and interest of the European countries in Asian regionalism. It need hardly be added that favorable U.S. action on Special Funds for the ADB is of particular importance in enabling that institution to mobilize capital from its other members.

E. Program Priorities

Consistent with the above strategy, RED proposes the following program priorities for FY 70-71:

1. Establishment and Consolidation of Existing Programs

First priority will be given to the realization and firm establishment of plans and programs that have already been initiated by the Asians with U.S. encouragement, or are being carried out by the U.S. at the request of the Asians. This applies in particular to the SEAMEC education centers, the AIT, to the Transportation/Communications program of COORDCOM, and to the current U.S.-assisted investigations and projects on the Mekong (the Pa Mong survey, the Amplified Basin Plan and the

river ports project). As noted earlier, the regional education, transport/communications and Mekong programs represent three of the most important, practical and visible thrusts that regional cooperation has taken since 1965. They have already involved substantial investments of U.S. and Asian resources. Moreover, Asian expectations and U.S. prestige are so thoroughly engaged in their realization that any faltering on the part of the U.S. at this point would involve unacceptable consequences.

In addition to the foregoing, there are a number of other on-going or newly proposed regional projects, or projects with regional implications, which heretofore have not been administered by RED. These include several which have been functioning for some time (APO, ALEC and the SEATO Cholera Laboratory) as well as more recent ones (AIM, ADVRC, Regional Family Planning, Asian Free Labor Union Development and others). RED has not had an opportunity to assess these programs in any depth. It also recognizes that some (like family planning) reflect Agency priorities which go beyond regional considerations. Nevertheless, RED believes some consolidation and phase down, particularly of the long-standing programs is in order. This would release resources and staff time for programs which are more directly in support of U.S. regional strategy and policy goals.

2. Mekong Basin Development The political and developmental considerations given in the preceding section call for a more active and forthcoming U.S. role in support of Mekong development. RED proposes that the development of the Mekong become a major theme and focus of U.S. policy in Southeast Asia and as a means of supporting the rehabilitation of South Vietnam as well as promoting the development of its riparian partners in a regionally desirable framework. Such a policy would continue to complement rather than substitute for bilateral programs. It would also continue to operate largely through multi-lateral institutions and in conjunction with other donors.

Major elements in the broadened approach would be (a) an expanded program of investigations -- technical, ecological, social and institutional -- preparatory to reaching decisions on major downstream projects (Pa Mong, Stung Treng/Sambor and the Delta), (b) assistance in financing studies in Cambodia, through appropriate multi-lateral institutions, of particularly the Stung Treng project and the Cambodian Delta, (c) follow-on support to permit the Nam Ngum and perhaps the Nam Pong projects to realize their full potential, (d) assistance in support of a strategy, to be worked out with other donors, for strengthening

the staff of the Mekong Committee and, hopefully, upgrading the level of riparian representation, (e) work on the closely related problems of international legal and institutional arrangements for financing and managing the Mekong program, (f) assistance in evaluating the costs and benefits of large mainstream projects with alternative allocations of resources for other developmental programs.

Progress on a program of these dimensions would put the U.S., along with other donors, in a position to plan more constructively for the post-hostility situation in mainland Southeast Asia and to make the most of the developmental opportunities which a settlement would provide.

3. Regionalism and Post-war Planning Much has been said in the foregoing section on the U.S. foreign policy objectives with respect to SEA regionalism and the potential role of organizations such as the Mekong Committee, ASEAN, and ASPAC. With the prospect nearing of a settlement in Vietnam, there is a need to initiate research, policy planning and consultations on the potential role of regional organizations in post-war Asia and how the leading donors, including the U.S., can most effectively cooperate to strengthen regional development. For example, the idea of multi-lateral assistance, perhaps through

the ADB, to the proposed ASEAN Joint Fund, may have merit in terms of helping that organization to move forward once its internal problems have subsided. The roles of ASPAC and the Mekong Committee could also be usefully reviewed in the context of post-Vietnam planning. RED proposes that SEADAG be used as a means of bringing outside expertise to bear on these questions. RED also concurs with the Evaluation Team's recommendation that the EA/RD proposals for Mekong development be circulated to the field for comment.

4. Economic Integration and Private Sector Development

Although current efforts in economic regionalism are focussed largely on "projects", it is realized by a growing number of Asians that over the long run the major economic gains from regionalism are likely to be found in measures to increase intra-regional trade and payments, in industrial planning and in regional financial arrangements and the coordination of monetary policy. As noted earlier, the U.S. has a strong interest in supporting such efforts and in assuring that they move in directions favorable to general U.S. economic policy. In the period ahead, therefore, RED proposes that increased technical

Program. In other words, if FY '71 funding is restricted to the FY '70 "Level B" ceiling of \$18 million, the U.S. will be unable to implement the strategy recommended in this presentation. Funding in the "Level A" magnitude, or something close to it, will be required to give substance and realism to U.S. policy objectives.

With regard to organization, RED's recommendations were presented in a policy paper prepared at the time of the visit of the Evaluation Team. They are attached as Appendix B to this Field Submission. RED continues to believe that the importance of U.S. support for Asian regionalism requires organizational arrangements in Washington that will help to assure that the program receives adequate backstopping, policy coordination and the attention of senior officials in both A.I.D. and the Department. By the same token, there is a need to clarify and upgrade the status of the RED Office at least, as recommended by the Evaluation Team, to that held by bilateral AID missions. Since the RED Office represents the cutting edge of U.S. support for Asian regionalism, its status and role is of obvious consequence to the success of that policy.

RED also reiterates the policy paper's recommendations with respect to RED/country mission relationships. This is an issue which has continued to cause problems for lack of clear directives from Washington. The Evaluation Team, after reviewing the matter, recommends that "RED should have primary responsibility for regional projects through the planning, preparation and negotiating stages, and the USAIDs should have primary responsibility for implementation..." This formula overlooks the fact that RED must have the authority to monitor implementation and concur on major implementation decisions to assure that the regional aspects and objectives of the project are given proper weight. It also overlooks the fact that USAIDs should be involved in the planning and negotiation of regional projects to assure proper coordination at the country level.

Implementation of the foregoing strategy will also require a substantial augmentation of the RED staff. This has been commented upon by the Evaluation Team and agreement apparently has been reached on the need for several new positions, including an economic advisor, assistant program officer, capital development officer and an agricultural economist. RED also sees the need for consultant services on the social and human aspects

of Mekong development. Looking further ahead, RED foresees the need for an additional officer in both the program and capital projects areas as well as for additional strength in the field of trade and commercial policy and reporting on regional activities. The latter positions should be staffed by the Department.

PART II. Scope and Content of Proposed Program

The program proposals summarized below are a logical extension of the objectives and strategy set forth in Part I of this presentation. The focus of the discussion is on FY 1971, although considerable discussion of program plans for FY '70 is necessarily included for background and some reference to FY 1972 will be made, where necessary. Since RED will be submitting PROPs or PPPs on its individual projects in the near future, the discussion that follows will limit itself to the major considerations and issues.

A. The Regional Education Program1. Regional Education Development (SEAMES)

RED objectives in FY '70-71 will be (a) to complete the technical, funding, legal, and institutional actions required to finance construction of the permanent facilities of the SEARCA (Southeast Asia Regional Center for Graduate Study and Research in Agriculture) and RECSAM (Regional Center for Education in Science and Mathematics) Centers on the basis of previously developed plans, (b) to monitor the construction of these facilities as well as that of the Regional English Language Center (RELC) which was financed in FY 1969, (c) to

provide the technical and financial assistance necessary for the successful operation of these centers on the basis of previously agreed cost sharing formulas and (d) to provide the assistance necessary to complete the planning and reach basic decisions for the three other contemplated projects, BIOTROP (The Regional Center for Tropical Biology), INNOTECH (Regional Center for Education Innovation and Technology), and Tropical Medicine and Public Health. Concurrently, RED and Ford Foundation advisors will assist the Southeast Asia Ministers of Education Secretariat (SEAMES) to strengthen its functions as the central coordinating and fund-raising body of SEAMEC. No differences are shown with respect to "A" and "B" funding levels for FY 1971 and 1972. As indicated earlier, RED regards funding in the amounts indicated as essential to the secure establishment of the program and believes it should have first claim on regional funding availabilities. Funding estimates for the BIOTROP, INNOTECH and Tropical Medicine projects are not included in this presentation since major modifications are likely as planning proceeds. They will be included, of course, in the PROPs which will be submitted subsequently. See also issue paper No. 3 which discusses funding aspects of the SEAMES program.

(a) The Regional English Language Center (RELC)

FY 1970-71 will see the completion of the Center's interim operational period during which time the 16-story building which will house the permanent Center is scheduled to be finished. RED will devote major attention to monitoring the construction of that structure which is scheduled to begin in October 1969. In addition, RED will continue to provide technical assistance to the Center's on-going program of teaching and research in English language training which will continue to operate out of its present temporary facilities. Consultants will be provided in each of these fields in FY 1970 and further technical assistance through the Fulbright program is planned for FY 1971. This will complement similar technical assistance being provided by the U.K. through the British Council. In addition, RED will finance about 60 per cent of the Center's interim operational costs.

During FY 1970-71, the Center plans to provide two four-month training courses per year for 21-24 trainees per course, undertake a systematic evaluation program of the results of these courses, continue research in developing instructional material needs in the region, provide consulting services and conduct regional seminars, and build up its library and disseminate its own research findings and publications.

(b) The Southeast Asian Regional Center for Graduate Study and Research in Agriculture (SEARCA)

Major emphasis will be placed in FY 1970 on financing construction of present facilities and legal actions necessary to launch this project on a permanent basis. A basic letter of agreement defining the principal terms under which the U.S. and the GOP would provide capital and operational financing to support the project over its five year operational period was signed at the end of FY 1969. SEARCA is the first of the SEAMES projects to enter its five year operational period which commenced July 1. Assuming a construction agreement can be approved and funds obligated in August, construction on the initial facilities to be financed by the U.S. -- a 100,000 volume library, a dormitory and three faculty houses -- can be initiated by December. This would permit the residential buildings to be ready for occupancy for the next academic year. Meanwhile, construction has already gotten underway on additional faculty housing and quarters for married students with Philippine financing.

Thirty graduate students from five Southeast Asian countries are presently enrolled in SEARCA with the expectation

that these numbers will increase to sixty in FY 1971 and 100 in FY 1972. Future construction will be phased to meet enrollment increases. For example, funding of an additional dormitory and three faculty houses will be required later in FY 70 if next year's enrollment climbs as expected. Funds for additional residential facilities are included in the FY 1971 and 1972 estimates. A major RED activity during the next 2-3 years will be to monitor the progress of this building program.

In addition to its graduate training program, SEARCA plans to expand its research activities, organize regional seminars on selected agricultural problems and provide advisory and consultative services to member countries.

(c) The Regional Center for Education in Science and Mathematics (RECSAM)

As in the case with the RELC and SEARCA projects, RED's major involvement in RECSAM during FY 70 will be to conclude by September 1, 1969 an agreement for Phase I construction (hostel, dining block, workers quarters and site improvements) and monitor the construction program which should get underway in January 1970. Assuming the project evolves as planned,

A & E plans will be completed in FY 71 for Phase II construction (Administration building, teaching blocks, hostels, workers quarters and site improvements) which would be financed and started in FY 72.

In FY 70 as well as the next four fiscal years RED will be providing two consultants to supplement RECSAM's staffing requirements for its training and research programs and its information and special services division.

RECSAM will begin its five year operational period in July 1970. The funding plan is based upon principles established in a Memorandum of Understanding signed by the U.S., the Government of Malaysia and SEAMES which provides inter alia (a) that the Government of Malaysia will assume responsibility for full operating costs for the five year period, (b) that the USG will finance agreed capital, commodity and equipment costs and ten man years of professional staff as well as underwrite 50 per cent of mutually agreed Special Funds, (c) that SEAMES will seek to provide 50 per cent of mutually agreed Special Funds.

During FY 70, the training division will have a total of 61 participants attending courses varying in length from

one week to six months. The Research Division will conduct requirement analyses and pilot studies in four areas involving a total of 36 participants. The activities of Information and Special Services Division will be expanded as soon as the GOM assigns staff members for these areas to RECSAM. It is expected they will be on board by September 1, 1969. In FY 71, it is anticipated the RECSAM will be operating its full programmed schedule of activities which would involve 350-400 participants.

(d) Tropical Medicine and Public Health

During FY 1970, RED will concentrate on resolving with the Asian leaders concerned a number of problems which confront this project and making appropriate recommendations to Washington on a feasible course of action. The problem is complicated because the project involves building upon several existing centers of competence in Asia in the medical education field rather than establishing a single new center. Development proposals have been submitted by medical centers of four countries (Indonesia, Malaysia, the Philippines and Thailand) in various aspects

of the medical and public health fields (nutrition, parasitology, public health and tropical medicine) which have required review in terms of (a) the needs of the region for training in the fields offered, and (b) resource availabilities, both local and from A.I.D.

The former problem is being examined through the conduct of a survey designed by Asian and U.S. manpower and medical specialists which is aimed at determining the demand which each of the SEAMES countries would have for the training services which would be offered in the four fields mentioned above. The results of the survey are expected shortly at which time an assessment can be made as to the expansion of services each of the centers would be obliged to carry out to meet regional demand. This information, in turn, would provide a basis for estimating the costs each of the centers would be obliged to incur in order to provide the expanded service. Costs will then have to be compared with resources which A.I.D. and the Asian centers would themselves be in a position to provide. An additional complicating factor is the constraint imposed by the overall funding ceiling for SEAMES projects.

RED expects that this process of program and funding analysis will be completed by December, 1969, at which time appropriate recommendations will be submitted to Washington. These will be based on the needs of the region in a field to which the Asians attach high priority and to which A.I.D. itself gives great emphasis. While RED will seek to keep costs to A.I.D. minimal, there is no guarantee that they can be accommodated within the aforementioned ceiling. If that is the case, RED will propose an alternative funding formula. In the meantime, RED will continue to support the work of the project's Central Coordinating Board in Bangkok which has been conducting or sponsoring post-graduate teaching programs, regional seminars, consulting services, research and training grants and the intra-regional exchange of personnel.

(e) Regional Center for Educational Innovation and Technology (INNOTECH)

A high degree of flexibility must necessarily be a feature of planning for INNOTECH, which is to be located in Saigon, since the situation in Vietnam and the resources available to the GVN for the project will naturally be major considerations. Moreover, the technical planning of the project

is still proceeding at this time. The present intention is to prepare a five year development plan (through national and regional seminars) for presentation to the January 1970 SEAMEC meeting. The period FY 70-71 would be devoted to interim operations and the refinement of the five year plan, with the development period beginning in July 1971. Present plans during the interim period call for (a) moving the site of the project from Bangkok to Saigon, (b) design and construct whatever facilities are required, or modify existing facilities to permit the project to establish its headquarters in Saigon, (c) recruitment of staff and purchase of equipment and research library resources, (d) initiate, on a reduced and experimental scale, a program of training courses, regional seminars, publications and exchange of professional contact with established national units concerned with educational planning and technology within the respective countries. A.I.D. assistance would finance the operating, construction and training costs during the interim period as well as provide the services of two U.S. consultants.

(f) Regional Center for Training, Research and
Graduate Study in Tropical Biology (BIOTROP)

Planning on this project, which is located in Bogor, Indonesia, has been slow to evolve due to a variety of considerations. During the past six months, however, considerable progress has been achieved in giving focus and direction to the program. A planning group which included Asian, U.S., Australian and European scientists has put together a proposal which emphasizes the scientific study of the rational use and management of the region's "renewable natural resources." Specifically, the proposal is to conduct research and research training on the ecology of three major features of the Southeast Asian environment -- man-made lakes, lowland forests, and coral islands -- and one major threat to that environment, namely the damage inflicted by pests. Each of these study areas is one on which little research, applicable to Southeast Asia, has been done and are ones which can yield important economic results to the Southeast Asian countries. Experience has shown that man-made reservoirs are capable of providing high returns in fish production if they are managed properly.

This is an area in which BIOTROP could make a direct contribution to planning for Mekong development and to the planning of other reservoirs that will be built in the region. Lowland tropical forests have been badly exploited in certain areas and research is needed to establish policies for sustained yields. Coral reefs and their lagoons are believed to be capable of providing much higher economic returns than have been obtained in the past. Pests constitute a major problem in terms of the health and productivity of humans, domesticated animals and crops.

Discussions are now in progress to refine the objectives to be sought within each of the above fields, to devise implementation plans for attaining these objectives, and to calculate the resources that will be required from various sources. The planning is being done in the context similar to the other SEAMES projects of an interim planning and "start up" period followed by a five year "operational period" during which costs would be shared by the U.S. and other donors including Indonesia. The operational period is scheduled to start in July, 1970. A new and encouraging development is the readiness of the U.S. Smithsonian Institute, through

its Office of Ecology, to furnish planning assistance and to provide help to Biotrop in implementing its programs.

The prospect is that planning for the Biotrop project will be completed within the next two or three months. These plans will provide the basis for a PROP submission by RED to Washington for funding (outside of the \$28 million ceiling) beginning in FY 1971. Concurrently, BIOTROP will present its plans to the SEAMEC meeting in January for the Council's approval.

(g) Southeast Asia Ministers of Education Secretariat
(SEAMES)

Concurrent with its assistance to the individual regional centers, RED will continue to provide encouragement and technical assistance to the regional Secretariat in a number of fields. First priority will be given to assistance in fund raising, a problem which is becoming increasingly acute if SEAMES is to meet its responsibilities for financing its share of the "Special Funds" requirements for the various SEAMEC centers.* Although there is some prospect that advisors

* See also discussion in Issue No. 3, below.

provided by the Ford Foundation will lend some assistance to SEAMES in this regard, it is clear that help in methods and techniques of fund raising will be required from RED. There is, in particular, a need for the kind of sustained support and follow through that can be provided by a fund raising firm as opposed to short term individual consultants which have been provided to date. Active recruitment and backstopping by Washington will also be required.

In addition, RED plans to provide consultants to SEAMES to help strengthen other aspects of its function as a regional coordinating and planning office for higher education. The evaluation of degrees and certificates and the establishment of common regional standards for accreditation is one priority under consideration. Another is regional planning in higher education and the undertaking of manpower studies in selective fields to determine priorities for further development.

2. Asian Institute of Technology (AIT)

At its July 1969 meeting, the Board of Trustees of AIT revised and approved a ten-year program and financial plan submitted by the AIT administration and pledged itself to help raise the resources necessary to realize the plan. The plan foresees the phase down and termination (by FY 1976) of external subsidies for AIT's direct local operating costs

through expanded income from tuition and contract research, the former to be raised mostly from fellowships. It projects the undertaking of the construction of the "Phase I" facilities at the new campus site, with site preparation beginning in December 1969, and completion of facilities for occupancy in the 1972-73 academic year.

Assuming Washington concurs with the Board's decision,* RED support for AIT in FY 70-71 will be to finance, on a declining scale, a portion of AIT's total operating expenses (presently funded through a contract with Colorado State University) and approximately \$3 million as its 50 per cent share of capital costs for Phase I construction (the other 50 per cent having already been committed by Thailand, Great Britain and Australia). Most of the U.S. contribution would be allocated to the construction, equipping and furnishing of the civil engineering building on the new campus.

Highlights of AIT's development during the next two years include (a) a growth of enrollment from 165 in 1968/69 to a projected 210 in 1970/71, (b) an increase by that year of fellowship-financed students to 60, (c) introduction of a doctoral program in civil engineering in 1970-71, (d) completion by July 1972,

* See also discussion in Issue No. 4, below.

of design and construction of the Phase I complex including an administration building, a civil engineering building, a campus services building and dormitories to accommodate 286 students.

3. Asian Institute of Management (AIM)

AIM is a most promising project, given the calibre of its leadership and staff, the help it will receive from the Harvard Business School under a Ford Foundation grant, and the strong support it is enlisting from the Philippine private sector. Regional funding will provide a \$300,000 grant to AIM in FY 1970 to finance equipment, furnishings, publications and supplies.

AIM has strong potential for becoming a center of excellence in management training and executive development for the private sector of Asia. It is aiming at increasing its non-Filipino enrollment to 20 per cent by the end of five years. RED concurs with the Evaluation Team's recommendation that assistance be made available to AIM to finance fellowships from the SEA region, particularly during the initial years of its development before it has established a "name" for itself in the area. Funding proposed below would be administered by AIM and would finance two-year fellowships at \$4,000 each.

	FY 1971		FY 1972	
	Level A	Level B	Level A	Level B
	(Obligations in \$000)			
RELC	\$ 100*	\$ 100*	\$ 100*	\$ 100*
SEARCA	420	420	290	290
RECSAM	392	392	1,788	1,788
Tropical Medicine**	--	--	--	--
INNOTECH**	--	--	--	--
BIOTROP**	--	--	--	--
SEAMES Support	50	50	50	50
A.I.T.	1,990***	1,990***	2,853****	2,853****
A.I.M.	40	20	60	30
TOTAL	\$2,992	\$2,972	\$5,141	\$5,111

* Assumes professional personnel supplied under Fulbright Program.

** Funding estimates will be submitted with PROP

*** Includes \$1 million for capital contribution to Phase I construction.

**** Includes \$2 million capital contribution for regional library and is subject to matching contributions from non-USG sources.

B. The Regional Transport and Communications Program

During FY 1970-72, RED will emphasize the following aspects of this highly successful regional program: (1) monitoring to completion the twelve feasibility studies and surveys that were financed in FY 1969 and are now in various stages of implementation (first tranche studies), (2) complete negotiations with the eight-nation Transport and Communications Coordinating Committee (COORDCOM) on the subjects and scopes of work for the additional studies to be undertaken with FY 1970 financing (second tranche studies), (3) review and make recommendations regarding first tranche projects that appear to be particularly appropriate for A.I.D. financing, (4) assist the COORDCOM and its Interim Secretariat with whatever planning may be appropriate for institutionalizing and providing continuity to this regional program including its relationship to the ADB-sponsored regional transport survey.

1. Transport and Communications Studies

Of the twelve "first tranche" studies agreed to and financed at the September 1968 COORDCOM meeting, field work on five has been completed and reports are being written, two are

underway, and the remaining five are in the final stages of contracting, thanks to effective Washington backstopping. All are expected to be completed and reports issued by the end of FY 1970. Preliminary information on some of them, such as the Straits of Malacca study, indicate that they have identified high priority regional projects.

Work is concurrently proceeding on firming up the "second tranche" group of studies which were proposed at the March 1969 COORDCOM meeting. In coordination with the countries and the USAIDs and Embassies concerned, the Interim Secretariat and RED are reviewing the merits, "regionality" and scopes of work of some eight additional studies with the aim of reaching agreement permitting obligation of funds for these studies at the next COORDCOM meeting which is scheduled for September, 1969. If the schedule can be adhered to, the second group of studies should get underway in early 1970.

Meanwhile, funding has been arranged and a contract is being negotiated by the Asian Development Bank with a U.S. consulting firm to undertake the Regional Transport Survey. While the survey is scheduled to take two years, interim reports will be forthcoming earlier. Since these interim reports will,

in part, focus on transportation bottlenecks in the region, they may provide the basis for identifying additional projects for feasibility analysis. However, RED is not recommending at this time the programming of funds in FY 1971 for this purpose.

2. Regional Transport and Communications Projects

As indicated in Part I, RED strategy will be to utilize the feasibility studies to encourage and stimulate a greater flow of investment into Southeast Asia from other aid donors. In particular, it is hoped that the studies will generate significant amounts of capital financing from the Asian Development Bank and Japan. RED plans to work closely with USADB in this connection.

Nevertheless, there are several projects which, by virtue of their location or particular U.S. interests, may give rise to the desirability of A.I.D. financing. For example, regional projects which are located in Laos and Vietnam are obvious possibilities in view of the fact that the U.S. is already heavily involved in support to their economies. Indonesia, with its tremendous requirements for external capital, may be another. U.S. interest in the Straits of Malacca project may be such as to warrant A.I.D. financing.

For FY 1971, therefore, RED recommends the allocation of regional funding for (a) the Lao telecommunications system which would connect the major population centers of the country, and establish links with Thailand and Vietnam and into the world-wide telecommunications network, (b) the Lao component of the regional aeronautical telecommunications project (which would upgrade the presently inadequate and hazardous aero-communications system for Laos), and (c) a contribution to the Straits of Malacca project (which includes channel improvements and the establishment of a network of navigational aids). Final recommendations on these projects are, of course, subject to review of the feasibility study reports and consultations with the appropriate U.S. Missions.

Funding recommendations for FY 1972 are necessarily even more tentative. Larger amounts are shown because the "second tranche" of projects to be studied includes three airports (Vietnam, Laos and Indonesia) and a telecommunications system (Vietnam), projects which ordinarily involve large capital outlays.

3. Institutional Aspects

The regional transport and communications program has revolved largely about the selection and implementation of U.S.-financed feasibility studies and has been handled through informal, ad hoc arrangements between RED and the Asians. However, regional transport and communications questions will be subjects of continuing concern. The momentum and the degree of regional cooperation which has been generated so far should not be allowed to dwindle once the "second tranche" studies have been agreed to. Accordingly, RED and the Malaysian sponsors of the program have been exploring ways of putting the program on a more formal, institutional basis. Current thinking favors bringing the program under the umbrella of one of the on-going formal Southeast Asian regional organizations.

	FY 1971		FY 1972	
	Level A	Level B	Level A	Level B
	(Obligations in \$000)			
Aeronautical Telecom (Laos)	700	700		
Telecommunications network (Laos)	1,500	1,500		
Straits of Malacca	<u>3,000</u>	<u> </u>		
Total, FY 71	5,200	2,200		
"Second Tranche" projects (Vietnam, Laos or Indonesian airports) or Vietnam telecom system			25,000	15,000

C. Mekong River Basin Development

As indicated in Part I, RED proposes U.S. assistance and guidance for an expanded program of investigations and project development during FY 1970-72 which would bring the entire Mekong program closer to the point of reaching investment decisions on major mainstream projects. Most of the proposals involve action in coordination with other donors and maximum use of multilateral agencies. In that regard, the recent indication of the IBRD to play a more active role in Mekong matters is an important and welcome step forward. Much depends, obviously, on such imponderables as the shifting contest in Laos, the timing and nature of the settlement in Vietnam, and the stability of newly-reestablished U.S.-Cambodian relations. The discussion of proposed program activities which follows assumes reasonably satisfactory conditions with respect to these three factors.

In addition, as indicated in Part I, the proposals which follow are regarded as complementary to the bi-lateral AID programs that are supporting development efforts by three of the four riparians in the Mekong Basin. These efforts include

the many activities and projects for the development of North-east Thailand, virtually all of the development program in Laos, and a significant segment of the work in South Vietnam. Details of these programs are contained in the Country Field Submissions of the three Missions. Although their focus is national rather than regional, their impact is considerable in terms of developing the economic, institutional and human resources of the Basin and thereby laying many of the essential underpinnings for successful collaboration at the regional level. Under these circumstances, RED's task is to identify programs which, on the one hand, build upon relevant A.I.D. bi-lateral activities in the Mekong Basin and, on the other, take into account the work being planned and carried out by other Mekong donors.

1. Invesitgations and Studies. First priority will be given to the completion of the two basic studies on which the U.S. is currently assisting: the feasibility report on the Pa Mong project which is being carried out by the U.S. Bureau of Reclamation under a PASA with A.I.D., and the Amplified Basin Plan in which RED staff and the Development and Resources

Corporation (D. & R.) are assisting (along with the Netherlands Economic Institute) ECAFE and the Mekong Committee. Both reports will be completed in mid-FY 1970. Both reports -- together with the studies that have been completed or are underway on other mainstream projects (Sambor, Tonle Sap and the Vietnam Delta) -- will heavily influence the future course of Mekong development.] The Pa Mong report will evaluate the economic and technical feasibility of this huge (\$1.04 billion) project, based mainly on its at-site power benefits. Many other benefits, both at site (irrigation, fishery) and downstream (flood control, navigation, firming up of downstream power sites, and water control in the Delta) will only be approximated. Further investigation in these areas may well be required. The Amplified Basin Plan will undertake to make a first approximation of the priorities, sequence and scale for the development of the Mekong Basin in terms of optimum operation of an integrated basin system. In addition, Chapter VI of the Plan will identify needs for further research.

Therefore, by mid FY 1970, the U.S. and other donors will have rather clear guidelines as to the priorities for future

investigations. Common to all of them will be the aim of seeking answers with greater certitude to the following:

(a) priorities for Mekong development, and particularly mainstream projects; (b) the benefits and adverse effects that can be anticipated from particular projects both at site and for the whole basin, (c) measures, including policy actions by the riparians, which are indicated to optimize the benefits and minimize or avoid adverse results.

Illustrative of the studies which will be planned or undertaken in FY 1970-71 with U.S. assistance are several concerned with the impact of large water resource projects on the ecology of the Mekong basin and measures needed to prevent or minimize negative effects. The Smithsonian Institution will be providing expertise to the Mekong Committee in this field and a more specialized group from the Corps of Engineers will look into the question of aquatic plants and weeds. Similarly, there is a need to undertake long-term research on the productivity of tropical soils in the Basin and the optimum measures for soils management by farmers when lands are brought under irrigation. Geological investigations with assistance from the U.S. Geological Survey are also

being considered, focusing on availabilities of potash as a raw material for a possible fertilizer industry as well as studies of ground water conditions in the irrigation area of Pa Mong and whether irrigation will result in saline return flows.

On the human and social side of Mekong planning, research will be continued on farmer attitudes and behavior patterns with respect to the adoption of irrigated agricultural practices. There is a requirement to analyze with much greater precision the number, skills and property holdings of the estimated 200,000 persons (150,000 in Thailand and 50,000 in Laos) who will be displaced by the Pa Mong project and to suggest measures for minimizing the dislocation involved, including the earmarking of resettlement sites and retraining programs. A study will get underway this year, also to be performed by the Smithsonian, on health problems connected with water borne diseases. In addition, fishery aspects of Mekong development will be given greater attention.

Further technical and engineering data will be required for sound planning. These will include continued collection of hydrographic and hydraulic data on the mainstem of the

river and its major tributaries and the provision of spare parts and replacements for the data collection program. Reconnaissance investigations of the storage capacities of other upstream sites are recommended to verify that Pa Mong provides the greatest storage benefits at the least cost. An investigation of the requirements for adequate water control of the Cambodian Delta is also recommended (under multilateral auspices) to determine the dyking and levee requirements under various assumptions of upstream storage and under various assumptions with respect to the development of the Delta in Vietnam. The investigation would complement a Dutch-financed study of the agricultural potential of the Delta and would lay the basis for examining the problems of developing the Delta as a whole.

Preliminary Mekong investigations in the 1950's identified three major mainstream projects for feasibility analysis -- Pa Mong, Tonle Sap and Sambor, the latter two being in Cambodia. More recently, there are indications that the site at Stung Treng in Cambodia would offer substantially greater potential benefits (in both irrigation and power generation)

than would the Sambor project (which is mainly a power project). Moreover, the suspected greater storage capacity of Stung Treng would permit it to play a more effective role in regulating the waters of the Delta. Subject to the recommendations of the Amplified Basin Plan, RED proposes that the U.S. participate, through an international agency such as the World Bank or the ADB, in financing up to 50 per cent of the costs (estimated at \$12 million over a 4 year period) of a feasibility study of the Stung Treng project beginning in FY 1971. As a second-best alternative, the reservoir capacity of the Stung Treng project should be accurately determined through aerial photography and mapping as a means of judging its storage potential.

Earlier investigations (by the Japanese) have identified promising projects for hydro power and irrigation benefits on two Mekong tributaries in Vietnam, the Upper Se San and the Upper Srepok. These studies were interrupted by the war and further work is contingent on the cessation of hostilities. With this in mind, RED proposes that funds (\$500,000) be programmed for FY 1972 for further economic and technical investigations to determine priorities for the development of these tributaries.

A further set of problems requiring more attention are those confronting Laos and Thailand -- but particularly Thailand -- with respect to the Pa Mong project. Pa Mong will require some hard and major decisions on the part of the RTC with respect to national development priorities and the allocation of budgetary, foreign exchange and human resources. Unfortunately, there has been insufficient dialogue between the basin planning effort of ECAFE/Mekong Committee, and the Thai national planning and operating agencies. There is a need to stimulate a greater dialogue and to undertake the macro-economic studies and budget forecasts that will relate Pa Mong with Thai developmental goals. An important step in this direction has been taken in the establishment, with experts provided by USOM/Thailand, of a Thai/U.S. study team to estimate future Thai power requirements. A subsequent study is planned to evaluate ways of meeting these requirements including, as one alternative, the construction of Pa Mong.* In these and

*As noted below, such studies will be helpful in evaluating the at site benefits of Pa Mong in relation to other Thai developmental goals. They will not, by definition, assess the full impact of Pa Mong on the Basin by virtue of its important downstream benefits, hence the need to evaluate Pa Mong in both a national and regional context. See further discussion of this point in Part III, Issue 2.

other ways, RED and USOM/Thailand will seek to bring about a more meaningful appraisal by the RTG of the issues and choices posed by Pa Mong through further expert studies undertaken with U.S. or other donor assistance.

2. Institutional Development. Closely related to the last point is the cluster of considerations regarding the arrangements under which major mainstream projects will be constructed, operated and managed, and what institutional devices can be fashioned to help assure that such projects are operated for the optimum benefit of all four riparians. For example, policies for managing the Pa Mong reservoir will be very different depending on whether the objective is optimum power benefit for Thailand, or optimum water control for the Delta. Also, if a Mekong Authority or series of authorities, should be established for managing Mekong projects, what should be their relationship to the Mekong Committee? These and other questions will be taken up at an international conference on institutional and legal aspects

of mainstream projects, which is being convened by the Mekong Committee in August. The seminar will undoubtedly point up the need for legal consultant services and studies to follow up its recommendations, and RED assistance may well be required.

The conference on Mekong institutional and legal arrangements will carry implications for the future direction which the Mekong Committee should take. If there is agreement that the Committee should perform more effectively its mandate for planning and coordinating Mekong development, there will be an obvious need to strengthen its staff. Until now, the Committee has relied heavily on offers and donations from external sources and much of its time is spent on soliciting contributions. With a strengthened staff, better qualified to undertake broad planning functions, the Committee could itself carry out or contract for many of the investigations and studies which are now undertaken for it by donor countries and agencies. In such circumstances, U.S. and other donor

support for Mekong investigations (including many suggested in the previous section) could, in part at least, be financed through direct grants to the Committee. Assuming such changes take place, some funding is proposed by RED in FY 1971 for this purpose.

In addition to strengthening the staff of the Committee, there is a growing need to strengthen the Committee itself as an international institution in which broad policy questions of national developmental objectives and basin priorities can be discussed and reviewed. Presently, riparian representation on the Committee is being performed at the sub-ministerial level by technicians, mostly engineers. This accounts for the project-oriented approach the Committee has taken as well as for the fact that basin priorities and their resource implications often do not get the level of attention necessary in the formulation, by the riparian governments of their developmental programs and budgets. Raising the level of riparian representation on the Committee to that of ministers with development policy responsibilities would help to

integrate these considerations at the national level and would promote a more meaningful dialogue among the four countries. It would also strengthen the Committee in the eyes of the international community.

While this is clearly a matter for the riparian governments, they are more likely to consider it seriously on the basis of analysis and suggestions by a disinterested party such as the U.N. or the World Bank. Also, the Pa Mong project itself, with its great costs and benefits, and its significance for all four countries, could provide solid justification for considering reform of the Committee. If the World Bank agreed to head up a consortium for financing Pa Mong, it would be in the best position to lay the groundwork. The U.S. role would be to provide unobtrusive support to the Bank.

3. Mekong Projects

a. Pa Mong and Other Major Mainstream Projects

As indicated earlier, feasibility investigations are nearing completion, or have been completed, on four major

mainstream projects -- Pa Mong, Sambor, Tonle Sap and an extensive water control system for the Vietnam Delta. In addition, the Amplified Basin Plan, which is scheduled for release by the end of the year, will attempt, among other things, to evaluate the relative priority and inter-relationships of these projects as components of an overall basin system. At this writing, it seems likely that Pa Mong will emerge as the keystone for such a system because, in addition to its potential at-site benefits (power, irrigation and fishery development), its capacity to regulate the flow of the river will provide major downstream benefits in which Cambodia and Vietnam will share. These include flood control, navigation, firming up power potential at downstream sites, dry season irrigation for the Delta and the alleviation of salt water encroachment in the Vietnamese Delta. The inter-relationships between the Pa Mong and the Vietnam Delta projects are further discussed below (see Issue No. 2).

It is, therefore, likely that adequate information and analysis will be available within the next year to donors and riparians alike on priorities for major mainstream projects

with Pa Mong as the leading contender. It is also apparent, however, that additional lead time will be required to sort out the complex political, institutional and legal problems involved, for reaching agreement on various policy and program actions that the Thai and Lao governments will need to take and for them to more fully assess the budgetary and balance of payments implications involved. FY 1972 would appear to be the earliest one could expect to reach a decision on the project and to assemble the financing (estimated at \$50 million for Pa Mong) for final design.

Given the international character of the Mekong program, the broad range of donors which have already contributed to its progress, and the heavy investments that projects like Pa Mong will require, it is clear that international consortia will need to be assembled to mobilize the necessary resources for design and construction. While the Asian Development Bank can and should play a growing role in guiding and financing Mekong development, its newness and capital resource limitations will probably restrict it to smaller projects for some time to come. The World Bank, on the other hand, appears ideally suited to organizing and guiding such consortia and has had comparable

experience in doing so on other major river basins. Success will also depend on the vigor and extent of U.S. support, both in the financing of the projects and in reinforcing the IBRD's insistence on adherence -- in the face of inevitable local pressures -- to sound planning principles. Special legislation for financing U.S. contributions for construction may be desirable. Meanwhile, a 40 per cent contribution (\$20 million) for financing the final design of Pa Mong is proposed for planning purposes for FY 1972.

b. Other Mekong Projects

An expanded program of U.S. support for other Mekong development projects is also proposed for FY 1970-72.

(1) Port and Cargo Facilities

In accordance with previous commitments, the U.S. will finance the construction of ports, cargo handling, ferry and channel improvement facilities at various points along the river as a means of eliminating obstacles to the more efficient handling of passenger and cargo traffic between Thailand and Laos.

(2) My Thuan Bridge

The FY 1971 program includes \$6 million for financing the U.S. 25 per cent contribution to the My Thuan Bridge

in Vietnam, assuming that the circumstances prescribed in STATE 118161 have been met. RED's views on the importance of this project from the standpoint of Vietnam's future participation in the Mekong program and Cambodian-Vietnamese relations are already a matter of record.

(3) Nong Khai-Vientiane Bridge

No U.S. contribution is recommended at this time for the NongKhai-Vientiane Bridge which should be ready for financing in FY 1971, as this project appears to be an excellent vehicle for drawing the Asian Development Bank more fully into the Mekong program. The Lao and Thai governments have expressed some interest in ADB financing. RED shares the reservations which USOM/Thailand and USAID/Laos have expressed on the economic analysis of the Japanese-prepared feasibility report, particularly with respect to the dual purpose rail/highway structure, estimated at \$21.5 million. On the other hand, the single purpose highway bridge (\$12 million) may well be economically feasible. RED's role will be to assure that USADB is fully apprised of the problems so that these can be brought to the attention of the Bank's staff if and when it is asked to review the proposal. A U.S. contribution will be considered only if ADB financing is not available or insufficient.

(4) Nam Ngum

The Nam Ngum project in Laos, the first stage of which is now under construction by a Japanese contractor, presents opportunities for realizing significant additional benefits and for profiting from experience gained on earlier tributary projects, providing security conditions in the project area are manageable. Originally conceived primarily for power generation for Northeast Thailand and Vientiane, the \$31 million project, located 85 miles north of Vientiane, is being financed by grants from nine countries with a 50 per cent contribution by the U.S. and is being administered for the RLG by the World Bank.

In view of the rich potential of the reservoir for fish production (as demonstrated by the experience at the Nam Pong project in Thailand), there is an immediate urgency for the removal of timber from the reservoir area and the clearance of sites for fishing operations before the reservoir is inundated (scheduled for May 1971). This requires immediate funding (450,000). In addition, fishery facilities (hatchery, ice plant, landings, processing plant) and a training program should be implemented (\$250,000) in FY 1971.*

*Since AID/W has recently expressed a preference for bilateral funding of these aspects of the Nam Ngum project, the amounts noted have not been included in RED's budget presentation.

In addition, the market for power in Northeast Thailand is growing at a pace that warrants consideration of installation of additional generating units at Nam Ngum far in advance of the original schedule. Thirty megawatts of capacity are included in the first stage and present plans call for the installation of thirty-five megawatt units in 1973, 1976 and 1985. RED's analysis of load growth in Thailand and, to a lesser extent, in Laos, points to the economic feasibility of installing all three units and additional transmission lines as soon as a Thai/Lao marketing agreement and external financing can be arranged.* Total cost is estimated at \$10-12 million. Substantial economies would be realized if installation could take place while the present contractor is on the job. Alternative methods of financing are discussed in issue No. 6 . RED recommends that the U.S. contribute, as a loan, 50 per cent of total costs providing a satisfactory marketing arrangement can be reached and the IBRD can secure the remaining 50 per cent from other donors.

* See "The Market for Nam Ngum Power", an attachment to a letter from Mr. Lee St. Lawrence to Mr. Thomas C. Niblock of May 14, 1969, containing a comprehensive analysis of the Nam Ngum project.

Rural electrification is another aspect of Nam Ngum which deserves attention. As presently planned, the people in and near the project area will not benefit directly from Nam Ngum power, although their requirements would be modest. Rural electrification would give these inhabitants a greater sense of participation and stake in the project. RED and USAID/Laos are exploring the possibilities and plan to submit proposals in due course.

A basic problem with respect to Nam Ngum is the need to train Lao management and technical staff to eventually take over the operation of the project and, more fundamentally, the organizational and institutional arrangements within the Lao government for project management. RED and USAID/Laos strategy is to keep abreast of the problem and evaluate various alternatives, but to encourage the IBRD as the project's administrator to take the lead in dealing with these issues.

(5) Mekong Facilities

There are a number of other projects on the Mekong on which planning is well underway and where A.I.D. contributions could materially advance U.S. interests in supporting Mekong development. One of these is the Nam Pong

pioneer irrigation project in Thailand (having a rough cost estimate of \$5 million) which is expected to receive technical assistance from the ADB and is focused on helping farmers adopt irrigated agricultural practices through the coordinated provision of government services. A second is the 10,000 hectare Pa Mong Pilot Irrigation Project at Kao Liew on the Vientiane Plain in Laos which forms the Lao portion of the Stage I Pa Mong irrigation area. A feasibility study of the irrigation layout system, which would use Nam Ngum power to pump water from the Mekong is being carried out by USAID/Laos through the Bureau of Reclamation. Cost of construction is estimated at \$10 million.* A third possibility is the Battambang project in Cambodia, the first stage of which would involve a diversion dam and the irrigation of 23,000 hectares at an estimated cost of \$20.4 million. Final design is being provided under a Swiss offer of technical assistance. Fourth, as noted above, a U.S. contribution for the NongKhai-Vientiane Bridge is an outside possibility. Accordingly, RED has included \$5 million in FY 1971 and \$10 million in 1972 to finance U.S. contributions to one or more of the above projects.

*U.S. assistance to this and the Nam Pong irrigation project could be made available through either the regional or bi-lateral programs. RED believes that the regional aspects of these projects justify regional financing. Implementation should be guided by the principles discussed elsewhere (see Part III, Issue 5).

	FY 1971		FY 1972	
	Level A	Level B	Level A	Level B
	(Obligations in \$000)			
Mekong Ports and Cargo	200	200	---	---
Pa Mong Feasibility Study	846	846	185	185
Pa Mong, Final Design*	---	---	20,000	---
Mekong Development				
Planning**	2,800	1,200	3,300	1,200
Nam Ngum Power	6,500***	6,000***	1,000	---
My Thuan Bridge****	6,000	6,000	---	---
Stung Treng Study*****	3,000	500	3,000	500
Mekong Facilities	<u>5,000</u>	<u>---</u>	<u>10,000</u>	<u>10,000</u>
 Total	 24,346	 14,746	 37,485	 11,885

* Represents 40 per cent of total estimated cost.

** A portion of the funds for planning could be allocated directly to the Mekong Committee providing the circumstances outlined in the preceding discussion evolve in fact.

*** Includes \$6 million representing 50 per cent of additional generators and transmission lines.

**** Represents 25 per cent of total estimated cost.

***** Represents 50 per cent of cost of feasibility study (Level A) or 50 per cent of estimated cost of reservoir mapping (Level B) -- both funded over two years.

D. Regional Planning

This category of RED support will be designed to provide selective assistance to various regional organizations, through SEADAG and through other means, to strengthen regional planning efforts and to develop a longer term strategy for regionalism in the 1970's. Such assistance will build on the work that has already been accomplished or underway, including the Asian Agricultural Survey, the Regional Transport Survey and the study on economic problems and policies of Southeast Asia in the 1970's. In addition, policy planning studies will be encouraged to suggest new approaches for U.S. support of regionalism, particularly in the context of a settlement in Vietnam.

1. Regionalism and Postwar Planning

RED believes the time is opportune to review existing policies with respect to U.S. relationships to Asian regional organizations and to explore new approaches in the context of U.S. policy objectives after a Vietnamese settlement. This includes, for example, an examination of the focus and framework for postwar aid to Vietnam -- should it be oriented toward South Vietnam or to the Indo China States as suggested

in a recent message from USAID/Saigon, or should it have a Mekong Basin focus as proposed in a staff paper by EA/RD? What about future U.S. relationships to ASEAN and ASPAC? Can these groupings be helped to shoulder more responsibility for political stability in Southeast Asia? Could ASEAN be strengthened by helping it to finance its own regional projects with assistance to its Joint Fund channeled through a multi-lateral agency such as the ADB? Is a U.S. policy of "low visibility" still the most effective way of advancing our interests? Examination of these and other policy issues at the official level should be assisted by drawing on non-governmental expertise. RED proposes additional assistance to SEADAG in FY 1970-72 for consultant services and policy-oriented studies.

2. Liberalization of Regional Trade and Payments

For some time a major ECAFE activity, largely through its Trade Division, has been the study of the problems and opportunities to the Asian members of ECAFE which might be achieved through the loosening of restrictions on intra-regional trade and the liberalization of intra-regional payments arrangements. ECAFE's own efforts have been augmented by

studies on the subject conducted by Professor Robert Triffin and colleagues at Yale University as well as by an analysis carried out by the IMF on the banking and credit facilities of the ECAFE region.

These latter studies have tended to give greater focus and direction to ECAFE's work in this field and the Trade Division is now engaged in a series of commodity flow analyses aimed at determining more accurately the sectoral trade possibilities within Southeast Asia. This work is aimed at reaching specific recommendations on the liberalization of trade and payments for review by the Asian members of ECAFE at the end of the year. It will seek to establish a framework of specific steps for increased regional and sub-regional trade and payments cooperation.

Given the economic gains that could accrue to Southeast Asia from success in this field, and given the U.S. interest in helping to assure that the results do not impose undue restrictions on extra-regional trade and are consistent with efforts to improve international payments facilities, U.S. assistance in the form of sound, expert advice is highly

desirable. Short term consultants would appear to suffice in FY 1970, but longer term services may be appropriate in FY 1971 and 1972, depending on what is achieved this year.

3. Industrial Survey of Southeast Asia

This survey is sponsored by the Asian Industrial Development Council, an arm of ECAFE. It is aimed at (a) providing a sound regional framework for judging the economic feasibility of industrial projects, and (b) identifying specific projects that warrant further investigation. As such, it will complement and supplement the other regional studies noted above. Its potential for stimulating private investment is great and the quality of the product is assured through the supervision which will be provided by the Netherlands Economics Institute. \$580,000 in services or funds has been mobilized by ECAFE for the project. U.S. assistance in the amount of \$50,000 is proposed in FY 1970 and FY 1971 to finance U.S. experts and transportation services.

4. Regional Cooperation in Science and Technology

Through its support to SEAMES programs and the AIT, RED is providing significant assistance to several fields of science education. However, little has been done to date to

explore the developmental potential for regional cooperation in the direct application of science and technology. It is believed that there may be important opportunities for regional action and that these should be explored. As the Evaluation Team noted, the transfer of nuclear technology and regional efforts to more effectively utilize the five nuclear research reactors now located in Southeast Asia is one possibility. Another is to strengthen scientific work in the region by helping the various national scientific societies and organizations to work closer together. There may be many more.

Accordingly, RED suggests the organization of a high level U.S./Asian Task Force to undertake a survey which would identify the areas of scientific cooperation likely to have the highest immediate payoff. The survey would be followed in FY 1971 by more detailed investigations and, perhaps, the establishment of the necessary regional mechanisms.

Support for the above activities would be financed through the Regional Technical Advisory Services Project and through the A.I.D. contract with the Asia Society for SEADAG.

	<u>FY 71</u>		<u>FY 72</u>	
	Level A	Level B	Level A	Level B
Regional Planning*	200	100	300	200
SEADAG	<u>900</u>	<u>700</u>	<u>900</u>	<u>700</u>
Total	1,100	800	1,200	900

* Represents a component of the Regional Technical Advisory Services Project.

E. Other Regional Programs

In addition to the foregoing, the East Asia Regional Development Program includes a number of other activities which are regional in nature or are logically financed by regional funds. These include (1) support through ECAFE and other regional groupings of regional programs with a high developmental payoff, (2) implementation of a number of regional projects -- The Asian Productivity Center (Tokyo and Manila), The Asian Vegetable Development and Research Center (Taiwan), The Asian Labor Education Center and the Asian Institute of Management (Manila), and the SEATO Cholera Research Center (Dacca) -- which are located in Asia but which, for historical reasons, have been administered by AID/W, (3) support for AID/W-sponsored programs in family planning, labor education and logistic support for the East Asia AID Missions, and (4) support for RED field operations and related costs in other East Asia Missions.

RED has been exercising responsibility for the programming and administration of the activities mentioned under (1) above and for most of those noted under (4). Washington has dealt directly with the local Missions or Embassies in regard to

the five projects noted under (2), often without even informing RED as to its plans and actions. RED concurs with the Evaluation Team's recommendation that such an arrangement is inadequate and that programming and coordinating responsibility for these projects be shifted to RED as soon as RED is staffed to carry out these functions. This means that funding decisions by Washington on these programs would take into account RED's views and recommendations. In this way, these activities can be better related to other elements of the regional program. Washington will also benefit by having field recommendations on these projects include RED's judgments on project performance and overall regional priorities. On the other hand, the activities noted under (3) should probably continue under their present administrative arrangements since they reflect Agency-wide, rather than simply regional, priorities or are more appropriately funded by regional rather than bilateral funds.

1. Support for ECAFE-sponsored Programs and Other Regional "Targets of Opportunity"

As indicated in Part I, ECAFE is continuing to play a unique role in generating proposals and programs which meet

regional needs and have a high developmental payoff. Selective U.S. support for such programs increases their effectiveness and generates goodwill throughout free Asia. ECAFE's work in encouraging intra-regional trade and payments, and in regional industrial planning have already been noted. Another program of particular value is that carried out by ECAFE's Water Resources Division (presently also heavily engaged in preparing the Amplified Basin Plan for the Mekong Committee) which performs a variety of services for ECAFE members in this field, thanks in part to the provision of U.S. experts. RED proposes to provide additional support to the Division in FY 1970-72 with emphasis on the roving seminar on planning, advance screening teams to review proposed development projects, the panel of experts on water law and, if funds permit, the typhoon committee.

Other ECAFE activities which have demonstrated their effectiveness and merit further support include the Committee for Offshore Prospecting (which has been instrumental in opening up vast new mineral resources, particularly petroleum, for Asia) the Asian Institute for Economic Development and Planning (whose curriculum would greatly profit from U.S. expertise in manpower planning and industrial management) and

support for the geological programs of ECAFE's Division of Industry and National Resources.

In addition, RED will provide, in accordance with previous understandings, operational support for the South-east Asia Fisheries Development Center in the amount of \$100,000 per year in FY 1970 and 1971. Such assistance, together with a similar increment provided in FY 1969, will help to finance operating costs of the training activities in Thailand and the research activities in Singapore during the program's initial stages, after which such support will be furnished by the member nations.

2. Implementation of On-going Regional Projects

a. Asian Vegetable Research and Development Center

Implementation of this potentially extremely worthwhile project in Taiwan continues to be hung up on the problem of obtaining contributions from four Asian nations -- Thailand, the Philippines, Japan and Korea -- to make up the missing 20 per cent of the Center's \$7.5 million funding scheme. The U.S. contribution would amount to 40 per cent (\$3 million spread over a five-six year period) and the remaining 40 per cent would be financed by the GRC and (30 per cent) the ADB (10 per cent). Flexibility in dealing with the funding problem

has become limited by Congressional caveats. If a solution can be reached in the relatively near future, construction of the Center could begin in early 1970 and its program could be initiated in FY 1971. U.S. assistance would include the provision of experts from a U.S. university and laboratory supplies and equipment.

b. Asian Productivity Organization

RED will continue to provide resident advisors to the APO's central operation in Tokyo and to the Regional Information Unit in Manila until their present tours expire in FY 1971. As a result of its services through the years, APO has gained sufficient Asian confidence and support to be able to dispense after FY 1970 with continued U.S. financial assistance for its regular, on-going program. However, RED also believes that provision should be made for responding to special APO proposals that are likely to have significant regional and developmental impact, and has included \$75,000 - \$100,000 annually in FY 1971-72 for this purpose.

c. Asian Labor Education Center.

RED concurs with USAID/Manila's judgment that this project merits and needs continued U.S. assistance to finance

fellowships for non-Philippine labor leaders to attend ALEC's international courses. If it is not feasible or desirable to make such support available in connection with the Asian American Free Labor Institute project, it should be continued directly, as before. ALEC's continued need for scholarship funds is not an expression of regional disinterest in its program but rather of the impoverished circumstances of the trade union movement in Asia and the modest resources of sympathetic agencies such as the ILO. Financing in the amount of \$60,000 is proposed for FY '71 and again in '72.

d. SEATO Cholera Research Laboratory.

RED has had insufficient time to become familiar with the details of this program and its budget projections. It is suggested that, for planning purposes, funding in FY 1971 and 1972 be continued at the \$680,000 level of FY 1970 in support of the Laboratory's proposed research program on new preventive methods for cholera. Meanwhile, RED plans to review the program at first hand at an early date and will submit its further recommendations.

- e. Asian Institute of Management. (See Section A above.)
- 3. Regional Family Planning, Regional Logistics Center and Asian Free Labor Union Development.

RED is not in a position to comment on these programs, which are entirely administered and funded by Washington, except to note that population growth rates in the region continue to cancel out much of the gains being made by economic development. This argues for continued and growing emphasis on regional cooperation in family planning. RED is following closely the promising initiatives of the new U.S.-assisted ECAFE Population Division in regard to family planning.

4. Field Support

Support of the Regional Development Office in Bangkok, the regional components of other field staffs in the East Asia region and some other activities is financed by the Regional Technical Advisory Services project. RED recommendations on funding reflect its recommendations on increased personnel requirements as presented in the last section of Part I, above. RED cannot emphasize too strongly the importance of adequately staffing the field office of the regional program if the strategy proposed in this presentation is to be implemented.

The figures below also assume that APO advisors will be phased out on schedule and that EA/RD's proposed formula for financing USAID/Manila regional activities (10 per cent of its Technical Support project) is adopted. If it is not adopted, an additional amount in the neighborhood of \$100,000 should be added to the totals.

	FY 71		FY 72	
	Level A	Level B	Level A	Level B
	(Obligations in \$000)			
ECAFE programs*	300	200	300	200
SEA Fisheries Development Center	100	100	--	--
Asian Veg. & Research Center	500	500	500	500
APO (projects)*	100	75	100	75
ALEC	60	40	60	40
SEATO Cholera	680	680	680	680
Regional Family Planning**	1,500	1,500	800	800
Regional Logistics Center	255	255	275	275
Asian Free Labor Union Development	650	650	650	650
RTAS***	<u>1,245</u>	<u>1,245</u>	<u>1,376</u>	<u>1,376</u>
Total	5,390	5,245	4,741	4,596

* Shown separately here for presentation purposes but funded under RTAS project.

** Contract with East-West Center comes up for renewal in FY 71.

*** Technical Support component

PART III - Policy and Program IssuesChecklist of Top Level Decisions

Issue No. 1: Should the U.S. provide increased policy and material support to regionalism in Southeast Asia and, if so, why?

Mission Recommendation: See covering letter to A.I.D. Administrator pp i - iii and discussion pp 19-26 and 32-33

Issue No. 2: What are the alternative methods of developing the Mekong River Delta and what are the implications of these alternatives?

Mission Recommendation: See attached issue paper

Issue No. 3: What should be the A.I.D. position with regard to (a) allocation, within the \$28 million ceiling, of U.S. funding among SEAMES projects and AIT, (b) Special Funds and SEAMES fund raising and (c) applicability of the 50-50 formula to BIOTROP and INNOTECH.

Mission Recommendation: See attached issue paper.

Issue No. 4: Should A.I.D. make a capital contribution in FY 1970 to permit the Asian Institute of Technology to begin construction of facilities at the new campus?

Mission Recommendation: See attached issue paper.

Issue No. 5: What principles should guide the coordination of RED responsibilities with those of country Missions?

Mission Recommendation: See pp 33-34 and Appendix B, pp 9-10.

Issue No. 6: What are the alternative methods for financing additional power facilities for the Nam Ngum project?

Mission Recommendation: See attached issue paper.

Issue No. 7: What should RED's responsibilities be regarding the regional projects located in Manila, Tokyo, Taipei and Dacca?

Mission Recommendation: See discussion, pp 85-86

Issue No. 2: What are the alternative methods of developing the Mekong River Delta and what are the implications of these alternatives?

There is general agreement that the Mekong Delta is potentially one of the most productive agricultural areas in the world. It is also agreed that to realize this potential it will be necessary to develop a controlled water system for flood control, drainage, irrigation and salinity control. There are, however, some major differences of opinion regarding the most appropriate way of providing the controlled water system.

The flood and salinity control could be provided through a system of dikes and levees that would protect the lands from floods and salinity intrusion. As an alternative, the flood and salinity control, as well as a supply of water for irrigation during the dry season, could be provided through an upstream storage system. Common to both alternatives would be a system of ditches, small dikes and pumps required for the drainage and irrigation of the individual fields. This irrigation and drainage system would be approximately the same under either of the two alternatives.

The Development and Resources (D & R) Corporation, under a contract with A.I.D., has made a study of the Vietnam Delta and has recommended that the dike and levee plan be adopted and carried out over a 20 year period. The D & R report indicated that the major dikes required for flood protection would cost about \$210 million. It was impossible, from the information presented in the D & R report, to isolate the cost of the dikes that would be required for salinity control. In other words, the cost of works for both flood protection and salinity control would be considerably in excess of \$210 million.

The major advantage of the dike and levee plan is that the works could be carried out according to the schedule set by the Vietnamese; it would not be so dependent upon action by other nations. The ability to control the timing of the development would make the plan an effective instrument of military and political policy as well as economic.

The D & R Corporation has also indicated that the dike and levee plan would be cheaper than the upstream storage alternative. This conclusion depends upon the system that would be used in allocating the costs of the multiple purpose storage projects.

Under the procedures now employed in the U.S. domestic program, the storage alternative could not cost more than the

dike alternative, because the amount allocated to any function is limited to the lesser of the benefits or the cost of the most economic alternative project that would have produced the same benefit to the function as the multiple purpose project. In this case, the alternative would be the dikes and levees.

In making its study, the D & R Corp. also considered the possible effects of storage on the height of the floods in the Delta. D & R concluded that 160 billion cubic meters (cu m) of storage upstream would have reduced the height of the 1961 flood by two meters at the Vietnam-Cambodia border and by six meters at Kratie, the head of the Delta. Additional studies would be required to determine the total amount of storage that would be required to fully protect the Delta.

The advantage of the storage plan is that it would provide benefits to other functions such as hydroelectric power, navigation, fishery, but of most importance, it would provide the water supply needed to irrigate the lands of the Delta during the dry season and it would also provide a water barrier to prevent the intrusion of the saline waters from the sea. The storage plan would also protect the Delta lands in Cambodia as well as in Vietnam.

There are several potential storage sites on the river that could provide the amount of space needed to control the floods in the Delta. The major sites include Pa Mong, Stung Treng and the Great Lake. The U.S. Bureau of Reclamation expects to complete a feasibility investigation of the Pa Mong site this calendar year. Information now available about that investigation indicates a reservoir with 80 billion cu m of active space at a cost of about \$500 million. Comparable information on the other two sites is not available.

Discussion: The best soils in the Delta are along the banks of the major streams. As the velocity of the stream flows have receded, the coarser sediments have settled out first. These soils are lighter in texture than those further inland from the waterways and these are the soils that are used primarily for fruit and vegetable production in the Delta. Also the natural banks of the river have a slightly higher elevation than the areas further inland. Because of this elevation and proximity to water for domestic purposes and for transportation, the individual dwellings and villages have been built on the river banks.

These natural river banks would be the most logical place to locate the dikes. But if the dikes were built on the natural banks it would necessitate the relocation of large numbers of people. The Development and Resources Corporation proposes to avoid this relocation by building the dikes back of the settlements. This would leave the people inside the major floodway. Also, under the dike plan, a major bypass would be constructed from the river to the gulf of Thailand. With this in operation, in the future the water levels would be no higher than they have been in the past, according to D & R. Thus, D & R reasons that in the future the people living within the dikes would not be subject to any greater danger than they have in the past.

The water ways provide one of the major methods of transportation in the Vietnam Delta. In addition to the Mekong River and its various tributaries, there are some 1,400 miles of canals. These are all interconnected with the river. If the dike plan were constructed, it would be necessary to maintain water access from the canals to the river. This would probably involve a system of locks. Aside from the costs, such a system would result in delays in the transportation.

While it would be possible to protect the Vietnam portion of the Delta with relatively low dikes, considerably higher dikes would be required to protect the Delta in Cambodia. There is even a question as to whether the cost of a diking program for Cambodia would be justified. Thus, if the Cambodian portion of the Delta is ever fully developed, it will likely have to be accomplished through the use of storage to control flooding. If storage is needed to protect the Cambodian Delta, by the same token it would also protect the Vietnam Delta. Because of the interrelationship, it appears undesirable to select the dike plan for the development of the Vietnam Delta until more information is known about the alternative of storage, and the possible use of dikes in Cambodia.

The construction of the dike plan would utilize some of the benefits that would otherwise be available to help justify the construction of the multiple purpose storage upstream which will be needed to provide the water supply for the full development of the Delta. The dike program would thus be at cross purposes with full development.

RED position:

1. No decision on the dike alternative for Vietnam should

be made until more information is available on the storage alternative.

2. Information on the dike plan similar to that which has been developed for Vietnam should be developed for Cambodia.

3. Information on the cost and storage capacity of other storage possibilities including particularly Stung Treng and the Great Lake should be developed.

4. Additional studies should be run to determine the amount of storage that would be required to provide full protection for the Delta lands.

5. Experts in the field of flood control by diking should be invited to review the D & R plan, particularly the possible hazard for those people who would live within the floodway.

6. An expert should be invited to assess the effect of the dike plan in Vietnam on the backwaters in Cambodia.

Issue No. 3: What should be the A.I.D. position with regard to (a) allocation, within the \$28 million ceiling, of U.S. funding among SEAMES projects and AIT, (b) Special Funds and SEAMES fund raising and (c) applicability of the 50-50 formula to BIOTROP and INNOTECH.

A. As indicated in Appendix C, RED estimates that the \$28 million will completely finance the AIT commitment at an estimated cost of about \$11,500,000 and the total U.S. costs of the RELC, RECSAM, SEARCA and SEAMES general support (as well as development costs of the BIOTROP, INNOTECH and Tropical Medicine projects) at a total cost of about \$12,500,000. The balance remaining to be programmed, \$4 million, would be allocated between the INNOTECH and Tropical Medicine projects. Since INNOTECH and Tropical Medicine development plans have not been completed, RED is unable to determine their funding requirements. However, the Tropical Medicine project has two plans under consideration: (1) financing only the operations of the Central Coordinating Board through FY 74 at an annual cost of \$150,000 and (2) developing national medical educational centers in each of the following four participating countries; Thailand, Malaysia, Indonesia, and the Philippines with the possibility of Vietnam proposing a fifth. Clearly, the total cost (\$600,000) for the

Central Coordinating Board can be accommodated within the \$4 million remaining to be programmed. Crude estimates indicate that assistance to the national medical centers would range from \$3.5 million to \$6 million and clearly could not be accommodated within the \$28 million. The question is, therefore, if a decision is made to assist in the development of national medical education centers, how can the necessary financing be provided?

RED is not in a position at this time to make a firm recommendation on this point as it has not had the opportunity to review and evaluate the development plans of the various centers in the light of the "regional needs" survey that has been undertaken. However, RED does believe that if these plans are valid and costs are reasonable in relation to objectives and activities, A.I.D. assistance should be provided, on a case by case basis (in the form of review and action on PROPs), outside of the \$28 million umbrella. The rationale for separate funding is the evolution of the "project" itself from a limited activity involving project planning and the operations of the CCB to the undertaking of separate identifiable regional projects, each meeting a particular problem in the regional health field, each with its own sponsoring country and funding scheme. This kind of evolution has characterized the history

of many A.I.D. technical assistance and institution building activities and has often resulted in separate funding for components that grew out of an earlier program. Funding of CCB activities would, of course, continue to be attributed to the \$28 million.

A negative decision on the above proposal would virtually foreclose A.I.D.'s ability to assist the Asians to mount a substantial effort in the field of medical education and public health on a regional basis. Given the high priority which the Agency has established for public health and given the investment of energy, time and resources that the Asian leaders have given to program planning in the expectation of eventual U.S. support, RED believes the above approach should be adopted.

With respect to INNOTECH, while the development plan has not yet been prepared and will not be available until late October, at which time a PROP will be submitted, we believe that INNOTECH can be completely financed within the \$28 million since preliminary cost estimates indicate that the total costs will not exceed \$3.5 million, of which the U.S. Government's share will be not less than 50 per cent.

B. Special Funds and SEAMES Fund Raising

As the Evaluation Team rightly pointed out, there are very serious questions concerning the capability of SEAMES to raise its share of Special Funds for regional education projects. The Evaluation Team was also correct in noting that the viability of the projects from a regional standpoint was greatly dependent on the availability of Special Funds. However, progress at SEAMES since the Evaluation Team report, in coming to grips with the problems, has not been great. A positive development has been the temporary staff support being provided the Secretariat by senior Ford Foundation advisors in Bangkok.

Two key questions confront the U.S. and SEAMES with regard to Special Funds. The first is the items which this category of funding is supposed to finance; the second is the feasibility of making the required sums available on a 50-50 AID/SEAMES basis. The two are, of course, related since the magnitude of the second problem is greatly influenced by the answer to the first.

With respect to the first issue, there has been a tendency on the part of the regional centers to stretch the definition of legitimate costs to be financed by Special Funds to include seminars, conferences, consulting services, research and teaching

costs, Advisory Board meetings, as well as scholarships. This tends, of course, to increase the magnitude of Special Fund requirements and reduce the costs that the centers would otherwise be obliged to finance as operational costs. Given the importance of keeping Special Fund requirements within manageable limits and of assuring that adequate financing is available for scholarships, RED believes that Special Funds should be limited to scholarships and, perhaps, one or two Advisory Board meetings per year.

In regard to the second issue, the assumption that SEAMES could and would raise its share of the Special Funds requirements was based on its receiving adequate and sustained technical help in the form of U.S. consulting services. This has not been forthcoming, despite repeated RED requests. Rather, three short term consultants have come and gone with little continuity and follow up. It is, therefore, premature to write the SEAMES fund raising effort off as a failure. RED believes that the provision of adequate technical assistance to SEAMES should be made a matter of urgency and priority by Washington and that only after some experience has been gained in the possibilities of a SEAMES centralized fund raising operation, should alternatives, if necessary, be considered.

If Washington cannot or will not backstop the provision of the required technical assistance, then RED would propose that the regional centers capable of doing so raise themselves the financing that would have otherwise been provided by SEAMES. This, in fact, is the route that the RELC and SEARCA projects are presently being forced to follow for lack of financing from SEAMES. It could also be adopted by RECSAM. The burden to SEAMES would be reduced under such an arrangement to the provision of Special Funds for only those centers which are located in countries with particular financial difficulties, namely, BIOTROP (Indonesia) and INNOTECH (Vietnam). It would be further reduced if, as suggested by the Evaluation Team, the U.S. agreed to finance more than 50 per cent of Special Fund requirements for these two centers in recognition of their special circumstances.

RED regards the above as a distinctly second-best alternative. The concept of Special Funds was not simply a fund-raising device but was, rather, designed to establish an arrangement which would bring SEAMES into an intimate working relationship with the regional centers so that the program as a whole would

receive guidance and direction from an organization responsive to the needs of the region. Much of this benefit would be weakened under the alternative suggested above.

C. As previously noted, development plans for the INNOTECH and BIOTROP projects are not sufficiently developed for RED to determine with sufficient reliability the magnitude of funds that will be required. For the reasons given above, however, RED believes that the usual 50-50 financing formula which has been used successfully on other SEAMES projects should not be applied to Indonesia and Vietnam. It is clear that the capability of either Vietnam or Indonesia to support, in a significant manner, regional programs is very limited. Rightly these countries are devoting the major share of their resources to domestic reconstruction and rehabilitation programs. However, the participation of these countries in regional programs is crucial to the success of regional cooperation generally. Therefore, the shortfall created by their financial straits should be met by increased assistance from RED and other donors. France is a possible candidate for help to INNOTECH and the

Netherlands might play the same role for BIOTROP. RED proposes that these and other possibilities for meeting the particular problems of these projects be vigorously explored and acted upon.

General: As the SEAMES program as a whole moves from the planning stage to the implementation phase, the need to reach decisions and take action on the above issues grows increasingly acute. RED believes that the next SEAMEC meeting is an appropriate forum to reach basic decisions on these issues and that the time between now and then (January, 1970) should be spent in intensive preparations for such actions. This means that a process of consultations will need to be carried out between RED and SEAMES and between SEAMES and the regional centers so that the necessary decisions can be taken by SEAMEC. But first A.I.D. policy must be clarified so that RED can communicate intelligently with the Asians. Washington concurrence to RED's recommendation on the above issue is necessary to get the program moving.

Issue No. 4: Should A.I.D. make a capital contribution in FY 1970 to permit the Asian Institute of Technology to begin construction of facilities at the new campus?

At its July 1969 meeting, the A.I.T. Board of Directors adopted a resolution calling upon the U.S. to initiate implementation of its commitment (presented by Mr. Heald in January, 1968) to match (up to \$8 million) the capital costs of the A.I.T.'s development program for its first five years by making available funds in the amount of \$2.75 million to match a similar amount which has been committed by Thailand, the U.K. and Australia. The U.S. contribution would largely be earmarked for the civil engineering building and is indispensable to the plan to move to the new campus. A policy decision should be made by October, 1969, when the Executive Committee of the Board will meet to approve plans and bidding documents for site development.

The U.S. commitment (for both operating and capital costs) was aimed at helping A.I.T. for its first seven years while it secured financial support from other sources "to ensure a viable institution operating on a sound financial basis by 1974". Hence, A.I.D. has taken the position that its commitment for matching capital contributions is contingent on convincing

evidence on the prospects for A.I.T.'s financial viability. A.I.D. looks to the actions and judgments of the Board of Trustees for such evidence.

Much of the July 1969 meeting was, therefore, spent on financial matters. The Board reviewed, revised and approved a financial plan submitted by the A.I.T. administration which shows a progressive decline in donor country subsidies for the Institute's direct local operating expenses with termination at the end of FY '75. The plan also projects a progressive "Asianization" of the faculty with the objective of reaching 50 per cent of the total by FY 1968; the remaining 50 per cent would be provided by donor countries (with seven positions earmarked for the U.S.) for the indefinite future. Thus, "viability" has been defined by the Board as generating sufficient revenues to meet direct local operating costs by the end of FY '75 and thereafter; continuing assistance from government donors would be required for faculty, for some of the equipment needs, and for a substantial number of the fellowships (although plans call for a large proportion to be financed by private

sources such as foundations including, in particular, the foundations to be established in the U.S. and the U.K. for support to the A.I.T.).

To permit phase out of direct subsidies for local costs, the Board-approved plan projects a substantial increase in externally financed fellowships (or self-paying students), i.e. from 25-30 this year to 532 in 1975/76 (when viability in the above sense will have been reached) to 684 by 1977/78, the last year of the plan. In addition, net revenues from contract research (which are believed to be conservatively estimated) will supplement fellowship income. No provision is made for endowment income or miscellaneous receipts, although these are expected to yield some revenues, particularly housing and service facilities.

In adopting the above plan, the Board took two significant actions. First, it adopted the principle of "flexibility", that is of adjusting variable cost factors (enrollment, faculty growth, additional courses, postponeable purchases) to the resources of the Institute, actual or in definite prospect, and to review periodically the Institute's financial status with that in mind. Secondly, the Board agreed to take an increased

and more active responsibility for helping the Institute to raise resources. The active engagement of the Board in the financial future of the school is an important and promising factor on the matter of "viability". In addition, President Bender will be devoting most of his time to fund-raising and to assisting the Board members in their fund raising efforts.

RED position:

A.I.D. has looked to the Board for assurances with regard to the Institute's future viability. The Board has responded to this mandate by examining closely and endorsing a financial plan for the Institute and committing itself to work for its realization. Under the circumstances, RED believes that A.I.D. can and should commit capital funds this year, along with those already committed by the three other countries, for the move to the new campus and construction of the Phase I complex. To do otherwise would involve, at least implicitly, a repudiation of previous assurances given to the other donors and to A.I.T., and a rejection of the responsibilities which A.I.D. entrusted to the Board. Therefore, RED recommends capital donations totaling \$2.75 million in FY 1970-71 to permit work to proceed on construction for the new campus.

RED believes, as did the Evaluation Team, that the above course should be followed for developmental considerations as well. As the Team pointed out, "the United States does have a very real interest in A.I.T.'s continuing to perform....as a high quality source of graduate engineers in SEA" in view of the area's prospective demand for the very engineering skills that A.I.T. will produce.

Concurrent with the above action, RED believes that further examination should be given by the Trustees to the question of financial viability at the fellowship and enrollment level of about 300, or the approximate number of students that could be accommodated on the new campus in the Phase I complex. This would appear to be a more realistic initial fellowship target and represents more than a 50 per cent increase over current enrollment. RED believes, but cannot prove, that something very close to viability (in the above sense) could be achieved at the Phase I level and represents a tenable fall back position in the event the targets for the present plan cannot be reached. It would also provide an alternative to requesting Congress for a continuing subsidy for the A.I.T., an approach suggested by the Evaluation Team.

Issue No. 6: What are the alternative methods for financing additional power facilities for the Nam Ngum Project, Laos?

The Nam Ngum project is, in effect, being built in two stages. The first stage, which will include the dam, reservoir, two 15 megawatt (mw) generators and transmission capacity to Udon, is scheduled to be completed about January 1, 1972. Funds for the construction of the first stage amounting to \$30.9 million, of which the U.S. contributed approximately half, were provided by a consortium of 9 nations. The World Bank is monitoring the construction of the project.

At the time the construction of the first stage was undertaken, it was planned that the second stage facilities, including three generators with a capacity of 35 mw each, the associated transmission capacity and the spillway gates which are now estimated to cost between \$10 and \$12 million, would be constructed when justified by the power demand. The power market in Northeast Thailand has been growing faster than originally anticipated, and it now appears that at least 90 mw of increased capacity could be absorbed in that market on a fuel replacement basis as soon as it could be made available. Furthermore, if the Thais were willing to buy power from Laos to meet load growth,

the entire production of Nam Ngum in excess of the needs of Laos could be absorbed in Northeast Thailand within the next six to eight years. These projections assume, obviously, that security of the project area is reasonably under control.

Thailand is now considering the possibility of buying power from Nam Ngum, and as soon as it determines the conditions under which it would purchase Nam Ngum power, it is expected that Thailand will approach Laos through the Mekong Committee regarding terms of sale. Once a marketing contract is in hand, there will then be a firm basis for considering the funding of the second stage. In this connection, it should be noted that there is some advantage in having the second stage undertaken while the present contractor is on the site with his construction equipment. Also, since the U.S. was the major contributor to the present project, it is to our interest to have the investment in the first stage facilities put fully to work as soon as possible.

In respect to the funding of the second stage facilities, there are a number of alternatives. The necessary funds could be provided through grants, as was the case for the first stage facilities, or they could be provided through loans.

Also, the entire amount needed could be provided by a single entity, such as the World Bank or the U.S. for instance, or by a consortium of nations as was the case for the first stage facilities.

The second stage facilities present a bankable proposition. Since the first stage facilities were financed on a grant basis, there is no need to include the cost of those facilities in the power rate base. The only cost that needs to be recovered will include the cost of operation, maintenance, and replacements as well as that part of the cost of the second stage facilities, if any, that are provided on a loan basis. If all the second stage facilities were provided on a loan basis, it is estimated that a power rate of 2 mills per kilowatt-hour (kwhr) would be required to repay the second stage investment in 30 years at 6 per cent interest and the annual operation, maintenance and replacement cost estimated at \$600,000. This is predicated on a 60 per cent plant factor. With a 50 percent plant factor, the rate would have to be increased to 2.4 mills. In view of the prospective rate required to meet reimbursable costs, it is concluded that if there is an assured market, as there would be if contracts were in hand, the installation of

the second stage facilities offers a bankable proposition, even on a fuel replacement basis. A major question is whether it would be desirable to employ grants or loans to finance such second stage facilities.

The major advantages of a grant are:

1. It would make it possible for the Laotians to set a power rate at the minimal level to attract power using industries to Laos and thus to encourage the development of its resources.

2. It would tend to increase the amount of gross foreign exchange earnings (resulting from the annual sale of power) available to Laos and thus permit FEOF contributors to decrease their support to Laos.

3. It would increase the range for negotiation in possible power rates between Thailand and Laos.

4. It would facilitate the provision of electric power service to those areas such as rural villages that have little, if any, ability to pay for such service.

The major advantages of a loan are:

1. It would undoubtedly be easier to secure the necessary funds on a loan basis than on a grant basis.

2. It would impose upon the Laotians a responsibility for fiscal management and would encourage them to bargain for a rate that would cover loan repayments and other costs as well as yield net revenues for the Lao Treasury.

3. It would enable the donor(s) to recover its (their) investment.

The major advantages of a consortium are:

1. It would spread the cost among a wider number of nations.
2. It would necessitate the further involvement of several friendly countries in the financing of Lao development and the Mekong program.
3. It would require the continuation of some organization such as the World Bank in the administration of the funds.
4. It would eliminate the possibility of tied purchases, thus making it possible to buy from the cheapest source.

The major advantages of an A.I.D. loan are:

1. The procurement and replacements could be tied to the U.S., thus benefiting U.S. business and exports.
2. Less time would be required to negotiate a single source loan or grant than working through a consortium.

RED position: That the U.S. encourage the continuation of the Nam Ngum consortium under World Bank auspices and offer to make an untied loan for up to 50 percent of the cost of the second stage facilities provided a satisfactory marketing agreement with Thailand is concluded and financing of the remaining 50 percent is pledged. The advantages of a multilateral approach on a project as sensitive and international in character as the Nam Ngum are believed to outweigh the balance of payments loss to the U.S. which will probably result from untied procurement.

FY 1971 COUNTRY FIELD SUBMISSION

EAST ASIA REGIONAL PROGRAM

Budget Summary
(Obligations in \$ thousands)

<u>Funding Category</u>	FY 1968 Actual	FY 1969 OYB	FY 1970 C.P.	FY 1971		FY 1972	
				Level A	Level B	Level A	Level B
Development Loans (Projects)	--	--	--	6,000	6,000	20,000	--
TD/DG Ongoing							
New (including major expansions)	--	--	--	5,307	742	5,920	820
SA		2,403	3,000	16,900	8,400	36,000	25,000
CF		<u>2,705</u>	--	--	--	--	--
Total A.I.D.		17,350	17,750	39,018	25,953	73,567	37,467

TABLE I

* Does not include estimates for BIOTROP, INNOTECH and Tropical Medicine projects which will be included in forthcoming PROPs.

FY 1971 COUNTRY FIELD SUBMISSION

EAST ASIA REGIONAL PROGRAM

BUDGET (BY PROJECT)

(OBLIGATIONS IN \$ THOUSANDS)

Project Number	Project Title	FY 1969 Actual	Proposed in FY 1970 CP	Proposed for OY Imple FY 70	Proposed FY 1971 "A" level	Proposed FY 1971 "B" level	Planned FY 1972 "A" level	Planned FY 1972 "B" level
<u>Technical Cooperation</u>								
498-15-120-220	Mekong Basin Dev. Planning	-	660	660	2,800	1,200	3,300	1,200
498-11-995-133	Pa Mong Feasibility Study	2,369	1,550	1,350	846	846	20,185 ^{a/}	185
-	Stung Treng Study	-	-	-	3,000	500	3,000	500
498-11-130-212	Asian Vegetable Dev. & Research Center	-	500	500	500	500	500	500
498-11-130-213	Coconut Research & Dev. Center	-	150	-	-	-	-	-
498-11-130-214	SEA Fisheries Dev. Centers	100	100	100	100	100	-	-
498-11-995-210	Inter. Rice Research Institute	-	350	350	(350)*	(350)*	(400)*	(400)*
498-11-995-206	Mekong Forts & Cargo Handling	3	-	-	-	-	-	-
-	Mekong Resources Atlas	74	-	-	-	-	-	-

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FY 1971 COUNTRY FIELD SUBMISSION

EAST ASIA REGIONAL PROGRAM

BUDGET (BY PROJECT)

(OBLIGATIONS IN \$ THOUSANDS)

Project Number	Project Title	FY 1969 Actual	Proposed		Proposed for OY Imple FY 70	Proposed FY 1971		Planned FY 1972	
			in FY 1970 CP	180		"A" level	"B" level	"A" level	"B" level
	Asian Regional Manpower & Labor Ministry Serv. Center	-	180	180	(200)*	(200)*	(250)*	(250)*	
	Asian Labor Education Center	123	-	-	60	40	60	40	
	Asian Free Labor Union Dev.	505	600	600	650	650	650	650	
493-11-510-143	SEATO Cholesterol Research	555	680	680	680	680	680	680	
493-11-580-200	Regional Family Planning (see CA below)		710	710	1,500	1,500	800	800	
	Asian Institute for Management	-	300	300	40	30	60	30	
493-11-660-114	Asian Institute of Technology	1,111	2,500	2,740	1,990	1,990	2,853	2,853	
493-11-690-173	Regional Education	2,936	3,400	3,319	362	362	2,228	2,228	
	Regional Eng. Manpower	2,507	-	165	(1,050)*	(1,050)*	(650)*	(650)*	
	Science & Mathematics	116	-	359	32	32	1,788	1,788	
	Tropical Agriculture	177	-	1,683	420	420	290	290	
	Tropical Biology	104	-	180	(550)*	(550)*	(300)*	(300)*	
	Educational Technology	47	-	193	(350)*	(350)*	(200)*	(200)*	

FY 1971 COUNTRY FIELD SUBMISSION

EAST ASIA REGIONAL PROGRAM

BUDGET (BY PROJECT)

(OBLIGATIONS IN \$ THOUSANDS)

Project Number	Project Title	FY 1969 Actual	Proposed in FY 1970 CP	Proposed for OY Imple FY '70	Proposed FY 1971		Planned FY 1972	
					"A" level	"B" level	"A" level	"B" level
<u>Supporting Assistance</u>								
	Mekong Facilities			5,000	-	10,000	10,000	
	Don Neam Trib. Dam f	795	-	-	-	-	-	-
	Nam Neam Rural Electrification			500	-	1,000	-	-
	My Thong Bridge			6,000	6,000	-	-	-
	Mekong Ports & Cargo Handling		3,000	200	200	-	-	-
	Regional Family Planning	1,608	-	-	-	-	-	-
	Transport and Telecom Facilities			5,000	5,000	25,000 ^{c/}	15,000 ^{e/}	
	Aero telecom (Laos)			^{c/} 700	^{c/} 700			
	Telecom Network (Laos)			1,500	1,500			
	Credits of Malacca d/			3,000	-			
TOTAL SPECIAL ASSISTANCE		2,403	3,000	16,500	8,400	46,000	25,000	

FY 1971 COUNTRY FIELD SUBMISSION

EAST ASIA REGIONAL PROGRAM

BUDGET (BY PROJECT)

(OBLIGATIONS IN \$ THOUSANDS)

Project Number	Project Title	FY 1969 Actual	Proposed in FY 1970 CP	Proposed for OY Imple FY 70	Proposed FY 1971 "A" level	Proposed FY 1971 "B" level	Planned FY 1972 "A" level	Planned FY 1972 "B" level
<u>Development Loan</u>								
	Nam Ngum Power				6,000	6,000	-	-
TOTAL DEV. LOAN								
	Contingency Funds				6,000	6,000	-	-
<u>Contingency Funds</u>								
	Nam Ngum Trib. Dam f/ 2,705		-	-	-	-	-	-
TOTAL CONTINGENCY FUNDS 2,705								
TOTAL TC, SA, DL, CF,		17,258	17,750	17,827	40,628	27,563	74,867	38,792

Footnotes:

* Omitted by the CFS; estimates provided by AID/W.

a/ Includes \$20,000 for 40 percent of cost of Pa Mong Final Design costs.

b/ It is likely that the requirements may increase to \$225,000.

e/ These two sub-activities are combined into one project budget ~~summary~~ (PBS) .

d/ Whereas the CFS shows this project for Technical Cooperation funding, it is believed that Supporting Assistance funding would be more appropriate.

e/ For "Second Tranche" projects (Viet Nam, Laos or Indonesian airports) or Viet Nam telecom network; no breakdown available.

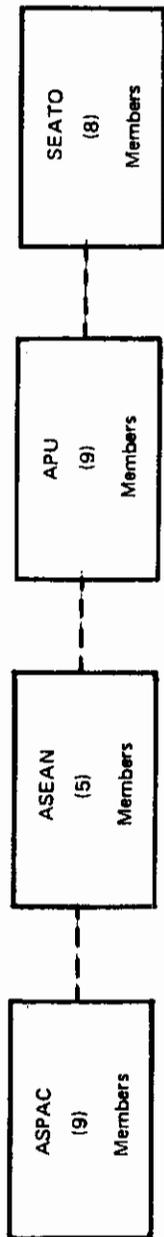
f/ Funded from both SA and CF funds for a total of \$3,500 in FY 1969.

Prepared by EA/RD - AID/W
August 21, 1969

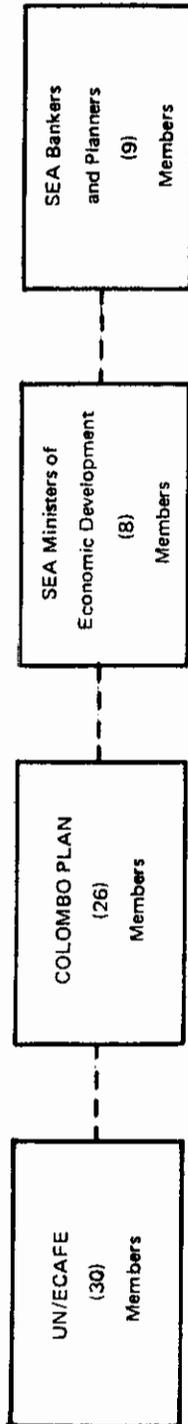
THE PATTERN OF REGIONALISM IN SOUTHEAST ASIA

APPENDIX A

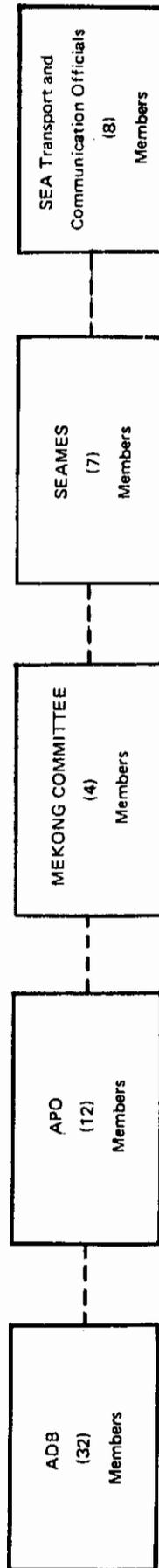
POLITICAL ASSOCIATIONS



ECONOMIC COORDINATION



ECONOMIC COOPERATION PROGRAMS



APPENDIX A

POLITICAL ASSOCIATIONS

ASEAN (Indonesia, Malaysia, Philippines, Singapore, Thailand)
ASPAC (Australia, China, Japan, Korea, Malaysia, New Zealand,
Philippines, Thailand, Vietnam)
APU (China, Indonesia, Japan, Korea, Laos, Malaysia, Philippines,
Thailand, Vietnam)
SEATO (Australia, New Zealand, Pakistan, Philippines, Thailand,
France, United Kingdom, USA)

ECONOMIC COORDINATION

UN - ECAFE (25 regional, 5 nonregional)
COLOMBO PLAN (23 regional, 3 nonregional)
SEA MINISTERS OF ECONOMIC DEVELOPMENT (Indonesia, Japan,
Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam)
SEA BANKERS AND PLANNERS (Indonesia, Laos, Malaysia, Philippines,
Singapore, Vietnam, Thailand and as observers, Burma and Cambodia)

ECONOMIC COOPERATION PROGRAMS

ADB (19 regional, 13 nonregional)
APO (12 members)
MEKONG COMMITTEE (Cambodia, Laos, Thailand, Vietnam)
SEAMES (Indonesia, Laos, Malaysia, Philippines, Singapore,
Thailand, Vietnam)
SEA TRANSPORT AND COMMUNICATION OFFICIALS (Indonesia, Brunei,
Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam)

LIMITED OFFICIAL USE

APPENDIX B

United States Program
in Support of
Regional Economic Development in Southeast Asia

THE SETTING

The U.S. program of support for regional cooperation in Southeast Asia was formally inaugurated in President Johnson's speech at Johns Hopkins University in April 1965 and legally established by the Foreign Assistance Act of 1966. Prior to these events, the U.S. had supported specific regional projects in Southeast Asia, such as Mekong River investigations, the SEATO Graduate School of Engineering, and the Asian Productivity Organization. Southeast Asia was not then ready to embark on regional cooperation on a comprehensive scale. A concerted U.S. program of support for regionalism until recently would have been premature and ineffectual (as illustrated by the history of the Asian Economic Development Fund of the 1950's).

The situation today is qualitatively different than in the past and a regional program can be an effective instrument of U.S. policy.

Regional Cooperation in Southeast Asia

President Nixon in his article in Foreign Affairs "Asia after Vietnam" recognized the changing attitude:

"...there is a reaching-out by the governing elites and particularly the young for something large, more like Asian regionalism.

"The developing coherence of Asian regional thinking is reflected in a disposition to consider problems and loyalties in regional terms, and to evolve regional approaches to development needs and to the evolution of a new world order. This is not excessively chauvinistic, but rather the nature of a coalescing confidence, a recognition that Asia can become a counter-balance to the West, and an increasing disposition to seek Asian problems through cooperative action."

He also made a recommendation for action:

"It also requires that we now assign to the strengthening of non-Communist Asia a priority comparable to that which we gave to the strengthening of Western Europe after World War II."

Social and political conditions in Southeast Asia in the late 1960's do not yet, however, provide optimum conditions for regional cooperation and there still exist elements inimical to regional cooperation as the accepted means for conducting affairs within the area. Disputes between nations of Southeast Asia may still override considerations of regional cooperation. Reservations stemming from domestic pressures for policies of non-alignment still inhibit participation in regional affairs.

Nonetheless, much has happened in the past decade to give regional cooperation a new meaning and direction. Two aspects of today's Southeast Asia are especially relevant:

1. There is a growing number of responsible and representative national governments confident of their authority and capable of maintaining order and control over their national territories.

2. There is an increasing acceptance in Southeast Asia of a collective approach to political, economic and security problems as a useful means of achieving national objectives, particularly economic development, and of avoiding dominance in the area by a single power.

With the maturing of nationalist movements in Southeast Asia, regional cooperation is becoming a fundamental force in the area. An acceptable balance of forces in Southeast Asia is much more attainable when regional cooperation is effectively: (a) diminishing tensions among the nations in the area, and (b) providing a vehicle of counterbalance among the smaller nations against the power of larger nations both within and outside the region.

THE GOALSU.S. Support for Regional Economic Cooperation

A striking coincidence exists between Asian regional cooperation and basic U.S. interests in Southeast Asia; the U.S. support for regional programs is a rational and effective policy response to this coincidence.

U.S. support for regional programs fits into a historical pattern of U.S. policy. The fundamental objective of U.S. policy in Southeast Asia, as in the past, is the maintenance of a relatively stable order of independent states with no single power asserting dominance over the area. As the forces moving Southeast Asia into regional cooperation are leaning in the direction which serves fundamental U.S. interests, it is plainly to the advantage of the U.S. to give all reasonable support to that movement.

However, the achievement of our joint goals will require far more than marginal U.S. interest at both the policy and operational levels. For Asians regionalism is a serious business and U.S. concern for its success must be equal to theirs.

Economic cooperation contributes to regional political cohesion by creating many forms of economic interdependence covering both legal and institutional as well as commercial and financial relationships among the nations. A series of international patterns is evolving in Southeast Asia covering both private and governmental sectors and embodying joint private investments alongside international infrastructure projects. The resulting complex of interdependence is by its nature a coalescing factor; moreover, it contributes to cooperation in political and security affairs and aids in the achievement of a power balance in Asia.

U.S. Objectives in Supporting Regional Economic Cooperation

The objective of the U.S. program of support, therefore, is to assist the growth of economic interdependence and encourage the habit of consultation and cooperation in Southeast Asia. To this end, the regional program is intended to aid in the achievement of the following objectives:

(1) to assist Asian efforts in helping themselves by responding selectively to requests of support for regionally initiated programs of cooperation;

(2) to stimulate economic growth in Southeast Asia through regional development projects that: (a) provide a more effective use of resources than alternative national allocations, or (b) provide for an international infrastructure that is effective in supporting high national growth rates;

(3) to encourage the nations involved to accept and promote regional cooperation through specific and concrete demonstrations of the benefits of such cooperation;

(4) to encourage the nations of Southeast Asia to engage in joint economic planning;

(5) to encourage the creation of enduring regional organizations and institutions;

(6) to induce an increased circulation of banking and private financial resources among the countries of the area;

(7) to stimulate an increased flow of financial resources from other donor nations as well as from international credit and development institutions;

(8) to encourage increased trade and investment among the countries of Southeast Asia through the easing of restrictions on financial and investment transactions, and the elimination or reduction of legal, commercial, customs, administrative, as well as other barriers to the flow of economic resources within the Southeast Asian area;

(9) to encourage joint industrial enterprises among the nations in Southeast Asia, where such undertakings promise economies of scale or economic advantages not attainable within the confines of a national market;

(10) to stimulate the interest of U.S. private capital and entrepreneurship in participation of joint enterprises in Southeast Asia.

THE PROCESSThe Regional Support Program in Action

During the past three years, considerable progress has been made in the welding of specific regional projects into a meaningful program. The regional program as it exists today represents a rational and useful response to the most promising opportunities for regional cooperation in Southeast Asia. Recognizing the lack of Asian experience in dealing with the concept of regional economic cooperation, the U.S. is engaged in supporting a program of innovation in assisting the Asians through the early and formative stages of program formulation with modest financial and technical assistance.

The U.S. is now supporting programs in regional education, Mekong River development, regional transportation and communications, Asian developmental banking, and productivity, trade and management. The program has been developed in those fields because: (a) they are areas where international cooperation appears to hold considerable benefits not attainable from national efforts alone, (b) they are areas of critical importance for sustaining high rates of economic growth in all countries of the region, and (c) they are areas in which the SEA countries have indicated a strong interest in cooperation

Education. The U.S. support for regional education is primarily channeled through institutions of higher education and science research formed under the aegis of the Southeast Asia Ministers of Education (SEAMES). SEAMES is a regionally initiated organization with an international secretariat financed in large measure by member contributions. Its educational institutions are run by boards of directors from the member countries and the faculty and other staff members are drawn in most part from within the area. SEAMES graduate schools and research centers give Southeast Asia centers of excellence for advancing scientific knowledge and learning that no single nation acting on its own could establish for itself. The Asian Institute of Technology, for example, could not exist except through a cooperative effort of a large group of nations within and without the region.

In providing financial assistance for the SEAMES institutions, the U.S. makes grants available for up to one-half of the required amount to see the institutions through the formative years. The grant provides a concrete incentive for cooperation and in effect encourages mutual and concerted action. At the same time, the requirement for matching of the U.S. contribution and for assuming long-term responsibility means that the member countries themselves must also make a substantial commitment to the undertakings, thereby giving the institutions a more durable foundation than they might otherwise enjoy.

Mekong River Development. Under United Nations auspices the Mekong Coordinating Committee was formed a decade ago to foster joint international planning and development of one of the major rivers of the world. Representatives of Cambodia, Laos, Thailand and Vietnam meet quarterly to act upon proposals for specific project undertakings, multi-purpose dams, bridges, navigational improvements, agricultural improvements, fisheries, resettlement, and public health, etc. The Mekong program provides an international infrastructure that will afford the member countries substantial economies and benefits when compared to the cost and benefits deriving from individual national programs for supplying power, irrigation, and flood control. They will require extensive legal and administrative arrangements which can be effective only through the elimination or reduction of existing barriers or restrictions on the international usage of resources.

U.S. support for the Mekong program consists of assistance in investigation and planning and participation in financing of capital projects. In planning assistance, for example, the U.S. has undertaken the investigation of the proposal for a dam at Pa Mong. When in full operation the Pa Mong Dam should supply electricity to the area at rates substantially less than any alternative source of power. Its irrigation waters will open up large sections of Northern Thailand and Southern Laos to modern farming and will make possible substantial improvements in economic well-being for this depressed section of the country where insurgency has posed a continuing threat in recent years.

In addition to substantial technical assistance for feasibility studies and data collection, the U.S. has furnished

about one-half of the funds needed for the Nam Ngum project in Laos. Multi-laterally financed, the Nam Ngum Dam is now under construction, with the power needed for construction being provided under a mutual supply arrangement with Thailand. When the Nam Ngum is finished, a part of its power will be distributed in Thailand.

Transportation and Communications. The U.S. program is focussed primarily on a regional transportation survey and the conduct of selected feasibility studies. The survey will lay the foundation for coordinated transport and communications development in Southeast Asia. It will be conducted under the auspices of the Asian Development Bank and many of the projects stemming from the survey are expected to be financed from special funds in the ADB. The survey, just now getting underway, represented a need recognized by SEA transportation and communications officials who organized themselves for the purpose of international cooperation in regional transportation and communications.

Even before the survey is initiated, the U.S., on behalf of the SE Asian nations, is performing several feasibility studies of high priority regional projects that seem to offer good opportunities for beneficial economic cooperation. One such undertaking will lead in time to an important improvement of navigation through the Straits of Malacca and will enable supertankers to take a more direct route from the middle East to East Asia and Japan. Study of a backbone communications network in Thailand and Laos will lead eventually to greatly improved communications in this part of Asia, which will in turn facilitate commerce and social intercourse between the two nations.

Regional Development Financing. Although representation of U.S. interests in the Asian Development Bank is not a responsibility of the RED office, the Bank will become a major element in the growth of Asian regionalism and an important means through which the U.S. can strengthen regional economic development. The establishment of the ADB in 1966 was the direct result of an ECAFE initiative which gained impetus following the Johns Hopkins address and the U.S. decision

to support its creation. Establishment of the Bank has already resulted in a net increase in financial resources available for regional development. Although much of this increase represents contributions by non-regional donors, the ADB is neither in image nor fact dominated by the donor members and is rapidly becoming a focal point for Asian economic cooperation over a broad field of needs. Additionally, it is an important channel through which the Asian nations communicate on mutual economic problems. Through its sponsorship of basic regional studies in agriculture, transportation and industry, the ADB is performing a unique planning function for the more rational development of the region as a whole. Its mandate to favor regional projects and its technical assistance and project preparation activities are bound to result in the financing of more sound regional infrastructure projects than would otherwise have been the case.

Private Enterprise and Trade. It is appropriate that the regional program as it is now formulated should lay heavy emphasis on international infrastructure. This does not mean that such objectives as increased regional trade and investment or joint private enterprises should be neglected or regarded as of lesser importance. Rather, this aspect of regional cooperation is vitally important, since there can be no meaningful economic integration until trade and financial transactions can be carried on freely with a minimum of restrictions. There are, moreover, a number of promising Asian initiated efforts now in the formative stage, each of which points toward the easing of trade, customs, administrative, financial and other barriers to the free flow of resources across national boundaries.

In this regard, three ECAFE programs in particular are aimed at: (a) formulating proposals for free trade areas and for regional payments arrangements, (b) conducting a comprehensive industrial survey and integrated industrial development framework for East Asia, and (c) preparing a design for integrated development of the ASEAN area.

The Asian Productivity Organization has the capability, particularly as it evolves into a more pervasive organization, of providing unique technical assistance in the organization and administration of advanced industrial areas. The Bankers and Planners of Southeast Asia, which brings together on a quarterly

basis the central bank heads of Southeast Asia nations, has had some impact in coordination of World Bank and IMF policy, particularly in regard to the question of Special Drawing Rights. Its greatest potential is in connection with uniquely regional issues, such as proposals for reserve pooling of foreign exchange reserves, establishment of a regional payments apparatus, and coordination of national fiscal and monetary operations. The Private Investors Corporation (PICA), formed recently to provide loan funds for private industry in Asia, expects to attract much of these funds through savings from local sources and thus build up its working reserves.

Appropriate U.S. support of these efforts, as well as other specific initiatives in finance, commerce, banking and investment, can help build a more solid foundation for practical regional cooperation. Although the U.S. program is not heavily engaged in any of these areas, carefully formulated and directed support will add significantly to the achievement of U.S. interests in the area.

Where Do Regional Ideas Come From?

One of the vital factors in regional cooperation is a forum where ideas may be freely exchanged and where experiences in development may be mutually discussed. It is in such an arena that most of the ideas for regional cooperation are developed. In Asia the forum of greatest importance is the United Nations Economic Commission for Asia and the Far East (ECAFE). However critical one may be of ECAFE, it is worthy of note that virtually all of the regional projects undertaken to date have originated in ECAFE. While other organizations may be more effective in implementing action programs, ECAFE remains the single most important forum for the initiation of regional thinking.

In supporting ECAFE through the provision of technical advisors, grant funding assistance, through active participation and encouragement of its deliberative bodies, the U.S. is indirectly serving its most important objective -- assisting the process of cooperation and it is in the U.S. interests that such support be continued and augmented.

But in every respect the regional program is permeated by considerations of basic U.S. policy concerns in SE Asia. For this reason the Regional Office (RED) in the field should be the joint responsibility of State and A.I.D. with a staff composed of officers from both agencies and staffing arrangements commensurate with fulfillment of the obligations of the two agencies sharing responsibility for the program.

The specific objectives of the regional program differ significantly from the objectives of the individual U.S. country missions in SE Asia; and the criteria for the implementation of a regional program differ greatly from those of a bilateral program. The subordination in the field of the regional program to an element of the U.S. mission, of course, is out of the question since it would result in the application of standards of judgment, values and perspectives unsuited to an Asian regional concept. Even where objectives may coincide in a particular instance, relative priorities may well differ depending whether one views the issues from a regional or country mission point of view. For this reason and because the RED office must operate in a number of countries, it should have equal allegiance to each Ambassador in the area. Although headquartered and logistically functioning under the administrative and policy direction of the American Ambassador in Bangkok where RED is physically located, the organization of RED should be formulated and operated on the basis of the foregoing principle. (In this regard it should be recalled that Washington sent no notification of the establishment of RED, nor were RED's terms of reference ever sent to the U.S. Missions in SE Asia other than Bangkok which to this day has made the job of coordination and relations extremely difficult. This neglect needs to be clarified as soon as possible.)

Coordination between the RED office and the country missions is an extremely important and sensitive factor in the success of the program of support for regional cooperation. Just as regional cooperation among the SEA nations must both complement and make more effective their respective national policy interests and development plans, the U.S. regional support program must harmonize with the objectives of the U.S. bilateral programs. A major

THE ORGANIZATION

It is manifestly necessary to have an adequate policy and operational apparatus for the regional program both in Washington and the field. The experience of the past two years has shown that the United States is not organized to render optimum assistance in regional economic development and appears unable to provide U.S. efforts in regional economic development the kind of policy and operational support it requires. While Mr. Eugene Black as President Johnson's Special Assistance was an important factor in advancing regional development, high level responsibility for the program was dispersed in State, AID and Treasury and at times seemed disinterested if not inadequate. The United States has not lived up to the spirit of its promises of 1965 nor at this moment do we appear bureaucratically able to do so.

Without strong leadership in Washington for the regional program, it is unrealistic to expect any dynamic or innovative planning or review and adaptation of the present "non-fit" procedures or indeed anything approaching maximum concern. It would seem a logical and effective course to lodge the responsibility for the regional program under the direction of a person with at least Deputy Assistant Secretary rank reporting directly to the Assistant Secretary for East Asian Affairs or to the Undersecretary for Political Affairs. This officer with a fully empowered operational staff should have as his main responsibility the formulation, and importantly the coordination of regional policy taking into account the totality of U.S. Government interests in Asia with particular regard to India and Japan. His office should also be responsible for mobilizing the Washington bureaucracy to provide substantive support and guidance for field operations and devising assistance procedures designed to meet regional requirements in a timely fashion. However, this office should not be a duplicate of the field office (RED) nor should it be involved in administering field programs.

The U.S. support program for regional operations has broad connotations ranging from technical and capital assistance through important representational tasks in international deliberations.

function of RED in relation to each of the SEA Missions should be to coordinate particular local aspects of the regional program with each U.S. Mission. It is a major responsibility of RED to assure that U.S. assistance to regional economic development is in fact planned and implemented on a regionally acceptable basis.

Appendix C

DISTRIBUTION OF \$28 MILLION

REGIONAL EDUCATION DEVELOPMENT	Life of Project Cost to AID	Cumulative Obligations 6/30/69	Balance to be Obligated
SEAMES General Support	910	560	350
RELC	3,212	2,547	665
RECSAM	4,126	320	3,806
SEARCA	3,022	351	2,671
Tropical Medicine & Public Health	* 760	610	* 150
BIOTROP	* 193	193	*
INNOTECH	* 271	83	* 188
Sub Total	12,494	4,664	7,830
Asian Institute of Technology	11,459	** 1,861	9,598
Total	23,953	6,525	17,428
Total not allocated	<u>4,047</u> 28,000		

* Partial figures. Final estimate will be submitted in PROPS

** Does not include prior year obligation for SEATO Graduate School of Engineering