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MUTUAL SECURITY PROGRAM

Fiscal Year 1953

BUDGET ESTIMATES OF U. S. ECONOMIC ASSISTANCE TO  
SOUTHEAST ASIA COUNTRIES

ECONOMIC COOPERATION ADMINISTRATION

FAR EAST PROGRAM DIVISION

November 30, 1951

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SOUTHEAST ASIA COUNTRIES

	<u>Page.</u>
1. Formosa . . . . .	11
2. Philippines . . . . .	54
3. Associated States of Indochina . .	96
4. Burma . . . . .	131
5. Indonesia . . . . .	168
6. Thailand . . . . .	200

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ECONOMIC COOPERATION ADMINISTRATION

FAR EAST PROGRAM DIVISION

November 30, 1951

UNCLASSIFIED

PROPOSED FY 1953 PROGRAMS FOR SOUTHEAST ASIA (INCLUDING FORMOSA)

The countries covered in this presentation are Formosa, the Philippines, the Associated States of Indochina (Vietnam, Laos, and Cambodia), Burma, Indonesia, and Thailand. Southeast Asia spreads over an area about 2,000 miles square, extending from Formosa southeast to Australia, westward to Sumatra, northwest to Tibet. Its land area is 1,500,000 square miles; its population, 170,000,000.

Nature of U.S. Interest in the Area. It is now accepted that Southeast Asia, including Formosa, constitutes an area of major interest and concern to the rest of the free world, particularly to the United States. The nature of this interest and concern is largely political, resting upon the size of the area in terms of area and population, its exposure to communist encroachment by reason of contiguity with the communist-dominated land mass of Asia, and the vulnerability of its inexperienced governments.

This interest and concern arise also from military considerations: The area lies astride the vital Pacific Ocean lines of communication; it is the part of the world where open hostilities between the free world and the communist orbit are a fact rather than merely a possibility; in addition, in those countries where active combat operations are not taking place, there is a continuing danger of internal conspiracy and other threats to internal security, or of future external aggression. Finally, the area's large resources of rubber, tin, petroleum and numerous other strategic materials essential to the productivity of the free world provide an economic as well as a military basis for this interest and concern.

These considerations were dominant when economic aid was first extended to the countries in the area - for the most part in 1950 - and they are still dominant today. The situation has not changed materially. However, heightened world tensions and continuation of open hostilities in Korea and Indochina have now further underscored the necessity to continue action that will effectively block internal subversion and discourage aggression in the area; keep the countries concerned independent, stable, and friendly to the United States; and maintain and increase the flow of strategic resources from the area for use of the United States and the rest of the free world.

Continuation of economic assistance to Southeast Asia and to the Republic of China on Formosa in FY 1953 is here proposed as an integral part of such necessary action. Economic assistance is considered vital to safeguard the interests of the United States, not primarily because it will serve U.S. economic interests but, first and foremost, because economic assistance constitutes an essential and major instrument for achieving U.S. political objectives in the area and, secondly, because it is necessary to the effective application of U.S. military assistance to certain of the countries concerned.

Basic Objectives of Proposed Economic Assistance Programs. In Southeast Asia the basic objectives of U.S. economic assistance, in the form of grants and loans, are as follows:

1. To help achieve the following U.S. political objectives in the area:

a. Strong, stable governments. Our interest in the integrity and continued independence of these countries requires that their governments become increasingly capable of discharging essential governmental functions and commanding popular support.

b. Prosperous and advancing economies. Unless these countries maintain economic stability; repair the ravages of war; arrest economic deterioration and improve the material lot of their people by increased production of food and other essentials and by mutually advantageous trade with Japan and other non-communist areas; and make acceptable progress toward

greater economic independence through balanced economic development - the secure and peaceful international community which our interests require cannot be built.

c. An anti-communist and pro-U.S., pro-free world orientation on the part of both governments and people.

2. In Formosa, Philippines, Indochina, and Thailand: to support U.S. military assistance (as well as to cushion its impact on the economies of those countries; related to (1) b.).

3. Where not incompatible with pursuit of the political objectives set forth above, to assist in development and export of strategic materials needed for the well-being and military defense of the free world.

4. In Formosa: to make the Island self-supporting as soon as military conditions permit, thus reducing the burdens on American taxpayers.

Working Goals of Programs. With a view to achieving the basic objectives set forth above, the economic assistance programs described in this submission are directed toward a number of working goals or program objectives. The emphasis, of course, varies from country to country. Moreover, a given project may frequently serve more than one working goal, just as certain working goals may contribute to several basic objectives.

1. Economic stabilization. Inflation is a serious threat in many of the countries in the area. If allowed to get out of hand it will lead to economic breakdown and invite political collapse; this danger is particularly acute in Formosa. Even a lesser degree of inflation will, if carried beyond a certain point, create such hardship among peasants and others whose income is relatively fixed as to cause serious unrest. U.S. economic assistance itself necessitates the making of additional local currency expenditures, generally without the possibility of corresponding offsets through reduction of expenditures in other directions, and thus it may add to inflationary pressures already present in the country being assisted.

To help in maintaining economic stability the programs include, as appropriate and feasible: (a) technical assistance in various aspects of monetary, fiscal, and trade policy; and (b) provision for importing salable producer and consumer goods which serve the double purpose of maintaining essential supplies in the economy and generating counterpart which can then be used to meet local costs of aid projects without recourse to deficit financing.

An additional aspect of the inflation problem is presented by the local currency expenditures specifically required in connection with U.S. military assistance. In Formosa this aspect is of sufficient importance to require an offset in the form of importation of more salable commodities than would be necessary in the absence of the MDA program.

2. Reconstruction and rehabilitation. Enormous destruction of physical facilities occurred during World War II in the Philippines and Burma. Indonesia likewise suffered great destruction both during the War and subsequently during the struggle for independence. In all three countries much of this damage still remains unrepaired, and current insurgency or banditry not only takes its toll of life but impedes restoration of plant and equipment or actually adds fresh destruction. Industrial installations on Formosa, too, were heavily bombed. In Indochina, warfare which still continues has destroyed important productive assets. Clearly these conditions make it extremely difficult for these countries to put their economies on a satisfactory basis. Reconstruction must take place before production can be fully restored or economic development seriously begun. Consequently the proposed economic assistance programs, as in FY 1951 and FY 1952, generally place heavy stress on the rebuilding and improvement of such basic works as roads, railways, harbor installations, and river transport facilities; the reconstruction of irrigation systems; and in certain critical instances the construction of housing and the rehabilitation of manufacturing plant as well.

Added importance is given to the restoration of transport facilities such as ports and roads, as well as to the introduction of new electric power capacity, in countries to which U.S. military assistance is going and where these facilities consequently have the character of joint-use facilities serving both civilian and military needs. The programs in Formosa, Philippines, Indochina, and Thailand render valuable support to our military assistance programs in this way. In all countries, furthermore, some of the assistance given to the strengthening of transport systems serves the additional purpose of improving access to, and hence procurement of, needed strategic materials (minerals, Philippine abaca, etc.).

Along with destruction of plant, war and insurgency have brought serious losses of livestock, deterioration in quality of rice strains, and other results of pillage and neglect. Reconstruction of facilities must therefore be accompanied by various other forms of rehabilitation. Many of the projects being carried on and proposed for FY 1953, particularly projects in the general field of agriculture, are largely concerned with rehabilitation.

3. Strengthening of government administration and public services. Since most of the countries in the area are newly independent, and are witnessing or have already witnessed the departure of the skilled personnel of the colonial era, they lack the trained organizers, administrators, and technicians required even to maintain formerly existing services and levels of production. They also lack educational and training facilities, modern production techniques, mechanisms for mobilizing domestic savings, realistic long-term development plans, and effective methods to attain needed agrarian and other social and economic reforms. Coupled with the destruction of basic facilities referred to above, the shortage of trained public servants would create serious difficulties for any government. But in this case the problem is even more grave because of the popular expectations associated with the independence movements and the attempts of the communists to capitalize on these expectations. Just at this time when progress is so difficult to make the need for it is especially great. National independence -- the breaking of the colonial tie -- was supposed to better conditions of life for the people of Asia. If their present governments cannot deliver on that promise and that expectation, stability will be gravely endangered; in all probability, communism could then take over.

Particular importance attaches to the strengthening of government services in such fields as public health, agricultural extension, vocational training, information, and general education - as well as transport and communications. Adequate services in these fields are expected of any modern government. The proposed programs consequently place continued major emphasis on helping, and on encouraging, the recipient governments both to render improved services in these fields now and to prepare themselves, by recruitment and training, to carry such services forward on an adequate basis when U.S. assistance terminates. In addition, the programs aim, to the extent feasible, to improve the standards of public administration as such. For example, in the Philippines major attention is given to overcoming the demoralization of the public service which resulted from the War and to re-establishing high standards of probity and competence.

4. Bringing immediate, tangible benefits to the common people. If the countries in the area are to remain politically stable, their governments must command popular support. This objective can be attained in part by a strengthening of government administration and public services, as pointed out above. Increased output of food and other essential commodities, referred to in the next section, will also make a material contribution to this objective. In addition, however, the governments must bring other immediate, tangible benefits to the ordinary citizens - particularly the peasants, who constitute the vast majority in all cases. Examples of ways in which the programs contribute to this purpose include assistance to land reform and to resettlement; development of rural credit facilities; assistance to cooperatives; special assistance to unusually poor or potentially disaffected frontier regions; minimum wage legislation; rehabilitation of demobilized soldiers; promotion of rural handicrafts; provision of housing to war refugees; provision of simple equipment to small producers.

Projects of this kind, like certain projects in the public service field (e.g., health teams operating to combat trachoma, and mass education programs), not only serve to strengthen the position of the governments but also constitute the best method of demonstrating to the people of Southeast Asia that Americans are their friends.

5. Increased output of goods. The need for an increased output of goods in the countries of Southeast Asia is evident. At least in Burma, Indochina, and Formosa production as a whole, as measured by general indexes, has still to be restored even to prewar levels. Low output, bearing heavily and directly on the standard of living, also results in deficient export earnings and consequent inability to purchase needed imports. Clearly one of the purposes of economic assistance must be to promote increases in current commodity output. In the case of Southeast Asia chief importance attaches in the first instance to the output of agricultural products - most particularly the staple food of these and other Asian countries, rice.

Obviously, large-scale immediate increases in overall output cannot be brought about by aid programs such as are contemplated. It is nevertheless an important goal of these programs to provide supplies and services which will contribute to substantial ultimate increases. The effort is directed primarily at agriculture. Attention is also given to expanding the output of manufactures, although the grant assistance proposed in this field is much less extensive and mainly consists, except in the case of Formosa, of aid to handicrafts and small-scale or cottage industries. The special stress on expansion of industrial output in Formosa is accounted for by the Island's relatively high industrial potential and by the basic objective, referred to above, of restoring Formosa as soon as possible to a self-supporting basis, thereby eliminating the heavy drain on the U.S. budget which our financing of the Formosan foreign exchange deficit entails.

Insofar as consistent with their basic political objectives and to the extent possible with limited funds, the programs will also contribute to increasing the output of strategic materials (minerals, abaca, coconut, rubber) by financing exploration, combatting plant diseases, etc. It is not, however, the intent of these economic aid programs to undertake large-scale projects for the development and procurement of deficiency materials, since other instrumentalities have been established for that purpose.

6. Laying the foundations for economic development. The economies of Southeast Asia are relatively underdeveloped in a day when progress toward general economic development has come to be passionately desired. The peoples of these countries will not be satisfied by restoration of such prosperity as they enjoyed in the best of prewar years, or even by a substantial rise in living standards if achieved merely by further increases in production of their traditional export products (foodstuffs and raw materials). Moreover, it is in our interest to help them in their efforts to lay the foundations for more diversified economic development.

Thus, the grant programs proposed in this submission will promote moderate expansion, as well as reconstruction, of transport, power, and irrigation facilities. They will assist the movement of people from overcrowded areas to frontier land. They will establish pilot plants. They will finance contracts with experts who will assist governments in overall economic planning. They will stress education, including vocational and professional training. They will promote a balanced development of foreign trade, including expanded trade with Japan, designed to supply Southeast Asia with capital goods as well as consumer goods. Financial officers on the special technical and economic missions will explore methods of mobilizing domestic savings and attracting private development capital from the United States and other capital exporting countries.

For U.S. Government assistance to the economic development process itself (as distinguished from preparatory work or the laying of foundations for economic development) loans are as a rule more appropriate than grants. The loan possibilities referred to in this submission are essentially for development purposes.

7. Supplying of common-use items in direct support of military assistance. As noted, the proposed programs will support military assistance through expenditures to strengthen transport and other joint-use facilities in all countries in the area where MDA programs are operating. In Formosa, the economic assistance program will also continue to finance, as a distinct part of the program, the importation of so-called common-use items - petroleum products, materials for military construction, materials for uniforms, etc. required for the effective utilization of MDAP end-items. If it is decided that ECA should undertake common-use programs in other countries (notably Indochina), this will have to be done with additional funds specially allocated for the purpose, since no provision for such expenditures is included in this submission.

#### Funds Required for FY 1953 Programs

1. Grants. Exclusive of funds for common-use items, the total amount of grant aid proposed for the six programs for FY'53 is \$201.2 million, as compared with \$242.1 million initially proposed to the Bureau of the Budget (including supplementals), and \$153.9 finally appropriated for the same countries, in FY'52. Thus the proposal is 17 percent smaller than was presented last year but approximately 30 percent larger than the total funds approved by Congress. In real terms, allowing for rising prices of aid goods, the increase would, of course, be less.

The amount proposed assumes that funds available for FY'52 will be sufficient to maintain a satisfactory situation in the area to the end of this fiscal period, so that FY'53 funds will not have to bear the burden of reversing a sharp deterioration of conditions. Should the maintenance of a satisfactory situation necessitate increased aid during FY'52, which is a distinct possibility in Formosa, the FY'52-FY'53 differential referred to above would be reduced correspondingly.

The largest increase over current FY'52 appropriations (about \$18 million, equal to 57 percent) is proposed for the Philippines. This expansion is considered necessary in order to attain results visualized in the Bell Mission Report, more particularly in view of the relatively slow progress made in developing suitable loan prospects. For Formosa an increase of approximately \$12 million (17 percent), exclusive of common-use programs, is needed to maintain stability under increased defense burdens associated with increased U.S. military assistance.

In other countries for which expanded programs are proposed, factors such as probable enlargement of the area which is secure enough to permit operations (Indochina), urgency of the need to have the government get the situation under better control (Burma), and, in general, the greater experience and increased ability of the recipient governments to utilize aid effectively have been the basis for proposing amounts more in line with last year's initial requests than with appropriations currently available.

2. Loans. ECA has discussed in some detail with the Export-Import Bank the magnitude and kinds of loan requirements in the Philippines, Thailand, Indonesia, and Burma in FY'53. In this connection the Export-Import Bank has examined the grant proposals contained in this submission. For Formosa and Indochina the two agencies have agreed that the clear inability of both countries to service additional external debt at this time precludes serious consideration of loans. The loan components of the U.S. assistance program for FY'53 in the Philippines, Thailand, Indonesia, and Burma are described fully in the Export-Import Bank submission, and reference to loan proposals for the individual countries is made in Part I of each country statement in the present (ECA) submission.

The discussions with the Export-Import Bank have considered the loan prospects for heavy capital projects concentrated in the fields of power, harbor and transportation development, and industrialization in the following terms:

(1) For the Philippines there is a possibility that loans totaling \$25 million or more may be made in FY'53.

(2) For Indonesia it is expected that new loan commitments considerably in excess of the proposed grant aid will be made in FY'53.

(3) For Thailand it is believed that a loan component for the FY'53 U. S. assistance program of \$10.5 million represents a reasonable magnitude.

(4) For Burma possible loan projects totaling \$14 million have been explored by STEM/Rangoon. These have been discussed with the Export-Import Bank Staff which has indicated that prospects for loan commitments being made in FY'53 are remote because of precarious security conditions in Burma, the country's weak dollar position, and the need for additional details on the recommended projects.

The relationship between grant proposals and lending operations in FY'53 is treated in Part I of the individual country statements and in the project write-ups (Part III). In general it can be said that engineering and power surveys, pilot small-scale industrial activities and certain technical assistance proposed for grant financing are specifically intended to facilitate the granting and implementation of new public loans in South-east Asia. Further, the grant program should contribute to the flow of private loan and equity capital into the area.

Summary Analysis of Proposed FY'53 Grant Aid

The proposed program for direct country aid in FY'53 amounting to \$201.2 million (excluding \$40 million for military common-use items in Formosa), is designed to make a substantial contribution toward meeting those needs for external assistance which should be met on a grant basis. The distribution among individual countries and the comparison with FY'52 follow:

<u>Country</u>	<u>Dollar Aid(in millions)</u>	
	<u>FY'52</u>	<u>FY'53</u>
Formosa	68.3	80.0
Philippines	32.0	50.1
Indochina	24.7	31.6
Burma	14.0	21.0
Indonesia	8.0	11.5
Thailand	7.0	7.0
Total (excl. common-use items)	<u>154.0</u>	<u>201.2</u>

About \$100 million of the \$201.2 million total has been earmarked for specific projects and the balance for essential salable supplies. The \$100 million has been distributed as follows: Agriculture, forestry, fisheries, 36.2 percent; transportation, power, other public works, 22.2 percent; public health, 19.5 percent; handicraft and manufacturing, mining, other industry, 9.2 percent; education, 6.3 percent; public administration, 4.6 percent; general engineering advisory services and emergency relief, 1.0 percent each.

For all categories but general engineering advisory services the proposed dollar allocation for FY'53 is greater than that for FY'52, but percentagewise significant changes are few. Agriculture has been programmed to receive a somewhat larger share of total project availabilities next year than this; public health's percentage of the total has dropped slightly; and transportation's share has declined more. Education, public administration, and handicraft, manufacturing and mining, on the other hand, are slated to receive somewhat larger shares of the FY'53 than of the FY'52 total. The combined allotment for all three, however, is just about equal to that proposed for public health and only a little over half of that programmed for agriculture (see Table 3 following).

Though larger in absolute amount in FY'53 than in the current fiscal year, salable commodities for maintenance of essential supply constitute a smaller proportion of total proposed grant aid in FY'53 than has been programmed for FY'52 (see Table 2 following). Excluding fertilizer which provides basic support to the agricultural program, the salable commodity component drops to only about 40 percent of the proposed \$201.2 million total of recommended grant aid. Moreover, producers' goods predominate.

Both the proposed magnitude of grant aid for FY'53 and its distribution among the major project categories were based upon a country-by-country appraisal of (a) critical economic needs; (b) the relative priority rating of these needs; (c) measurable contributions of proposed projects to objectives established in terms of such factors as production, employment, consumption, prices, wages, income distribution, etc.; (d) anticipated contributions of proposed projects to objectives established in terms of such criteria as desired political, social and psychological effects; and (e) internal and external requirements and availabilities to meet these objectives.

With varying emphasis in the individual countries, the FY'53 programs embrace (a) grass-roots, village-level projects for immediate broad impact (e.g., health teams, farm extension, mass and vocational education, improvement of handicraft techniques, etc.); (b) assistance in focal sectors of the economy (e.g., technical assistance to monetary and fiscal agencies of the government, to public administration and training services generally); (c) technical assistance and limited supplies to help break critical production and transport bottlenecks; and (d) additional supplies of producers' and consumers' goods for sale in the private sector of the economy.

In the individual country sections that follow, considerable detail is given with regard to the specific projects in all the categories into which it is proposed grant funds be channeled during FY'53.

\* \* \*

ALL S.E.A. COUNTRIES

Table 1. Dollar Cost of Program by Country - Grant Aid Only a/  
(excl. common-use items b/)

Country	Millions of Dollars					
	Dollar Cost of Program			Percentage Distribution of Total Program Cost, All S.E.A. Countries		
	FY'51	FY'52	FY'53 (Proposed)	FY'51	FY'52	FY'53
Formosa	\$ 80.1	\$ 68.3	\$ 80.0	55.4%	44.4%	39.8%
Philippines	15.0 <sup>c/</sup>	32.0	50.1	10.4	20.8	24.9
Indochina	21.8	24.7	31.6	15.1	16.0	15.7
Burma	10.8	14.0	21.0	7.5	9.1	10.4
Indonesia	8.0	8.0	11.5	5.5	5.1	5.7
Thailand	8.9	7.0	7.0	6.1	4.6	3.5
<u>TOTAL PROGRAM COST</u> <u>ALL S.E.A. COUNTRIES</u>	<u>\$144.6<sup>d/</sup></u>	<u>\$154.0<sup>e/</sup></u>	<u>\$201.2<sup>e/</sup></u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

a/ Exclusive of loans discussed with the Export-Import Bank Staff and referred to in Part I of the individual country statements.

b/ Formosa only (in millions of dollars): FY'51, 12.5; FY'52, 12.7; FY'53, 40.0.

c/ Interim aid only.

d/ Excludes, in addition to \$12.5 million of common-use items, \$246 thousand of unallocated program funds obligated under an agreement between ECA and the Federal Security Agency (U.S. Public Health Service) to cover the cost of recruiting, orientation and incidental travel of health technicians prior to assignment to a specific post, plus cost of related administrative and consultative services.

e/ Excludes direct military support (common-use items) for Formosa. See footnote b/ above.

ALL S.E.A. COUNTRIES

Table 2. Estimated FY 1953 and Revised FY 1952 Dollar Cost of Program  
By Country and Major Cost Components

Country	Thousands of Dollars					
	:Total :Dollar :Cost of :Program <sup>a/</sup>	:Adjusted :Dollar :Cost of :Program <sup>b/</sup>	:Cost of :Salable :Commodi- :ties <sup>c/</sup>	: : : :	Cost of Projects	
	: : : :	: : : :	: : : :	: : : :	:Supplies : and :Equipment	:T.A.Experts : and :Trainees
: ESTIMATED FY'53						
Formosa	\$120,000	\$ 80,000	\$69,781	\$10,219	\$ 8,619	\$ 1,600
Philippines	50,129	50,129	10,144	39,985	37,190	2,795
Indochina	31,552	31,552	17,112	14,440	12,860	1,580
Burma	21,000	21,000	4,650	16,350	13,160	3,190
Indonesia	11,500	11,500	-	11,500	8,675	2,825
Thailand	7,000	7,000	-	7,000	4,438	2,562
<b>TOTAL PROGRAM COST</b>						
<u>ALL S.E.A. COUNTRIES</u>	<u>\$241,181</u>	<u>\$201,181</u>	<u>\$101,687</u>	<u>\$99,494</u>	<u>\$84,942</u>	<u>\$14,552</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>83.4</u>	<u>42.2</u>	<u>41.2</u>	<u>35.2</u>	<u>6.0</u>
<u>Percent of Adjusted Dollar Cost</u>		<u>100.0</u>	<u>50.5</u>	<u>49.5</u>	<u>42.2</u>	<u>7.2</u>
: REVISIED FY'52						
Formosa	\$ 81,000	\$ 68,275	\$ 57,473	\$10,802	\$ 9,410	\$1,392
Philippines	32,000	32,000	10,000	22,000	19,977	2,023
Indochina	24,693	24,693	15,000	9,693	8,553	1,140
Burma	14,000	14,000	2,000	12,000	9,221	2,779
Indonesia	8,000	8,000	-	8,000	6,693	1,307
Thailand	7,000	7,000	-	7,000	4,833	2,167
<b>TOTAL PROGRAM COST</b>						
<u>ALL S.E.A. COUNTRIES</u>	<u>\$166,693</u>	<u>\$153,968</u>	<u>\$84,473</u>	<u>\$69,495</u>	<u>\$58,687</u>	<u>\$10,808</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>92.4</u>	<u>50.7</u>	<u>41.7</u>	<u>35.2</u>	<u>6.5</u>
<u>Percent of Adjusted Dollar Cost</u>		<u>100.0</u>	<u>54.9</u>	<u>45.1</u>	<u>38.1</u>	<u>7.0</u>

a/ Includes \$12,725 thousand of common-use items for Formosa in FY'52, and \$40,000 thousand in FY'53.

b/ Excludes \$12,725 thousand of common-use items for Formosa in FY'52, and \$40,000 thousand in FY'53.

c/ Commodity imports, excluding military common-use items, designed to (1) relieve shortages which might endanger economic stability; and (2) provide some portion of the local funds for carrying through dollar-financed projects, or purely local-currency projects, which the U.S. is particularly desirous of promoting.

ALL S.E.A. COUNTRIESTable 3. Revised FY 1952 and Estimated FY 1953 Dollar Cost of ProgramBy Major Project Category

Thousands of dollars							
Major Project Category:	Total Dollar Cost		Percent of Total Program Cost		Percent of Total Project Cost		
	FY'52	FY'53	(Categories 1-9)	(Categories 1-9)	(Categories 1-8)	(Categories 1-8)	
			FY'52	FY'53	FY'52	FY'53	
1. Emergency Relief	\$ 240	\$ 1,000	0.1	0.4	0.3	1.0	
2. Public Health	14,556	19,354	8.8	8.0	21.0	19.5	
3. Agriculture, Forestry, Fisheries	23,408	36,022	14.0	14.9	33.7	36.2	
4. Transportation, Power, Other Public Works	19,200	22,133	11.5	9.2	27.6	22.2	
5. Handicraft and Manufacturing, Mining, Other Industry	4,373	9,129	2.6	3.8	6.3	9.2	
6. General Engineering Advisory Services	1,645	965	1.0	0.4	2.4	1.0	
7. Education	3,087	6,276	1.9	2.6	4.4	6.3	
8. Public Administration	2,986	4,615	1.8	1.9	4.3	4.6	
9. Maintenance of Essential Supply <u>a/</u>	97,198 <sup>b/</sup>	141,687 <sup>c/</sup>	58.3	58.8	-	-	
<u>TOTAL DOLLAR COST OF PROGRAM</u>	<u>\$ 166,693</u>	<u>\$ 241,181</u>	<u>100.0</u>	<u>100.0</u>			
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	<u>69,495</u>	<u>99,494</u>			<u>100.0</u>	<u>100.0</u>	

a/ Common-use items (Formosa only) plus requisites for production and other essential civilian supplies.

b/ Includes \$12,725 thousand for common-use items.

c/ Includes \$40,000 thousand for common-use items.

F O R M O S A

FY 1953 BUDGET PRESENTATION

Contents

PART I. Formosa. FY 1953 Program

1. Introduction
2. Magnitude of FY '53 Program
3. Program Objectives and How the Objectives are met
  - A. Economic Stability
    - (1) Internal Aspect
    - (2) External Aspect
  - B. Support of the Mutual Defense Assistance Program
  - C. Increased Capacity for Self-Support
  - D. Improvement of Government Administration
  - E. Rural Reconstruction
  - F. Development of Chinese Leadership
4. Conclusion

PART II. Program Tables

PART III. Project Descriptions

APPENDICES

- I. Current Economic Situation
- II. Text of Aide Memoire Regarding Control of Budgeting and Expenditures of Chinese Funds
- III. Local Currency Requirements and Availabilities

Part I

FORMOSA. FY 1953 PROGRAM

1. Introduction

Because of the necessity since 1949 of supporting a sizable military establishment and a population swollen by immigrants from the China mainland, Formosa's productive facilities and financial resources have been subjected to severe strain. Besides the administrative burdens resulting directly from the sudden exile to Formosa of the Chinese Government and armed forces, additional handicaps stemming from World War II and its aftermath have precluded maximum yields from the island's normally productive resources. Wartime bomb damage to power and transportation facilities has been only partially repaired. The disruption of traditional trade patterns between Japan and mainland China resulted in a loss of export earnings during the period of trade reorientation. Until June 1950, orderly processes in government and industry suffered from the chronic fear of armed invasion, and the influence of this fear is in some degree still noticeable.

Despite the above handicaps, increasing production in agriculture and industry (in some instances, surpassing prewar peaks) has raised domestic national income (exclusive of income in the form of foreign aid) to an estimated 91 percent of the 1937 figure. This progress since the war is sharply offset, however, by the cost of supporting a 640,000-man military establishment which requires 62 percent of all expenditures of the National and Provincial Governments. At the same time the unavoidable neglect or deferral of essential government services is retarding the island's attainment of viability.

After the outbreak of the Korean conflict, United States policy contemplated keeping the island free from external encroachment and at the same time holding it internally secure. To carry out this policy the United States is providing military assistance in the form of end items and guidance by a military advisory group. On the economic side, the United States is providing assistance intended to supplement the self-help efforts of the Chinese toward maintaining internal stability. In serving as the economic arm of United States assistance to Formosa, ECA is pursuing six major objectives: (1) an approach to economic stability from the standpoint of both internal and external finances; (2) support of the Mutual Defense Assistance Program; (3) increased capacity of Formosa for self-support; (4) improvement of Chinese Government administration; (5) rural reconstruction; and (6) development of leadership qualities, particularly among native Formosans.

2. Magnitude of FY 1953 Program

The magnitude of the FY'53 program as it compares with the FY'52 program can be seen from the following table:

	<u>Amount for FY'52</u> <u>(thousand dollars)</u>	<u>Amount for FY'53</u> <u>(thousand dollars)</u>
1. Emergency Relief	\$ -	\$ -
2. Public Health	247	159
3. Agriculture, Forestry, Fisheries	1,054	667
4. Transportation, Power, and Other Public Works	7,030	4,550
5. Manufacturing, Mining, Other Industries	1,530	3,788
6. General Engineering Advisory Services	650	690
7. Education	36	20
8. Public Administration	255	345
9. Maintenance of Essential Supply		
(a) Common-Use Items	12,725	40,000
(b) Salable Commodities (requisites for production and other essential civilian supplies)	57,473	69,781
<b>TOTALS</b>	<u><b>\$81,000</b></u>	<u><b>\$120,000</b></u>

The principal difference between the two fiscal years lies in the common-use figure, recommended at \$40.0 million for FY'53 compared to \$12.7 million for FY'52. (The \$40.0 million is now being reviewed for subsequent final submission.) A further major difference lies in the figure for salable commodities, which increases from \$57.5 million in FY'52 to \$69.8 million in FY'53.

These two differences, i.e. in common-use items and salable commodities, must be viewed in the context of the pipe lines initiated in late June 1951, just two weeks prior to the end of the fiscal year. In short, \$41.6 million of FY'51 funds are being used concurrently with FY'52 funds from the standpoint of actual pipe lines. Therefore the difference between the two fiscal years when viewed realistically becomes in effect as follows:

	<u>FY'51 Supplemental Plus FY'52</u>	<u>FY'53</u>
	(millions)	(millions)
Common-Use Items	\$ 25.2 (12.5 plus 12.7)	\$ 40.0
Salable Commodities	86.6 (29.1 plus 57.5)	69.8
	<u>\$111.8</u>	<u>\$109.8</u>

The magnitude of the salable commodity figure is directly related to local currency needs over a two-year period, 1952 and 1953. This is necessary since local currency availabilities must be synchronized with the initiation of such projects as those concerned with the MDAP, road and bridge building, and rural reconstruction. (See section 3A below.)

Other differences are explainable in terms of changes in emphasis to meet needs of the economy. For example, the reduction in agriculture is explained by the fact that dollar needs of the lumber industry were largely met from the programs of previous fiscal years. Similarly in manufacturing, substantial increases in the island's income can result from the installation of equipment items not previously furnished to otherwise profitable plants. Needs of the power industry were partially met during FY'51 and '52; hence the FY'53 magnitude is less than that of FY'52.

### 3. Program Objectives and How the Objectives are Met

#### A. Economic Stability

The first major objective of the ECA program in FY'53 is an approach to economic stability.

##### (1) Internal Aspect

The most important purpose for which ECA FY'53 is required in the magnitude proposed is the supplying of internal local currency requirements of the economy. Those local currency requirements will be met through the importation of commodities which are sold in the local markets. The local currency derived from sale of these items will be made available through the ECA counterpart fund to supplement Chinese local currency availabilities.

Total local currency needs for the continued performance of essential government functions plus economic and defense projects in calendar 1952 is estimated at NT\$3,130 million (equivalent to about US\$313 million at the counterpart conversion rate). A similar requirement for calendar 1953 is forecast, representing a combined total for both years of NT\$6,380 million (about US\$638 million). The calendar year is used for planning purposes since Chinese budgets, now being prepared with ECA and MAAG assistance, are cast in terms of the calendar year. The relation to the U. S. aid planned on a fiscal year basis is shown in Appendix III.

As against the above total requirement of NT\$6,380 million, total foreseeable revenues which can be generated by the Chinese are estimated at NT\$4,780 million, leaving a balance of NT\$1,600 (or roughly US\$160) million to be derived from counterpart. Use of this counterpart is spread over the two calendar years 1952 and 1953, with NT\$750 million being required in calendar 1952 and NT\$850 million in calendar year 1953. The purposes for which these counterpart funds are required include the following: support of projects for the MDA Program (31 percent), operating costs of the Joint Commission on Rural Reconstruction (eight percent), industrial maintenance and installation of ECA-financed capital imports (20 percent), support of selected components of the Chinese budget for maintenance and construction (36 percent), administrative expenses of ECA and technical assistance staffs (five percent).

Basis for the FY'53 Salable Commodity Figure, \$69.8 Million

The figure of \$69.8 million is the value of ECA-financed salable commodities included in the FY'53 program -- commodities which, after translation into local currency, will yield counterpart funds to finance essential Government functions and projects, including MDAP projects. In determining the \$69.8 million figure, account has been taken of total local currency revenues of the Chinese themselves, i.e. taxation, profits of Government-owned enterprises, sale of assets, and bonds. Also taken into account are counterpart accruals available from salable commodities financed against other fiscal year appropriations. Tabulations showing (a) total local currency requirements and revenues, (b) purposes for which counterpart is required, and (c) the sources of counterpart are shown in Appendix III of this submission (Local Currency Requirements and Availabilities).

The Need for Counterpart in Meeting Total Local Currency Requirements

ECA support to MDAP, JCRR, industrial projects and selected components of the government budget through counterpart generated from salable commodity imports is an important factor in achieving the objective of internal economic stabilization. Although government revenue collections have reached a level of nearly 22 percent of national income, they are nonetheless insufficient to cover ordinary budgeted expenditures, of which 62 percent (of the National and Provincial budgets) is required to finance the military establishment. During 1950 and the early months of 1951 the government drew heavily upon its gold and foreign exchange reserves to help cover budgeted expenditures. Early in 1951, however, gold reserves reached a dangerously low level (\$33 million as contrasted with nearly \$100 million in 1949), and the government at ECA's suggestion halted the sale of gold and foreign exchange for budget support purposes. It then became necessary to rely on such measures as the sale of "patriotic bonds" (essentially forced loans), loans against advance sales of future sugar exports, bank advances with no set repayment date, and additional note issues, in order to meet chronically pressing budget deficits.

For calendar year 1952 a government budget has been prepared with the benefit of advice from MAAG and the ECA Mission, and is in process of adoption, calling for the expenditure of nearly NT\$2,700 million. It is estimated that ordinary revenues (including taxes 37 percent higher than in 1951) can total perhaps NT\$2,100 million, leaving a deficit of approximately NT\$600 million to be covered by extraordinary measures such as issuance of bonds, liquidation of government properties, ECA counterpart assistance, and bank advances.

Although the planning of the 1952 budget has been more realistic than that of the previous year, largely due to the guidance of ECA and MAAG advisors, this budget must be considered with reservations. On the revenues side, it is entirely possible that collections may fall short of established goals, which were set at high levels in an effort to accomplish the maximum degree of self-help. On the expenditures

side, numerous essential civilian expenditures were excluded from the budget or deferred, in order that military expenditures could be covered. Among the items currently excluded are service on foreign debt, wage increases for public servants and military personnel necessitated by increases in domestic price levels, and development and expansion of educational facilities.

Military expenditures, although already included in the budget to the extent of 62 percent of total expenditures, may conceivably have to be increased over the currently estimated figure, in order to make the most effective use of the military establishment. With MAAG and ECA advisors available, it is now possible better to insure maximum collection of revenues and control of expenditures. Taking the above factors into consideration, however, it is possible that a deficit larger than the estimated NT\$600 million may be incurred, in which event, not only will the currently planned level of ECA salable commodities be necessary, but additional ECA aid during the current fiscal year may be required.

With military expenditures constituting more than 60 percent of total budgeted expenditures, it is obvious that, without the burden of military costs, the budget would be brought into balance and a surplus provided, other things remaining equal. Despite the fact that a balanced budget could not be immediately achieved (because of the accumulated backlog of essential expenditures as described above), it is quite possible that Formosa would be able to meet essential government expenditures from its own revenues, without incurring sizable deficits to be financed by inflationary means, and without dependence on foreign aid.

#### Specific Uses of Counterpart during 1952 - 53

Counterpart for MDAP support projects for the two-year period 1952-53 totals NT\$495 million or 31 percent of the total requirement. (This use of counterpart support is discussed more fully below.) Eight percent of the counterpart required will be applied directly to the rural rehabilitation projects of the Joint Commission on Rural Reconstruction. Since 1949, the JCRR has endeavored to improve living standards and health among the farming class (about 60 percent of the population). Through JCRR projects, improvement in crop yields have taken place, the effects of malaria, crop and cattle diseases have been mitigated, improvements of the land tenure system have benefited the rural classes. Continuation of these rural rehabilitation projects will cost an estimated NT\$120 million during 1952-53.

Twenty percent of the total counterpart for 1952-53, or NT\$315 million, will be applied to industrial development projects. The need for these projects arises in connection with the accommodation and full utilization of capital equipment items such as the construction of reservoirs for hydro-electric development, the construction of bridges, culverts and highways, and the deepening of ports to permit new outlets along the west coast and alleviate the current burden on the railway system.

Counterpart to be applied to selected components of the Chinese budget constitutes 36 percent of the total requirement for the two-year period. This counterpart support for the budget will be directed mainly toward projects benefiting agriculture and the maintenance of irrigation and transportation facilities, such as water conservancy, highways, agricultural credit, and power facilities.

#### Additional Internal Consequences of the Salable Commodity Program

Besides providing local currency support through the generation of counterpart, the importation of ECA salable commodities eases the supply situation by providing a regular flow of needed agricultural and industrial materials as well as consumer goods, thus helping to maintain price stability. In the agricultural field, importation of ECA-financed fertilizer has played an important role in the maintenance of production

levels of rice, sugar, and other agricultural crops. As examples of the ECA role in maintaining industrial production, ECA imports of cotton have furnished an assured source of raw materials for the local textile mills, resulting in an increase of operating spindles from 29,000 in 1949 to 80,000 at present. Almost all local petroleum needs (except aviation gas) for military and civilian use are produced at the Chinese refinery from ECA crude imports. Other industries benefiting from ECA raw material imports include soap manufacturing, calcium superphosphate fertilizer, DDT, shoe manufacturing, edible oil crushing, pineapple canning, machinery manufacturing, steel, shipbuilding, railroad repair, and aluminum.

The salable commodity program has a series of inter-related economic consequences in Formosa. With the mainland catastrophe of inflation still freshly in mind, Chinese authorities have made a determined effort to avoid the disastrous effects of runaway inflation. Despite this effort, prices have risen sharply so that the general retail index in September 1951 was 180 percent of June 1950, as the supply of goods has failed to keep pace with government expenditures and increased purchasing power. Although prices have stabilized somewhat during 1951 (August prices being 124 percent of January), the economy remains extraordinarily sensitive to incipient supply shortages, real or imagined.

The results of mounting inflation have been shown to include, less inducement to save, barriers to productive investment, an open-market interest rate currently running at nine percent per month, commodity hoarding, withholding of crops by the farmers, withholding of consumers goods by retailers, and the weakening of Government authority. In the face of this sensitivity to inflation, even the knowledge that ECA commodities were in transit has had gratifying, visible results in terms of an increased flow of goods hitherto withheld, greater stability of prices and open-market exchange rates, and increased confidence in the government and security of the island.

#### Effects on Other ECA-Sponsored Projects in Formosa

The commodity imports make specific contributions to other parts of the ECA program. For example, the largest single component of the commodity program is fertilizer, \$20.4 million as against the total of \$69.8 million. Fertilizer imports make possible rice yields now exceeding the prewar peaks and hence contribute directly to agricultural projects. Distribution of this fertilizer, highly prized by the farmers, affords the JCRR a powerful instrument for strengthening the Farmers' Associations as the administrative nucleus for rural rehabilitation projects. Through the Farmers' Associations, JCRR technical assistance achieves a ready impact in terms of bettering the farmers' standards of living.

The planned FY'53 ECA imports of industrial raw materials, valued at \$9.2 million, plus raw cotton valued at \$13.0 million make a contribution to the manufacturing, mining, and transportation industries of the island. These imports have contributed substantially to the national income which is now approaching that of prewar times (currently the domestic income is estimated at \$446 million as compared with \$488 million in 1937).

Included in ECA planned imports are some equipment imports valued at \$5.5 million which are readily salable in the local market. These imports, consisting of motors, generators, construction, mining and conveying equipment and industrial machinery, represent no net addition to the capital plant of Formosa but rather replacements for superannuated or inadequate equipment already installed. The purpose of these imports is, therefore, to maintain Formosa's currently operating facilities, neglect of which would aggravate inflation and reduce the island's capacity for self-support and defense.

Medical supplies scheduled for FY'53 at \$1.2 million constitute the principal supply ingredient for ECA's technical assistance program in the field of public health.

### Consequences of Failure to Meet Local Currency Requirements

Without ECA counterpart support arising from the local sale of imported commodities, any attempt to meet local currency needs of the Government would result in severe inflationary pressures. As indicated above, domestic wholesale prices have already risen 90 percent over those prevailing in the first half of 1950, and the Government is being forced to cover its 1951 budget practically by inflationary measures. Without ECA aid, these inflationary developments would have been much more drastic.

In continuing its efforts during FY'53 to hold down inflation and its consequences in Formosa, and in supplying a magnitude of aid calculated -- together with Chinese self-help measures -- to accomplish that end, ECA will in all probability save expenditures of aid funds in subsequent years of even greater magnitudes than those currently planned for FY'53.

Inflation in the past has particularly manifested itself in a tendency to hoard commodities and in a reduction of the farmers' incentive to produce crops which contribute predominantly to Formosa's export trade (89 percent of the total in 1951). During the crop year 1950-51, the sugar yield fell to 351,000 tons as compared with the previous year's crop of 615,000 tons, representing a foreign exchange loss of nearly \$25.0 million in 1951 and a consequent increase in the need for U.S. economic aid. While inflation was not the sole cause of the drop in sugar yields, a principal factor was the loss of farmer incentive to devote time, land, and energies to a crop which promised so little in terms of daily necessities for sale at inflated prices. At the same time, a shortage of Government cash availabilities precluded the extension of farm credit and an increase in the purchase price of sugar was not feasible since the Government, as the principal buyer, had no immediate source of local currency except to incur an additional inflationary budget deficit. Although a rapid inflation manifests itself differently depending on the particular crop, a tendency to reduce yields, and hence export earnings, seems to be a probable consequence.

A further reason for seeking to avoid inflation arises from internal security considerations. Relations between mainland Chinese and native Formosan groups have been outwardly tranquil since the insurrection and bloodshed of February 1947. These improved relations have been the result of improved Chinese leadership, greater participation by Formosans in local and provincial government activities, and improved security as manifested in U.S. military and economic aid. Despite the current outward tranquillity, considerable resentment against the excesses of 1947 still exists in the minds of Formosans. This resentment, combined with austerity measures now being intensified, can weaken Government authority. (For example, many benefits otherwise accruing to farmers from the JCRR have been offset by increased taxes and military requisitioning.) Inflationary pressures already make it difficult for the Government to meet payrolls or to furnish sufficient compensation to civil servants and troops. If inflationary trends are further aggravated, it is foreseeable that current demands by the military for transportation, housing, and food can result in growing internal dissension and pro-Communist sympathies.

#### (2) External Aspect

On the external side, ECA aid serves to close the gap between Formosa's foreign exchange availabilities and the level of imports plus other foreign payments necessary for the smooth functioning of the economy. Although data on external payments is imperfect, it is estimated that in 1950 there was a balance-of-payments deficit on current account of about \$59 million, which was met by the arrival of ECA-financed items valued at \$20 million and the drawing down of Chinese foreign exchange holdings and gold reserves to the extent of about \$39 million.

At the beginning of 1951, the balance-of-payments outlook was even more unfavorable, with gold and foreign exchange reserves nearly exhausted, decreased foreign exchange earnings anticipated from sugar exports because of a poor crop, and increased imports required to maintain the civilian economy and keep the military establishment in operation. Fortunately, increased exports of rice, tea, bananas, and salt will partially counteract the sizable decline in sugar exports, so that foreign exchange availabilities in 1951 may total as much as \$96 million, as compared with \$109 million in 1950. With increased import requirements more than offset by estimated reductions in invisible payments, there is expected to be a current account deficit of approximately \$59 million, the same magnitude as in 1950. This deficit will be almost entirely met by ECA aid, although a small drawing down of the already badly depleted gold and foreign exchange reserves may be required. The floating of any additional foreign loans is unlikely in view of the already substantial external debt of more than \$600 million, most of which is not being serviced.

It is estimated that at the end of 1951 gold and foreign exchange resources of the Government and its banks will approximate \$30 million in gold bullion, plus minor amounts of free foreign balances totaling less than \$2 million. Of the gold holdings, \$21 million is currently held as reserve against currency in circulation totaling the equivalent of about \$35 million; in addition there are outstanding demand deposits totaling the equivalent of about \$40 million. It is essential that the Government be permitted to hold a certain gold reserve, both to insure confidence in the financial position of the island and to finance certain continuing obligations, and also to avoid total loss of confidence in the note issue, especially with the China mainland experience with inflation still freshly in mind. Thus, the Government's gold and foreign exchange reserves are already at such a low level that no further reduction can be counted on to meet a balance-of-payments deficit. In fact, in the event that a larger balance-of-payments deficit occurs in FY'52 than that presently foreseen, additional ECA aid may be required in the current fiscal year.

For FY'53, the outlook for Chinese foreign exchange availabilities is somewhat improved. Current indications are that sugar exports will be nearly restored to the 1950 level and that rice and other exports will be maintained at approximately the same levels as in 1951. Assuming that invisible receipts remain at about the same level as in 1951, Chinese foreign exchange availabilities may total as much as \$125 million. Availabilities of this magnitude, together with ECA aid in the proposed amount, are expected to be sufficient to cover imports and other international payment items without further drawing upon gold and foreign exchange reserves. The anticipated higher level of imports in FY'53 will result partly from a sizable accumulated backlog of demand for imports of items which, although badly needed, are presently prohibited because of limited foreign exchange availabilities. Ever since the early months of 1951, largely at the instigation of ECA, imports have been strictly screened so as to make the wisest possible use of available foreign exchange. Another factor indicating a higher level of imports in FY'53 is the necessity for stepped-up imports of goods subject to strong consumer demand in order to offset the inflationary impact of the increased demand for local materials and increased payments for labor likely to be engendered by continued military spending, the support program for MDAP, and higher levels of industrial and agricultural activity.

#### B. Support of the Mutual Defense Assistance Program

The second major objective of the ECA aid program is to provide support for the program of military assistance now being furnished under the Mutual Defense Assistance Program. In order to utilize effectively the military end items and the technical services of military advisors supplied under MDAP, provision must be made for adequate storage, handling, and transportation facilities, aviation gasoline, and improved

housing, food, and equipment for the armed forces. Under current conditions, the Chinese Government lacks the resources to supply these necessities -- both the foreign exchange to import the necessary articles from abroad and the local funds to supply domestic materials and labor. The magnitude of both counterpart support and U. S. dollar support in FY'53 stems from the fact that end items are now arriving in Formosa in increasing volume with the consequence that training programs and defense projects must be accelerated.

In order that the effectiveness of the MDA program not be jeopardized, the ISAC decisions last spring led to ECA's providing the necessary economic support for realization of MDAP objectives. In FY'53, as in the two prior fiscal years, this economic support is to be furnished in two ways. First, \$40 million out of the total ECA program of \$120 million has been recommended for the importation of common use items, including aviation gasoline and other petroleum products, supplementary protein foodstuffs, and yarn to be woven into cloth for making uniforms, as well as construction materials for maintaining or building warehouses, airfields, barracks, and hospitals. This \$40 million, representing one-third of the total ECA program of \$120 million, is the amount recommended by the MAAG in Formosa and is currently being screened by the Department of Defense.

Additional support for MDAP arises from the fact that nearly one-third of the counterpart developed from the ECA salable commodity program will be supplied for the specific purpose of generating counterpart to cover the costs of local materials and labor involved in military support projects. Typical of these projects are warehouse construction, extension of petroleum handling facilities, transportation of military end items, construction of airfields, barracks, and hospitals, and provision of supplementary protein and equipment for troops. These proposed local expenditures, which are estimated at NT\$225 million for 1952 and NT\$270 million for 1953, are equivalent to necessary additional deficit expenditures of the Chinese Government, although financing of these military support projects is not provided for in the Government budget. Provision of counterpart for these projects through ECA salable commodity imports will offset the inflationary impact of the increased pressure on local materials and increased payments for labor.

At the same time, ECA counterpart support will help prevent aggravation of a further drain on the economy resulting from the Government's effort to meet military needs. This drain takes the form of food sales to the military below cost, and transportation, electricity and telephone services provided to the military either at a discount or at no cost. These Government contributions to the military are estimated to add nearly NT\$100 million to the 1951 budgetary imbalance in the sense that goods and services are now furnished to the military without a commensurate addition to budget revenues.

#### C. Increased Capacity for Self-Support

The third major objective of ECA aid is to increase the capacity of Formosa for self-support. If the program of economic assistance is ever to progress beyond the maintenance of economic stability and the status quo, it must contain projects and items that will help Formosa attain a self-supporting status, thereby reducing the need for foreign economic aid. Toward this end, agricultural and industrial production must be increased, through such measures as greater application of fertilizer, supplying of industrial raw materials, and maintenance and expansion of transportation, power and industrial facilities. Because of preoccupation with considerations of political insecurity, immediate pressing needs for meeting budgetary crises, and a desire to return to the mainland, there is a tendency on the part of top-level Chinese leadership to under-emphasize long-range development in Formosa, and consequently the stimulus of technical assistance plus ECA-financing is needed.

Almost every category of the FY'53 aid program contributes in some measure to this important objective. Supplies, equipment, and technical assistance for projects totalling \$9.5 million are all intended to increase the island's capacity for self-support, through the increase of agricultural and industrial production. In addition, a major part of the \$69.8 million salable commodities will contribute to the same purpose. For example, ECA-financed fertilizer totalling \$20 million will make possible the production of sufficient rice not only to meet domestic consumption requirements but also to maintain exports during 1952 at the estimated 1951 level of \$16 million, as compared with \$3 million in 1950. ECA-financed raw cotton, together with expanded spindleage, has made possible an increase in value of production of textile products from \$2.9 million in 1950 to an estimated \$9.5 million in 1953. At the same time, the \$69.8 million salable commodities will generate counterpart, some of which can be applied to the local costs of ECA-sponsored agricultural and industrial projects.

Agricultural Production

ECA-financed fertilizer imports, together with JCRR-sponsored improvements in production and marketing, are expected to maintain rice production in 1952 at the same high level attained in 1951 (1.5 million tons) despite the increased acreage devoted to sugar cane. If achieved, this production figure will permit export earnings of an estimated \$15 million, which will make a major contribution to the expected improvement in balance-of-payments position in FY'53, as explained above. With the aid of technical assistance and fertilizer imports, a gradual recovery from the unfavorable sugar crop position of 1950 is expected. This improvement can result in an increase in sugar exports of from 312,000 tons in 1951 to about 500,000 tons in 1952, representing additional foreign exchange earnings of about \$20 million. Other export crops, the expanded production of which is being encouraged by JCRR, include tea, bananas, and pineapple. At the same time the production of crops like wheat and peanuts is being encouraged in order to conserve foreign exchange. Greater wheat production will permit larger rice exports, and increased peanut production will reduce the foreign exchange requirement for soy bean imports.

Production of other principal crops has now exceeded prewar peak levels, although some items are still lagging.

<u>Commodity</u>	<u>Prewar Peak</u> (metric tons)	<u>1951 Estimate</u>
Tea	14,029 (1939)	14,000
Sweet Potato	1,769,984 (1937)	2,185,000
Pineapple	145,817 (1939)	39,800
Wheat	6,558 (1941)	22,000
Peanuts	31,704 (1937)	68,000
Jute	15,426 (1939)	10,000
Ramie	1,390 (1937)	700
Bananas	218,589 (1937)	131,250

The principal ECA contribution to crop yield increases is the financing of about half the total needs for chemical fertilizers, programmed for FY'53 at \$20.4 million. In addition the ECA program is making a strong effort to increase agricultural production through technical assistance provided by specialists of the Joint Commission on Rural Reconstruction. With the expenditure of only a small U.S. dollar amount (\$224,000 for FY'53) and through the use of counterpart derived from imports of salable commodities, JCRR will continue projects in multiplication and extension of improved seeds, control of crop insects and plagues, construction of irrigation works, breeding of livestock, and rehabilitation of tea plantations -- all designed to increase agricultural production.

### Industrial Production

ECA-financed equipment imports plus technical assistance from an American firm of management engineers are rapidly improving output in industries, for example as follows:

Coal production is currently 1.6 million tons per year, and an achievable goal by 1955 is considered to be 3.0 million tons. The estimated exportable surplus is valued at approximately \$275,000 in 1951.

Pyrite production has advanced from negligible quantities in 1950 and is expected to reach 60,000 tons in 1953, with an exportable surplus of 20,000 tons valued at about \$500,000.

Sulphur production has now reached 5,040 tons, which is sufficient to meet domestic needs. As recently as June 1950, Formosa was importing sulphur. An export surplus of \$300,000 is expected by 1953.

Copper production is expected to rise, permitting exports valued at \$200,000 during 1952.

Talc and asbestos output may permit exports of \$300,000 in 1953.

Chlorine and chlorine compounds are expected to increase, permitting earnings as high as \$1.0 million dollars after installation of equipment planned for FY'53.

Aluminum production is now hampered by a lack of power, and the industry is producing at less than half of capacity, rated at 25,000 tons of ingots per year. Production of sheets, ingots and foil can yield export earnings of \$1.0 million if capacity is attained, probably not before 1954.

Gunny bags are being produced in increasing quantities, with production now at 5.5 million bags per year. Increases are expected through JCRR-sponsored aid to jute and hemp culture, plus equipment purchases and improved chemicals from the alkali industry. Export does not appear likely, however, since rice and sugar increases will more than keep pace with the anticipated rise in bag production.

Textile spindleage has risen from 29,000 operable spindles in 1949 to 80,000 at present.

Cement production is expected to exceed 400,000 metric tons in 1952 as contrasted with peak production of 303,000 tons under the Japanese regime. Except for the possibility that the output will be largely required for local defense projects, the industry can earn from \$2.0 million to \$3.0 million in the export market.

Fertilizer production (calcium cyanamide and calcium superphosphate only) far exceeds maximum Japanese output which reached a peak of 33,858 tons of material in 1939. The goal for 1952 is 116,000 tons of the same materials, and current production trends indicate production clearly in excess of 90,000 tons. In addition to the above materials, production of ammonium sulphate at the Kaohsiung plant will continue at 7,000 tons, and after completion of current expansion plans will attain an output of 28,000 tons by 1954.

In addition to direct ECA assistance, it is also hoped that private capital, both in terms of local currency and foreign exchange, can be utilized to achieve increased industrial production. Certain local industries have attracted the interest of foreign investors. For example, the major oil companies have evidenced interest in the petroleum refinery, particularly since the loss of Abadan. Serious consideration has been given to investment despite the internal and

external risks. ECA also hopes to create conditions conducive to investment of Chinese capital within Formosa. With the regularization of taxes, freedom from fear of confiscation, and currency stability, idle capital can be drawn away from speculation and high interest lending into productive channels where it is acutely needed.

D. Improvement of Government Administration

The FY'53 program will continue efforts to improve government administration, particularly in fiscal practices and trade controls. The initial excesses of the military authority established in Formosa in 1945, the recent exile to the island of the Nationalist Government of China, the burden of supporting a military establishment of more than 640,000 men, the anxiety to avoid severe inflation, and the threat of armed invasion -- all these are factors which have led to confused and, at times, disorderly administration in Formosa since the end of World War II.

In the face of this situation, ECA plans, through the provision of expert services in the fields of public administration, economics, and finance, to bring about improvement in government administration, particularly fiscal and trade controls. At the same time ECA will work to bring about continued effective operation of a top level Chinese planning group known as the Economic Stabilization Board. This Board convenes in weekly sessions for the purpose of economic policy planning. Currently the Board is directing its principal efforts toward increasing Government revenues, limiting expenditures, and improving import screening, fiscal controls and credit facilities. Participating in discussions of the Board are representatives of the ECA Mission, MAAG and the United States Embassy. Chinese participants, serving under the chairmanship of the Governor of Taiwan, include the Ministers of Finance, Defense and Economic Affairs, the Directors of the Bank of Taiwan and the Central Bank of China, and Commissioners of the Joint Commission on Rural Reconstruction.

In order to carry on its work, the Board has appointed subcommittees to deal with specialized subjects such as the screening of foreign exchange, control of domestic credit, promotion of foreign trade, coordination of military and economic aid, coordination of agricultural, forestry, and industrial production goals, food and fertilizer policy, prices and wages, land reform. Decisions of the Board are translated into action through appropriate agencies of the Chinese Government including the Legislative and Executive Yuans.

A principal achievement of the Stabilization Board has been a major improvement in Government budget formulation. For 1952 a coordinated budget for all Government levels has been prepared, based on a more realistic assessment than heretofore of revenues and expenditures. These accomplishments have taken place within the framework of the Board with technical assistance provided by ECA and the MAAG. An indirect result of improved budgeting has been the focusing of attention on ways of increasing internal revenues with the consequence that tax revenues are estimated as being 37 percent higher in 1952 than in 1951.

Accomplishments thus far achieved in budget formulation have been guided in large measure by the terms of an Aide Memoire submitted by the U. S. Ambassador to the Generalissimo on July 20, 1951. (For text of Aide Memoire see Appendix II.) This document pointed out that the United States now regards Chinese expenditures as a matter of increasing importance in view of the economic and military aid programs being planned for Formosa. The document then requested that the Chinese develop plans whereby expenditures might be brought under better control with American assistance. Prompt compliance with the request and full cooperation by the Chinese authorities were forthcoming in response to the note.

During FY'53, ECA will furnish technical assistance along the lines of improved cost accounting, efficiency, and personnel practices, to Government-owned enterprises in Formosa -- from which much of the island's income is derived -- such as the Taiwan Sugar Corporation, the Provincial Food Bureau, and the Taiwan Railway Administration.

In the field of foreign trade, strict screening of imports has already been instituted by the Chinese with ECA encouragement in order to conserve available foreign exchange for needs of the highest priority. Also, sales of gold and foreign exchange as a source of emergency revenue have been largely discontinued. ECA expects import screening to continue and it plans to scrutinize free dollar procurement transactions to insure that importers buy at the lowest prices consistent with prudent procurement. Another ECA objective in foreign trade is to expand Formosan exports through an analysis of world markets and demand, as well as through the promotion of markets by better packaging, standardization, pricing, etc.

#### E. Rural Reconstruction

The fifth major objective of the ECA aid program is rural reconstruction. Serving as the principal instrument for carrying out this objective is the Sino-American Joint Commission on Rural Reconstruction, established by the China Aid Act of 1948 (PL 472, Title IV). Representing the first major attempt by the United States Government to support a comprehensive plan to solve problems confronting farmers in Asia, JCRR has the function of organizing and carrying out all parts of the U.S. aid program that have a direct effect on the rural areas of Formosa. A feature of the JCRR program is its emphasis on types of activities capable of bringing prompt benefits to rural people and applying solutions to the most urgent problems recognized by the farmers themselves.

In carrying on its broad-scale program in Formosa, JCRR works in full cooperation with, and in large measure through, local government, to better the living standards of farmers, who with their families comprise 60 percent of the total population. During FY'53, the efforts of JCRR will take the form of projects concerned with increasing agricultural production, through multiplication and distribution of improved seeds; control of crop insects and plagues, construction of irrigation works, breeding of livestock, and rehabilitation of tea plantations.

In addition, JCRR will continue to interest itself in projects concerning health, credit to aid production, land tenure reform, and strengthening of local farmers' associations. In the field of health, JCRR will continue the establishment of new rural health stations and the reactivation of existing stations, the support of an anti-tuberculosis program sponsored by UNICEF and WHO, the support of a malaria control and eradication project, the initiation of a project for leprosy control, and the training of local public health personnel.

In order to foster the spirit of self-help among farmers, JCRR will continue its efforts to strengthen the local farmers' associations through the regularizing of their functions and the training of supervisory personnel, and through the development of educational extension services and creation of youth organizations similar to "4-H" clubs in the United States.

In the field of land tenure reform, JCRR will furnish funds for the training, travel, and maintenance of supervisors and inspectors connected with the enforcement of rent reduction laws, for the training of personnel to carry on projects of land ownership classification, and for expenses connected with the sale of sizable portions of publicly owned land to tenant farmers. In addition, JCRR is building up a small economic staff to investigate the structure of agricultural prices, the methods of packaging and marketing agricultural products, and the meeting of needs for farm credit facilities.

#### F. Development of Chinese Leadership

A third major objective of ECA aid to Formosa is the development of Chinese leadership, with particular emphasis on greater advantages for Formosans. Toward this end ECA will continue its plan of sending trainees to the United States for higher education and in-service training.

Of the group of 35 trainees brought to the United States from Formosa under ECA FY'51 funds, some are attending colleges in order to obtain advanced courses and training in public health, engineering, agriculture, natural sciences, and social sciences. A few are engaged in in-service training in private industries such as the Norfolk Shipbuilding Company and the U. S. Pipe and Foundry Company. Still others are being trained in U. S. Government agencies such as TVA, the Department of Agriculture and the Department of the Interior, and in state government departments of public health and public works.

The FY'51 practice of selecting trainees on a competitive basis has resulted in a remarkable intensification of interest in the United States among students in Formosa. While this has served a valuable purpose in the public relations sense, more tangible benefits are expected from the ECA-sponsored policy of integrating trainees, after their return, into industry, agriculture, public health, and the other fields of their primary interest. A further benefit of the trainee program is to enable Formosans gradually to assume more positions of leadership hitherto reserved for mainlanders possessing superior educational advantages.

#### 4. Conclusion

Given the continued burden of high expenditures for defense, it seems likely that Formosa will require external aid beyond FY'53. The future magnitudes and the duration of external support are difficult to estimate.

Some favorable factors are evident which point toward a reduction in the need for future aid. Production is rising in most sectors of agriculture and industry. Rice is seven percent above prewar peaks, sweet potatoes 23 percent above, peanuts 114 percent, wheat 235 percent, fertilizer 132 percent, power four percent, cement 26 percent. When contrasted with immediate postwar production, progress is even more conspicuous. Currently offsetting this improvement is this year's drop in sugar, but partial recovery is foreseeable next year and possible steady improvement thereafter. Domestic national income is rising, from an estimated \$437 million in 1950 to \$446 million in 1951 -- still, however, only 91 percent of the 1937 figure.

Difficult to gauge in quantitative terms, but nevertheless important, are the expected benefits from certain of the more complex relationships of ECA projects to various sectors of the economy; for example: the relation of a new 6,500 foot highway bridge to agricultural yields in hitherto underdeveloped areas; the relationship of increased power output to irrigation and hence to sugar yields; the relationship of peanut yields to a reduction in dollar expenditures for soy beans; the relationship of more rational Government budgeting to price stability. There is the hope that the beneficial effects of these relationships will culminate in a rapid rise of national income and a steady decrease in the need for American aid.

As against the favorable factors, indicators of economic weakness are likewise apparent, for example: Public sensitivity to commodity shortages can be quickly translated into radical fluctuations of prices and interest rates. A substantial increase in the note issue has taken place, nearly 50 percent during 1950 and possibly 100 percent in 1951. Pressures to expand military expenditures are

stimulated by hopes of returning to the mainland. Because of military expenditures, essential Government services such as the extension of farm and industrial credit are being neglected or deferred. Gold and foreign exchange reserves were reduced by \$39 million during 1950 leaving a precariously small reserve considering the amounts which should prudently be held for currency backing and contingencies. Natural disasters, an interruption of fertilizer shipments through Communist military action, reduced yields through lost incentive in the face of inflation, are possibilities which could lower the output of export crops. Anti-communist Chinese and their families now in Hong Kong and the mainland are constantly seeking to enter Formosa. This results in a continuing influx of immigrants who cannot be readily assimilated and hence create an economic and social problem.

On the assumption that favorable factors in the economy will offset factors of economic weakness, a lessening of aid magnitudes is foreseeable after FY'53.

Part II

FORMOSA. Program Tables

- Table 1. Estimated Cost of Program (Grant Aid Only).....  
by Major Project Category
- Table 2. Revised FY '52 and Estimated FY '53 Dollar Cost  
of Program (Grant Aid Only) .. by Major Project  
Category
- Table 3. Estimated Breakdown of FY '53 Program (Grant Aid  
Only) ... by Project Within Major Category
- Table 4. Estimated FY '53 Breakdown of Supplies and  
Equipment ... by Commodity Group

FORMOSA

Table 1. Estimated Cost of Program (Grant Aid Only)  
By Major Project Category

Major Project Category	Costs (in thousands)			Dollar Equiv. of Local Currency Cost <sup>a/</sup>
	Dollar Cost		Services	
	Total	Supplies & Equipment		
	E S T I M A T E D			
			FY '53	
1. Emergency Relief	\$ -	\$ -	\$ -	\$ -
2. Public Health	159	59	100	905
3. Agriculture, Forestry, Fisheries	667	327 <sup>b/</sup>	340	6,349
4. Transportation, Power, Other Public Works	4,550	4,500	50	10,000
5. Handicraft and Manufacturing, Mining, Other Industry	3,788	3,723	65	1,500
6. General Engineering Advisory Services	690	-	690 <sup>e/</sup>	-
7. Education	20	10	10	100
8. Public Administration	345	-	345	-
9. Maintenance of Essential Supply <sup>d/</sup>	109,781	109,781 <sup>e/</sup>	-	-
<u>TOTAL COST OF PROGRAM</u> (incl. common-use items)	<u>\$120,000</u>	<u>\$118,400</u>	<u>\$1,600 <sup>f/</sup></u>	<u>\$18,854</u>
<u>TOTAL COST OF PROGRAM</u> (excl. common-use items)	<u>80,000</u>	<u>78,400</u>	<u>1,600</u>	<u>18,854</u>
<u>Percent of Total</u> <u>Dollar Cost</u> (excl. common-use items)	<u>100.0</u>	<u>98.0</u>	<u>2.0</u>	-
<u>R E V I S E D</u> FY '52				
1. Emergency Relief	-	-	-	-
2. Public Health	247	162	85	785
3. Agriculture, Forestry, Fisheries	1,054	774	280	10,981
4. Transportation, Power, Other Public Works	7,030	6,980	50	8,623
5. Handicraft and Manufacturing, Mining, Other Industry	1,530	1,468	62	6,400
6. General Engineering Advisory Services	650	-	650	-
7. Education	36	26	10	337
8. Public Administration	255	-	255	-
9. Maintenance of Essential Supply	70,198	70,198	-	-
<u>TOTAL COST OF PROGRAM</u> (incl. common-use items)	<u>\$ 81,000</u>	<u>\$ 79,608</u>	<u>\$1,392 <sup>g/</sup></u>	<u>\$27,126</u>
<u>TOTAL COST OF PROGRAM</u> (excl. common-use items)	<u>68,275</u>	<u>66,883</u>	<u>1,392</u>	<u>27,126</u>
<u>Percent of Total</u> <u>Dollar Cost</u> (excl. common-use items)	<u>100.0</u>	<u>98.0</u>	<u>2.0</u>	

FORMOSA

(Footnotes to Table I)

- a/ Converted at the rate of NT \$10.30 = US\$1, at which foreign exchange for non-luxury imports is purchased. This is also the counterpart deposit rate.
- b/ Does not include \$20.4 million of fertilizer shown in category 9.
- c/ Total cost of contract with U.S. engineering firm. Includes fixed fee, cost of back-up provided by home office, administrative and overhead expenses, etc., in addition to pay of personnel sent to field.
- d/ Common-use items plus requisites for production and other essential civilian Supplies. See Table 3, Item 9.
- e/ Includes \$20.4 million of fertilizer which provides basic support for category 3.
- f/ \$1,350 for TA experts (including total cost of general engineering advisory contract); number of persons distributed as follows: Public Health, 5; Agriculture, Forestry, Fisheries, 16; Handicraft and Manufacturing, Mining, Other Industry, 1; General Engineering Advisory Services, 16; Public Administration, 22; Total, 60. Also, \$250 for trainees, distributed as follows: Public Health, 5; Agriculture, Forestry, Fisheries, 20; Transportation, Power, Other Public Works, 10; Handicraft and Manufacturing, Mining, Other Industry, 10; Education, 2; Public Administration, 3; Total, 50.
- g/ \$1,142 for TA experts (including total cost of general engineering advisory contract); number of persons distributed as follows: Public Health, 5; Agriculture, Forestry, Fisheries, 15; Handicraft and Manufacturing, Mining, Other Industry, 1; General Engineering Advisory Services, 15; Public Administration, 20; Total, 56. Also \$250 for trainees, distributed as follows: Public Health, 5; Agriculture, Forestry, Fisheries, 20; Transportation, Power, Other Public Works, 10; Handicraft and Manufacturing, Mining, Other Industry, 10; Education, 2; Public Administration, 3; Total, 50.

ECA:FEPD  
November 30, 1951

FORMOSATable 2. Revised FY'52 and Estimated FY'53 Dollar Cost of Program (Grant Aid Only)  
By Major Project Category

Major Project Category	Dollars (in thousands)					
	Total Dollar Cost		Percent of Total Program Cost (Categories 1-9)		Percent of Total Project Cost (Categories 1-8)	
	FY'52	FY'53	FY'52	FY'53	FY'52	FY'53
1. Emergency Relief	\$ -	\$ -	-	-	-	-
2. Public Health	247	159	0.3	0.1	2.3	1.6
3. Agriculture, Forestry, Fisheries	1,054 <sup>a/</sup>	667 <sup>a/</sup>	1.3	0.6	9.7	6.5
4. Transportation, Power, Other Public Works	7,030	4,550	8.7	3.8	65.1	44.5
5. Handicraft and Manufacturing, Mining, Other Industry	1,530	3,788	1.9	3.1	14.2	37.1
6. General Engineering Advisory Services	650	690	0.8	0.6	6.0	6.7
7. Education	36	20	0.0	0.0	0.3	0.2
8. Public Administration	255	345	0.3	0.3	2.4	3.4
9. Maintenance of Essential Supply <sup>b/</sup>	70,198 <sup>c/</sup>	109,781 <sup>c/</sup>	86.7	91.5	-	-
<u>TOTAL DOLLAR COST OF PROGRAM (incl. Common-use Items)</u>	\$ <u>81,000</u>	\$ <u>120,000</u>	<u>100.0</u>	<u>100.0</u>	-	-
<u>TOTAL DOLLAR COST OF PROGRAM (excl. Common-Use Items)</u>	<u>68,275</u>	<u>80,000</u>	-	-	-	-
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	<u>10,802</u>	<u>10,219</u>	-	-	<u>100.0</u>	<u>100.0</u>

a/ Does not include fertilizer shown in Category 9 in the following amounts (thousands of dollars): FY'52, 18,900; FY'53, 20,400.

b/ Common-use items plus requisites for production and other essential civilian supplies. See Table 3, item 9.

c/ Includes fertilizer in the following amounts (thousands of dollars): FY'52, 18,900; FY'53, 20,400. Though included with salable commodities, the fertilizer provides basic support for JCRR's agricultural activities and should properly be considered a component of Category 3. The net effect of the shift between categories would be a substantial increase in the percentage of total grant aid programmed for agriculture.

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Table 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)			
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost <sup>a/</sup>	
1. <u>Emergency Relief</u>	\$ --	\$ --	
2. <u>Public Health</u>	<u>159</u>	<u>905</u>	
Rural Health	12	790	
Malaria Control and Eradication	47	115	
Technical Assistance and Trainees	100	--	
3. <u>Agriculture, Forestry, Fisheries</u>	<u>667</u>	<u>6,349</u>	
Agriculture	224	4,788	
Forestry	3	561	
Fisheries	100	1,000	
Technical Assistance and Trainees	340	--	
4. <u>Transportation, Power, Other Public Works</u>	<u>4,550</u>	<u>10,000</u>	
<u>Transportation</u>	<u>2,500</u>	<u>4,000</u>	
Railways	1,000	3,000	
Highways	1,500	1,000	
<u>Power</u>	<u>2,000</u>	<u>6,000</u>	
<u>Technical Assistance and Trainees</u>	<u>50</u>	--	
5. <u>Handicraft and Manufacturing, Mining, Other Industry</u>	<u>3,788</u>	<u>1,500</u>	
<u>Mining</u>	<u>625</u>	<u>1,500</u>	
Pyrites	200	500	
Monazite	150	200	
Sulphur	200	500	
Serpentine, Asbestos, etc.	75	300	
<u>Industry (Alkali Plant, Oil Processing, etc.)</u>	<u>3,098</u>	--	
<u>Technical Assistance and Trainees</u>	<u>65</u>	--	
6. <u>General Engineering Advisory Services</u>	<u>690</u>	--	
7. <u>Education</u>	<u>20</u>	<u>100</u>	
JCRR Materials	10	100	
Technical Assistance and Trainees	10	--	
8. <u>Public Administration</u>	<u>345</u>	--	
9. <u>Maintenance of Essential Supply</u>	<u>109,781</u>	--	
Common-use Items <sup>b/</sup>	40,000	--	
Requisites for Production <sup>c/</sup>	59,263	--	
Other Essential Civilian Supplies <sup>d/</sup>	10,518	--	
<u>TOTAL COST OF PROGRAM</u> (Categories 1-9)	<u>\$ 120,000</u>	<u>\$ 18,854</u>	
<u>Total Cost (Excl. common-use items)</u>	<u>80,000</u>	<u>18,854</u>	
<u>Total Cost of Projects</u> (Categories 1-8)	<u>10,219</u>	<u>18,854</u>	

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~~CONFIDENTIAL - Security Information~~FORMOSA. Table 3.

(Footnotes)

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- a/ Converted at the rate of NT\$10.30 = US\$1, at which foreign exchange for non-luxury imports are purchased. This is also the counterpart deposit rate.
- b/ Commodity components as follows: bread grains, 3,000; fats and oils (soy beans), 2,000; raw cotton, 270; cotton linters, 200; crude oil, 6,500; gasoline, lubricating oils, greases, 12,200; iron and steel materials and products, 4,000; copper and copper products, 300; other nonferrous metals and products, 1,000; chemicals and related products, 1,000; rubber and rubber products, 1,000; generators, motors and engines, 700; construction, mining and conveying equipment, 750; industrial machinery n.e.c., 1,050; textile products, 4,730; medical and hospital supplies and equipment, 1,300.
- c/ Commodity components as follows: soy beans, 7,656; nitrogenous fertilizers, 16,307; potassic fertilizers, 2,700; phosphate rock, 1,400; raw cotton, 13,000; crude oil, 2,500; iron and steel materials and products, 4,500; copper and copper products, 500; chemicals and related products, 1,500; rubber and rubber products, 1,000; nonferrous ores and concentrates, 500; fats and oils, 1,200; generators, motors, engines, etc., 1,000; construction, mining, conveying equipment, 1,000; industrial machinery n.e.c., 3,500; hides, 1,000. See Table 4, Salable Commodities.
- d/ Commodity components as follows: bread grains, 5,874; fats and oils, 1,344; tobacco, 500; gasoline, lubes and greases, 1,000; medical and hospital supplies and equipment, 1,800. See Table 4, Salable Commodities.

FORMOSA

Table 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C & F Dollar Cost (in thousands)		
Commodity Group	Total Cost	Cost of Salable Commodities <sup>a/</sup>
1. <u>Food</u>	<u>\$21,074</u>	<u>\$16,074</u>
Bread grains	\$ 8,874	\$ 5,874
Fats and oils	12,200	10,200
Soy beans	11,000	9,000
Copra and/or tallow	1,200	1,200
2. <u>Feed and Fertilizer</u>	<u>20,407</u>	<u>20,407</u>
<u>Nitrogenous fertilizers</u>	16,307	16,307
Potash fertilizer	2,700	2,700
Phosphate rock	1,400	1,400
3. <u>Natural Fibers</u>	<u>13,470</u>	<u>13,000</u>
Cotton (raw)	13,270	13,000
Cotton linters	200	-
4. <u>Tobacco</u>	<u>500</u>	<u>500</u>
5. <u>Other Agricultural Products</u>	<u>80</u>	-
Seeds	10	-
Breeding stock	70	-
6. <u>Fuels</u>	<u>22,200</u>	<u>3,500</u>
Petroleum and products	22,200	3,500
Crude oil	9,000	2,500
Gasoline, lubes, greases	13,200	1,000
7. <u>Industrial Raw Materials</u>	<u>15,300</u>	<u>8,000</u>
Iron & steel materials & products	8,500	4,500
Copper and copper products	800	500
Other nonferrous metals & products	1,000	-
Chemicals and related products	2,500	1,500
Rubber and rubber products	2,000	1,000
Nonferrous ores and concentrates	500	500
8. <u>Capital Equipment</u>	<u>16,339</u>	<u>5,500</u>
Generators, motors, engines, etc.	4,700	1,000
Road building equipment	500	-
Construction, mining, conveying equipment	3,000	1,000
Industrial machinery, n.e.c.	8,139	3,500
9. <u>Other Manufactures and Raw Materials</u>	<u>9,030</u>	<u>2,800</u>
Textile products	4,730	-
Hides	1,000	1,000
Medical and Hospital Supplies and Equipment	3,300	1,800
<u>TOTAL DOLLAR COST</u>	<u>\$118,400<sup>b/</sup></u>	<u>\$69,781</u>
<u>Percent Salable Commodities</u>		58.9

a/ Requisites for production plus other civilian supplies. See Table 3, Item 9. Common-use items are not expected to be sold.

b/ For distribution by major project category, see Table 1, Column 2.

ECA:FBPD  
November 30, 1951

Part III

FORMOSA. ECA-FINANCED PROJECTS

1. Emergency Relief None

2. Public Health

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost*</u>
FY'51: \$ 68,000	FY'51: n.a.
FY'52: 247,000	FY'52: \$ 785,000
FY'53: 159,000	FY'53: 905,000

The public health projects are principally directed toward bettering health conditions among the predominant farming class. Because of this emphasis on rural health, the program is largely administered by the Joint Commission on Rural Reconstruction.

In FY'53, JCRR will continue its rural health program, initiated in 1949, which has assisted in the establishment or reactivation of village and hsien (county) health stations. Thanks to widespread public support, an increasing share of the cost of the individual stations is borne by the population served by the stations. JCRR has also given support to the anti-tuberculosis program sponsored by UNICEF and has supported projects in malaria control, public sanitation, and the training of nurses and sanitary engineers.

Rural Health Stations

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 18,000	FY'51: n.a.
FY'52: 137,000	FY'52: \$480,000
FY'53: 12,000	FY'53: 790,000

The dollar cost of this project is largely for equipment. In addition, however, a large proportion of antibiotics, other drugs, and medical supplies financed under maintenance of essential supply, will be distributed at cost to rural health stations, demonstration projects, and hospitals with the cooperation of the JCRR.

With the help of rural health stations the JCRR plans to initiate a project in leprosy control. To care for the island's estimated 6,000 lepers, there are only two leprosaria on the island. One is a government hospital with capacity for 700 patients; the other is a small missionary hospital with capacity for 30 patients. Both institutions are in poor condition and deficient in supplies and maintenance.

Since it is obviously impossible to hospitalize the total number of lepers afflicted, it is proposed not only to improve the existing hospitals, but also to extend the present field-treatment of lepers.

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\* Converted at the rate of NT \$10.30=US\$1, the rate at which foreign exchange for non-luxury imports is purchased. This is also the counterpart deposit rate.

Malaria Control and Eradication

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$20,000	FY'52: \$ 40,000
FY'53: 47,000	FY'53: 115,000

This program is being initiated in FY'52 with the ultimate goal of eradicating malaria on the Island by 1955. In FY'53, the program will be continued on an expanded scale based on plans developed by a USPH expert. Plans call for the initial organization and training of a cadre of anti-malaria specialists to conduct a pilot program within a limited area near Kaohsiung in the southern half of the Island. As experience is gained there, trained specialists will be assigned to other areas to conduct similar programs in order to cover all malaria infested regions by 1955.

Technical Assistance and Trainees

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 50,000	FY'51: n.a.
FY'52: 90,000	FY'52: \$265,000
FY'53: 100,000	FY'53: -

The training of students and health technicians, initiated in FY'51, is to be continued at the same rate as in previous years. Five students and in-service trainees will receive the benefit of a year's intensive study in the United States. It is expected that by the end of FY'53 this project, coupled with training in Formosa, will have a substantial impact in terms of strengthened qualifications of medical personnel and in terms of a stimulated interest in up-to-date techniques.

Provision is also made for the continuation of the Columbia University - National Taiwan University Medical School cooperation, still on a small but significant scale.

Public health specialists will also be sent to Formosa from the United States, chiefly on short-term assignments, to furnish special assistance in such fields as the training of nurses and public health technicians, sanitation, and laboratory techniques.

3. Agriculture, Forestry, Fisheries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 334,000	FY'51: n.a.
FY'52: 1,054,000	FY'52: \$10,981,000
FY'53: 667,000	FY'53: 6,349,000

Although Formosa has the foundation for substantial industrial expansion it remains predominantly agricultural. The 600,000 families engaged in agriculture make up 60 percent of the total population. Eighty-nine percent of Taiwan's exports are agricultural products (sugar, rice, tea, citronella, bananas, pineapple, feathers, etc.).

Substantial progress has been made in increasing yields and improving varieties of crops, developing irrigation, and controlling crop pests and diseases since the inception of the Joint Commission on Rural Reconstruction (JCRR) program in Formosa in 1949. However, crop yields are still below pre-war levels and much remains to be done in the field of seed-multiplication if gains made in the last two years are not to be lost. Insects and plant diseases are an ever-present threat, and the irrigation system has not entirely recovered from neglect during the war and early postwar years.

Agriculture

<u>Dollar Cost*</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$100,000	FY'51: n.a.
FY'52: 155,000	FY'52: \$4,051,000
FY'53: 224,000	FY'53: 4,788,000

The Joint Commission on Rural Reconstruction serves as the principal instrument for carrying out the agriculture project, the first major attempt by the United States Government to support a comprehensive plan to solve problems confronting farmers in Asia. The importance of this plan arises from the fact that the discontent among the farming class is a principal contributing cause of Communist success in Asia. At first on the Chinese mainland, and later in Formosa, JCRR carried on a broad-scale program of rural reconstruction, in full cooperation with and in large measure through the local government.

Although treated here as primarily an agricultural institution, JCRR has the broad function of organizing and carrying out all parts of the U.S. aid program that have a direct effect on the rural areas of Formosa. In addition to its projects designed to improve farm techniques, crop yields and livestock breeding, the Commission devotes efforts to strengthening public health activities in the rural areas, encouraging rent reduction and land tenure reforms, strengthening the local farmers' associations, and improving irrigation facilities. It shares actively in the joint ECA/JCRR training program of sending students to the U.S. for higher education and in-service training in agriculture and natural science. JCRR inspectors supervise and inspect the distribution of ECA fertilizer (valued at a total of \$18.9 million in FY'52), to see that the arrangements for barter of fertilizer in exchange for rice are carried out according to agreement.

A feature of the JCRR program is its emphasis on types of activities capable of bringing prompt benefits to rural people. While recognizing the value of long-range programs of research and education, the essence of the program lies in its insistence on giving first attention to the quick solution of the most urgent problems felt by the farmers themselves.

In addition to those carried on in FY'51 and FY'52, the following new projects will be initiated in FY'53: (a) importation of angora goats to foster development of a native wool industry, reduce wool imports, and provide and improve the livelihood of 200,000 aborigines; (b) establishment of a veterinary supply depot to be administered along the same lines as the present JCRR medical supply depot for the benefit of livestock production; (c) establishment of a livestock insurance organization to protect individual farmers from the consequences of fatal animal diseases; (d) development of rural youth education extension services and creation of youth organizations similar to "4-H" clubs in the United States.

Forestry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$519,000	FY'52: \$6,498,000
FY'53: 3,000	FY'53: 561,000

\* Excluding fertilizer which is included in Category 9.

The principal needs of the industry are being met with FY'52 aid plus local currency from counterpart. The FY'53 program in dollars is intended to meet minor and spare part equipment needs while primary emphasis will be in the form of counterpart support.

Formosan forest country is characterized by extremely rugged topography. Two-thirds of the land area classified as forest land contains some of the most magnificent stands of semi-hard and hardwood trees to be found in the world. Transportation problems arising out of the relative inaccessibility of much of the forest land have prevented Formosa's timber industry from being properly developed. Even during the Japanese occupation, despite maintenance, scientific cultivation, and large capital expenditures, production never reached the level of consumption. Properly developed, Formosa's timber resources are sufficient to supply the island's needs and provide an exportable surplus.

The FY'53 program is a continuation of programs carried out since 1950. It consists mainly of expenditure of counterpart funds to carry on reforestation projects, installation of logging equipment, and road building into areas hitherto inaccessible.

Fisheries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$100,000	FY'52: \$ 432,000
FY'53: 100,000	FY'53: 1,000,000

One of Formosa's principal industries during the Japanese occupation was fishing. The industry never fully recovered, however, and is presently producing only 60 percent of the prewar catch. Restoring production in this industry to previous levels is highly important. It is estimated that the foreign exchange obtained from the export of canned fish, together with the reduction of imports of other foodstuffs, will represent a net gain to the Formosan economy of \$5 million annually. FY'53 funds will be used for the general rehabilitation of the fishing fleet, shore installations, and fish-finding apparatus. It is believed prewar production levels can be achieved in 1955. An immediate need for restoring the industry is to furnish protein food for the armed forces and thus reduce protein imports in the common-use program.

Technical Assistance and Trainees

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$234,000	FY'51: -
FY'52: 280,000	FY'52: -
FY'53: 340,000	FY'53: -

In addition to providing physical equipment for the agricultural, forestry and fishing industries, it is equally important that technical assistance be provided. Because of the status of Formosans under Japanese control, almost all positions of a technical nature in industry were filled by Japanese. Consequently few Formosans have the necessary technical training to manage industries as efficiently as their Japanese predecessors. Although Chinese technicians from the mainland have to a considerable extent filled the gap left by the Japanese, there is still an insufficient number of local technicians. To improve these conditions, ECA proposes to employ 16 American technical experts to render advisory service in agriculture, forestry and fisheries. Twenty native trainees also will be sent to the United States for undergraduate and graduate education in natural sciences. Through the technical assistance program, ECA expects to strengthen the qualifications of

local technicians to augment production and substantially reduce the future need for U.S. dollar assistance in this field.

4. Transportation, Power, Other Public Works

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$12,077,000	FY'51: n.a.
FY'52: 7,030,000	FY'52: \$ 8,623,000
FY'53: 4,550,000	FY'53: 10,000,000

Transportation and harbor facilities have steadily improved since the war. Formosa now benefits from the full utilization of two seaports as a result of counterpart projects in 1951 which opened up the harbor at Kaohsiung to standard ocean-going vessels for the first time since the war. Freight carried on the Taiwan railway's western system has risen from 2.6 in 1945 to over 7.0 million tons, thanks to replacement of cross ties, steel rails, bridges and signal systems. New vehicles plus a substantial reduction in the attrition rate have resulted from ECA projects covering new truck and bus chassis, bridges and culverts. A notable accomplishment will result from the completion in June 1952 of a 6,500 ft. highway bridge (at Silo) which for the first time will permit all-weather motor travel in a north-south direction.

Despite these improvements, congestion of the ports and railheads still points to the need for additional effort, particularly in view of increased traffic which will result from the arrival of military end-items, intensified military training, and larger rice and sugar yields now forecast.

Power must have top priority in the improvement of Formosa's capacity for self-support. It is needed in ever larger quantities for aluminum production, cement manufacture, sugarcane irrigation, mining and planned increased fertilizer productive capacity. At present the power demand exceeds the supply, and "brown-outs" together with reduction in aluminum manufacture by more than one-half were found necessary beginning November 1, 1951.

During fiscal years 1950, 1951, and 1952, ECA invested a total of US\$9.1 million in power development. With the completion of these projects, the power system will have a firm peaking capacity of 212,000 KW against an estimated peak load of 260,000 KW. Even when these projects are all generating at capacity, the system is expected to be overloaded. The Taiwan Power Company has plans for additional projects which will assure a firm peaking capacity of 415,000 KW by the end of 1955. This is the power load which it is estimated will be required to support the planned level of industry at that time.

This increased capacity is estimated to cost US\$25 million and the equivalent of \$42 million in local funds. Upon completion of these projects, the depreciated value of the power system will be US\$150 million and the gross annual value of the product at US one cent per KWH will be US\$23 million.

Transportation

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$6,966,000	FY'51: n.a.
FY'52: 1,900,000	FY'52: \$2,600,000
FY'53: 2,500,000	FY'53: 4,000,000

In FY'53 this project consists only of aid to the railways and highways,

whereas projects in FY'51 and FY'52 included harbor improvement and ship repair as well.

Railways

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$4,099,000	FY'51: n.a.
FY'52: 700,000	FY'52: \$1,000,000
FY'53: 1,000,000	FY'53: 3,000,000

The FY'53 program will permit continuation of the FY'50 and FY'51 programs which, with reparation payments in the form of equipment from Japan and equipment purchased by the Chinese Government, have largely offset depreciation during the past ten years. Industrial and agricultural developments, combined with intensified military activity, will require the moving of ever-increasing quantities of goods from producing centers to the two principal ports and from several other ports throughout the country. Freight loadings now exceed 7 million tons per year, but are still short of the 10 million ton figure which is the freight handling capacity of the ports. Completion of previous ECA projects calls for the replacement of one worn-out railway bridge, the strengthening of additional bridges, the installation of interlocking plants to provide adequate traffic control and the lengthening of sidings to accommodate the heavier trains which the improved roadbed and bridge system will carry.

Highways

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$2,717,000	FY'51: n.a.
FY'52: 1,000,000	FY'52: \$1,200,000
FY'53: 1,500,000	FY'53: 1,000,000

Few of the important highways are paved, despite production of asphalt in the local refinery and a plentiful supply of crossing stone. Lack of unpaved highways is a defense handicap and the cause of a serious attrition rate for trucks and busses which supplement the railways. Tires, which must be imported, do not give the wear which could be expected if main roads were paved. The ECA program has already amounted to US\$2.7 million including the 6,500 ft. highway bridge of Silo, culverts, vehicle replacement and repair, highway and bridge maintenance and repair materials. The FY'53 program will furnish additional bus and truck chassis and materials for highway construction, maintenance and repair.

Power

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$4,098,000	FY'51: n.a.
FY'52: 5,050,000	FY'52: \$5,900,000
FY'53: 2,000,000	FY'53: 6,000,000

The ECA program for FY'53, amounting to US\$2.0 million, includes installation of a second unit at the Sung Shan thermal station with 5,000 KW firm capacity, a second unit at the Urai hydro station with 12,500 KW installed capacity, and a second unit at the Li Wu hydro station with 15,100 KW installed capacity. The combined firm capacity of the two additional hydro units is 4,800 KW, with Li Wu delivering installed capacity approximately seven months

of the year while Urai delivers at installed capacity during the period of heaviest drawdown on Sun Moon Lake reservoir. The total cost of these projects is US\$2,814,000. It is planned that the Chinese Government will undertake financing to the extent of \$814,000 with ECA financing the remaining costs.

#### Technical Assistance and Trainees

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$24,000	FY'51: -
FY'52: 50,000	FY'52: -
FY'53: 50,000	FY'53: -

Ten trainees will be selected for one year's study in the United States. After training, these candidates are expected to contribute towards the work of the Taiwan Railway Administration, Highway Bureau and the Taiwan Power Company. Training thus far has taken place at the University of Michigan, Tennessee Valley Authority and the Massachusetts Department of Public Works.

#### 5. Handicraft and Manufacturing, Mining and Other Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$1,704,000	FY'51: n.a.
FY'52: 1,530,000	FY'52: \$6,400,000
FY'53: 3,788,000	FY'53: 1,500,000

Mineral resources have been underdeveloped, with the consequence that as late as 1950, pyrites and sulphur were imported despite the fact that adequate mineral reserves existed on the Island. Development of deposits has now placed Formosa on a self-supporting basis in regard to these materials. Similarly, the output of copper, coal, cement, asbestos, and mica has undergone steady development since the war, accelerated recently with ECA aid in FY'51 and FY'52.

During the Japanese occupation numerous small industries were established in Formosa providing an excellent light industry basis for the Island. Unfortunately, poor maintenance, foreign exchange shortages and war damage have hampered production. ECA plans in FY'53 to emphasize aid to these small industries which collectively represent substantial benefits to the foreign exchange position of the Island.

#### Mining

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 720,000	FY'51: n.a.
FY'52: 1,451,000	FY'52: \$4,000,000
FY'53: 625,000	FY'53: 1,500,000

U.S. dollar aid to mining will contribute to production increases and exploration of known mineral deposits of pyrites, monazite, sulphur, serpentine, asbestos, and talc. Funds to be used in FY'53 are for equipment, largely for drilling, excavation, and transport. In addition, ECA will continue encouragement of coal development, for which US\$501,000 was expended in FY'52. (It is

planned to raise coal output from the current figure of 1.6 million tons to 3.0 million tons by 1955.) In FY'52 ECA furnished aid (US\$250,000) toward the development of mica, gold and copper. These funds combined with FY'53 aid will place the mining industry on a self-supporting basis and will make a substantial contribution to economic stabilization through a reduction in imports and an increase of exports.

Pyrites

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$400,000	FY'52: \$570,000
FY'53: 200,000	FY'53: 500,000

Pyrites are mined for the production of sulfuric acid used in the manufacture of calcium superphosphate. As recently as 1950 pyrites were being imported despite the abundance of minable deposits on the Island. ECA imports of equipment are opening up high-grade deposits, with the expectation that by the end of calendar 1952 as much as 60,000 tons can be produced annually. This represents exportable surplus valued at approximately \$500,000.

Monazite

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$ 50,000	FY'52: \$ 75,000
FY'53: 150,000	FY'53: 200,000

Fairly extensive low-grade deposits of monazite-zircon black sands exist as beach placers on the west and northwest coasts. Japanese records indicate the production of crude concentrates in the last years of the war. FY'53 plans call for the continuation of developmental work begun in FY'52.

Sulphur

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$100,000	FY'52: \$145,000
FY'53: 200,000	FY'53: 500,000

FY'53 funds are intended to permit continued improvement of sulphur refining and the development of a few new sources. Output is currently running at 5,040 tons per year and an estimated increase of 1,000 tons annually is expected. Improvements thus far have rendered Formosa self-sufficient in sulphur and an exportable surplus valued at \$300,000 is expected by calendar year 1953.

Serpentine, Asbestos, Talc

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$75,000	FY'52: \$109,000
FY'53: 75,000	FY'53: 300,000

Talc and asbestos occur in the vein-forms of serpentine deposits being worked near Hualien on the east coast. The serpentine is utilized in the manufacture of fused phosphate, a fertilizer material of which approximately 12,000 tons is being produced per year. Asbestos and talc are sold commercially, the former being used largely in asbestos cement and the latter in insecticide, paper and drug industries. It is expected that the industry will produce sufficiently to meet domestic needs and to provide an exportable surplus valued at \$300,000 by 1954.

Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 939,000	FY'51: n.a.
FY'52: 17,000	FY'52: \$1,900,000
FY'53: 3,098,000	FY'53: -

ECA aid to smaller industries has been granted in previous years in order to offset depreciation and furnish the missing equipment components in otherwise profitable plants. Collective gains from these smaller industries are expected to result in a substantial improvement in the net foreign exchange position of the Island. Industries in this category include the following:

Alkali. Aid is contemplated for the four plants of the Taiwan Alkali Company using local salt fields as the source of raw material. Equipment to be furnished will permit the liquefaction and further processing of chlorine which is currently being wasted because of the lack of equipment. This equipment deficiency resulted in the waste of 2,000 tons of chlorine in 1950 alone, plus the additional costs of disposal to avoid contaminating the air. An estimated return of \$500,000 could have been realized had the waste chlorine been liquefied for export and even greater returns would have resulted from the manufacture of chlorine compounds. Completion of the program for the alkali plants will result in the production of chlorine compounds for export and domestic use. Domestically, the products will be used in the manufacture of aluminum products, paper, dyes, edible oils, insecticides, gunny bags and paint.

Oil Processing. Soy beans valued at \$9.2 million were financed during FY'52 for crushing in local mills. As against an optimum extraction average of 16 percent crude oil, the current extraction rate averages 11 percent. Renovation of existing mills through the furnishing of equipment will reduce processing losses and improve the quality of oil and bean cake.

Gunny Bag Weaving. A gunny bag deficit is forecast which will jeopardize the distribution and export of sugar and rice crops. Total production is now 5.5 million bags, leaving an estimated deficit of 1.4 million bags this year. In view of anticipated increases in crop yields, ECA aid to the industry, coupled with JCRR-sponsored increases in jute output, is expected to meet this deficit. (This project is all the more important in view of the uncertainty of offsetting bag shortages through imports, owing to the limited world supply of jute and the absence of diplomatic relations with supplying countries in South Asia.)

Miscellaneous. Other industries requiring assistance include: (a) the steel works, producing tin plate, black plate, galvanized sheets; (b) paper and pulp industries now using bagasse (from sugarcane) to help reduce the need for imported pulps; (c) the manufacture of machinery used in producing castings, plates, and spare parts for railroads and ship repair; and (d) the aluminum industry, producing ingots and sheets.

Technical Assistance and Trainees

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$45,000	FY'51: -
FY'52: 62,000	FY'52: -
FY'53: 65,000	FY'53: -

A year's training in the United States is expected for thirteen students. As heretofore, the training program will involve on-the-job training in chemical and mechanical engineering, with such companies as the Norfolk Shipbuilding Company, U. S. Pipe and Foundry Company of Burlington, New Jersey, and Ansonia Conveyor and Link Belt Company of Philadelphia.

6. General Engineering Advisory Services

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$884,000	FY'51: -
FY'52: 650,000	FY'52: -
FY'53: 690,000	FY'53: -

Continued financing is contemplated for the services of the J. G. White Engineering Corporation, the industrial management, engineering firm which has been working in Formosa since 1948. The services of the firm have contributed to notable increases in production and substantial dollar savings through improved techniques. In FY'53 services will be concentrated in such fields as power, railways, harbor control, chemicals, textiles and mining. Additional assistance will be in connection with projects supporting the MDA Program, particularly those financed with counterpart funds. Examples of military support projects already completed under the firm's supervision are airfield extension and the development of bulk-handling facilities for petroleum products. Bulk-handling facilities now operating have resulted in savings of over US\$2.0 million against FY'51 funds alone.

The firm's engineers serve as technical advisers to a Sino-American committee on industrial reconstruction and rehabilitation. This committee makes recommendations regarding the use of ECA funds for industrial development and plans coordinated industrial growth of interrelated industries. The firm also supplies qualified engineers in short-term assignments to deal with specific problems.

7. Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$19,000	FY'51: -
FY'52: 36,000	FY'52: \$337,000
FY'53: 20,000	FY'53: 100,000

The FY'53 program is for education, planned on only a limited scale owing to the general cultural level of the population and relatively high

literacy rate of 60 percent. Continuation of a limited program is contemplated, however, in view of the need for furnishing better educational advantages to native Formosans.

During fifty years of Japanese control, important positions in the Formosan Government as well as managerial positions in industry were barred to Formosans. With rare exceptions, education above the high school level was limited to Japanese. After the departure of the Japanese in 1945, the shortage of qualified leadership in public service and industry has been only partially offset by the availability of Chinese from the mainland.

To furnish further incentive to educational development, ECA plans to continue its current program of sending selected students to the United States for graduate and undergraduate study in the fields of social science and education.

Additional funds will be spent for supplies and materials necessary for the continuation of the ECA/JCRR educational activities throughout Formosa. Material and supplies contemplated include projectors, public address equipment, instructional pamphlets and training aids.

8. Public Administration

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 29,000	FY'51: -
FY'52: 255,000	FY'52: -
FY'53: 345,000	FY'53: -

The effective functioning of the Chinese Government is a matter of increasing concern to the United States in view of the magnitude of economic and military aid being furnished to Formosa. Technical assistance must be provided, as it has been since 1948, to insure maximum efficiency in Chinese Government operations and to facilitate progress toward increasing the Island's capacity for self-support.

Funds will be provided for the training of three Formosan students in American universities. The remaining funds under this category will be spent to secure the services of experts in such fields as government finance, central banking, tax administration, foreign trade developments, and overseas procurement.

9. Maintenance of Essential Supply

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 77,506,000	FY'51: -
FY'52: 70,198,000	FY'52: -
FY'53: 109,781,000	FY'53: -

This category is the heart of the ECA program since it contributes directly to: (a) the achievement of economic stability; (b) support of the MDAP projects; and (c) increasing the Island's capacity for self-support. At the

same time this category bears a close relationship to other categories of the program. Contained in this category are requisites for production and essential civilian supplies totaling US\$69.8 million and common-use items, recommended at US\$40.0 million for FY'53.

Common-Use Items

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$12,525,000	FY'51: -
FY'52: 12,725,000	FY'52: -
FY'53: 40,000,000	FY'53: -

End-item aid was approved for Formosa during FY'52 in the amount of US\$237 million and a similar program is envisaged for FY'53. A common-use program to accompany the end-item aid is an essential ingredient to the success of both economic and military programs because of the inadequacy of internal, physical-handling facilities, commodity shortages, and the lack of foreign exchange for imports.

The common-use program is intended to furnish imported commodities and equipment required to implement specific projects. A program of US\$40 million has been recommended by the MAAG and ECA Missions in Formosa and is currently being screened. After screening, the common-use program will be discussed separately in a subsequent submission.

The projects for FY'53 are shown in the following table. Dollar magnitudes for FY'53 are still being screened, and hence those shown in the table are recommended amounts. For convenience, the dollar amounts approved for FY'51 and FY'52 are shown where applicable. Funds for both fiscal years, 1951 and 1952 are combined below rather than identified as charges against a particular fiscal year. This combination presents a more realistic picture since funds from both years have been used concurrently, those for FY'51 having been apportioned in June 1951, only a few weeks prior to the beginning of FY'52.

Project

	<u>U. S. DOLLAR AMOUNTS APPROVED</u>	<u>U. S. DOLLAR AMOUNTS RECOMMENDED</u>
	<u>FY'51/52</u>	<u>FY'53</u>
1. Barracks and class room facilities	\$ 250,000	\$ 1,400,000
2. Airfields, hangars and runways	3,800,000	1,250,000
3. Military wharves and base railroads	-	100,000
4. Hospitals, dispensaries, aid stations	400,000	1,800,000
5. Petroleum product handling facilities	500,000	500,000
6. Crude oil and petroleum products	11,500,000	18,700,000
7. Raw materials and tools for arsenals	250,000	2,000,000
8. Highway repair materials, bridges and culverts	500,000	800,000
9. Ship repair	300,000	2,250,000
10. Food, uniforms, bedding (uniforms and bedding to be manufactured locally from imported raw materials)	7,000,000	10,500,000
11. Education and training aids	-	200,000
12. Transportation and handling (local currency only)	-	-
13. Warehouses and magazines	400,000	500,000
14. Air Raid Protection (FY'51/52 only)	350,000	-
<b>Total</b>	<u>\$25,250,000</u>	<u>\$40,000,000</u>

Requisites for Production and Other Essential Civilian Supplies

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$64,981,000	FY'51: -
FY'52: 57,473,000	FY'52: -
FY'53: 69,781,000	FY'53: -

The commodities to be imported within this category may be summarized as follows:

<u>Commodity Group</u>	<u>FY'52</u>	<u>FY'53</u>
Food (wheat, flour, soybeans)	\$ 4,805,000	\$ 7,218,000
Feed and Fertilizer	26,043,000	28,063,000
Natural Fibers (raw cotton)	8,200,000	13,000,000
Tobacco	-	500,000
Fuels (crude oil, lubes)	2,850,000	3,500,000
Industrial Raw Materials (iron and steel materials, copper and copper products, chemicals, rubber and rubber products, nonferrous ores)	5,820,000	9,200,000
Capital Equipment (motors, engines, construction, mining and conveying equipment; industrial machinery)	8,205,000	5,500,000
Other Manufactures and Raw Materials (hides, medical supplies, textile products)	<u>1,350,000</u>	<u>2,800,000</u>
Total	<u>\$57,473,000</u>	<u>\$69,781,000</u>

(a) Relation to Production

The commodity imports in this category, constituting about half the total non-military imports, have been selected after reviewing total import needs. Production levels in agriculture and in many manufacturing industries are directly dependent on ECA imports. For example, ECA has financed over half the total fertilizer imports since 1950, thereby making possible continued record yields of rice. The oil refinery at Kaohsiung operates entirely from ECA-financed imports of crude oil. Expansion of the textile industry from 29,000 spindles in 1949 to 80,000 at present has been the result of assured raw cotton supplies through ECA. Similarly, ECA imports represent the bulk of the raw material supply for pineapple tinning, the manufacture of soap, shoes and edible oils.

(b) Relation to Internal Finances

An immediate consequence of the ECA-financed import program is, of course, the release of Chinese free dollar earnings for application against the balance of the import program. At the same time ECA commodity imports finance essential local currency projects and functions with the resulting counterpart funds. Unlike the capital items in categories 4 and 5 of the FY'53 program, items in Category 9 are readily salable and hence yield sales proceeds. These sales proceeds are in turn applied to approved counterpart projects. Local currency availabilities through counterpart must be carefully planned so as to synchronize with: (a) the initiation of MDAP projects (i.e., airfield extension, warehouse and highway construction, etc.); (b) the installation of major industrial equipment (i.e., water power reservoirs for hydro-electric projects, etc.); (c) Chinese Government budgeted projects for industrial and agricultural development; (d) rural rehabilitation projects; and (e) the administrative costs of the JCRR and ECA. Accordingly, the magnitude and timing of the FY'53 salable commodity imports are directly related to anticipated counterpart requirements with allowance made for local currency revenues which the Chinese are expected to furnish.

(c) Relation to Economic Stability

The salable commodity program has a series of interrelated economic consequences in Formosa. With the mainland catastrophe of inflation still freshly

in mind, Chinese authorities have made a determined effort to avoid the disastrous effects of runaway inflation. Despite this effort, prices have risen acutely so that the general retail index in September 1951 is 180 percent of June 1950, as the supply of goods has failed to keep pace with expenditures. Although prices have stabilized somewhat during 1951 (August prices being 124 percent of January), the economy remains extraordinarily sensitive to incipient supply shortages, real or imagined. The results of mounting inflation have been shown to include: less inducement to save, barriers to productive investment, an open market interest rate of 9 percent per month, commodity hoarding, withholding of crops by the farmers, withholding of consumers goods by retailers, and the weakening of Government authority. In the face of this sensitivity to inflation, even the knowledge of ECA commodities in transit has had gratifying results visible in terms of an increased flow of goods hitherto withheld, greater stability of prices and open market exchange rates, and increased confidence in the Government and security of the Island.

(d) Relation to Other Categories of Program

The commodity imports make specific contributions to other categories of the program. For example, the largest single component of the commodity program is fertilizer, \$20.4 million. Distribution of this fertilizer, highly prized by the farmers, affords the JCRR a powerful instrument for strengthening the Farmers' Associations as the administrative nucleus for rural rehabilitation projects. Fertilizer imports make possible rice yields now exceeding the prewar peaks and hence contribute directly to other agricultural projects.

Moreover, through the Farmers' Associations, JCRR technical assistance achieves a ready impact in terms of improved plant breeding, rhinderpest control, anti-malaria programs, land tenure reform, irrigation projects, and handicraft projects.

The planned FY'53 ECA imports of industrial raw materials, valued at \$9.2 million, plus raw cotton valued at \$13.0 million make a contribution to the manufacturing, mining and transportation industries of the Island and thus to the gross national income which is now approaching that of prewar times (domestic income is currently estimated at \$446 million as compared with \$488 million in 1937).

The capital equipment imports valued at \$5.5 million in this category are readily salable in the local market in the form of motors, generators, construction, mining and conveying equipment, and industrial machinery. These imports do not represent net additions to the capital plant of Formosa but rather replacements for superannuated or inadequate equipment already installed, the neglect of which would aggravate inflation and reduce the Island's capacity for self-support and defense.

APPENDIX IFORMOSA. CURRENT ECONOMIC SITUATION

Formosa is faced with the problem of maintaining economic stability, which is vital to the defense of the island, without domestic or foreign exchange resources adequate for the purpose. Although rich in natural resources, the island's productive facilities have been subjected to severe strain by wartime bomb damage, disruption of traditional trade patterns, and, most significant of all, by the necessity of supporting the Chinese Government and its armed forces. Formosa's indigenous population of approximately 7.5 million, as compared with 5.7 million before the war, is swollen by the presence of about 2 million mainlanders, of whom a substantial portion are military personnel and their dependents. The task of taking care of this additional burden, while at the same time effecting some measure of reconstruction of productive facilities and maintaining the military efficiency of the armed forces, has proved impossible without major U.S. economic aid.

1. National Income, Production and Consumption

The national income of Formosa has been estimated as equivalent to about \$495 million in 1951, or roughly \$64 per capita, including foreign assistance. In real terms per capita income and consumption are less than prewar, even though at least 10 percent of the 1951 income is estimated as net income from abroad, whereas in prewar years nearly 15 percent of net national output from domestic sources accrued to Japan. The 1951 per capita income figure of \$64 represents a slight rise over the comparable figure for 1950.

Of the estimated 1951 national income, 36 percent represents the factor cost of production in the fields of agriculture, forestry, and fisheries; industrial production represents 13 percent, and other products 7 percent. Services of all kinds, including the transportation and distribution of goods, was equivalent to 34 percent and net income from abroad at least 10 percent.

Formosa's most important agricultural crops are sugar, rice and sweet potatoes. Of these, sugar has been the major source of foreign exchange. Output of sugar in the 1949-50 crop year was 615,000 tons, as compared to a peak prewar production of nearly 1.4 million tons. Present estimates for the 1950-51 year indicate total production in the neighborhood of only 351,000 tons, while estimates for 1952 predict a 550,000 ton crop. Only about 35,000 tons are retained from each crop for domestic consumption.

The annual output of rice fell to 639,000 tons in 1945 from a peak prewar production of nearly 1.4 million tons, but has increased steadily since 1945. The 1950 production set an all-time record of over 1.4 million tons, and 1951 production is estimated at 1.5 million tons. A similar level is forecast for 1952. In both 1951 and 1952, rice export earnings are estimated as second only to sugar.

Production of other staples, such as sweet potatoes, wheat, and peanuts, has exceeded prewar peaks by 23 percent, 235 percent and 114 percent, respectively. Production of bananas and pineapples is below prewar and currently at a rate of 60 percent and 27 percent of prewar peaks respectively. However, the small recovery in the production of these commodities has resulted in meaningful increases in export earnings in recent years. Further increases in peanut and wheat production would conserve foreign exchange by replacing imports of soybeans and reducing consumption of rice.

ECA imports of fertilizer and the furnishing of technical assistance have materially assisted the partial recovery of agricultural production toward prewar peaks. Further expansion of agricultural production, both to make Formosa more nearly self-supporting and to improve living standards of the rural population, is largely dependent on adoption of improved methods of cultivation and marketing, increased consumption of fertilizer, and betterment of conditions of land tenure, health, farm prices and credit facilities for the farmers themselves.

Industrial production has shown remarkable strides forward in the last two years; the production of electricity, cement and chemical fertilizer is currently 4 percent, 26 percent and 132 percent above prewar peaks. Larger quantities of cotton textiles than in the prewar period are being produced with machinery brought from the China mainland and rehabilitated with U.S. aid funds; the number of operable spindles has risen to 80,000 as contrasted with 29,000 in 1949. Production of minerals such as coal (current annual output 1.6 million tons), sulphur (current annual output 5,000 tons), copper, talc, asbestos and pyrites (current output negligible), is increasing rapidly, due largely to ECA-financed equipment imports plus technical assistance from an American firm of management engineers. Expansion of industrial production to a higher level is currently hampered by the power shortage, and by the lack of complete rehabilitation of transportation and communication facilities. In the fields of both power and transportation, ECA aid is of material assistance, power capacity having increased 28 percent since 1949 and railway freight loadings having risen from 2.3 million tons in 1946 to more than 7.0 million tons at present, about 83 percent of the prewar peak of 8.5 million tons.

## 2. Prices and Wages

Since the outbreak of the Korean war, domestic prices have risen sharply due primarily to a worsened budgetary imbalance caused by the enlarged military program and to higher export and import prices. In September 1951, wholesale prices in Taipei had reached levels 90 percent higher than those prevailing in the first half of 1950, and retail prices had increased nearly that much. During the first nine months of 1951 alone, however, the rate of increase was slower than in the last half of 1950; wholesale prices rose 21 percent and retail prices 25 percent during this period. The rate of increase slacked off further in the later months, as evidenced by a wholesale price rise of only 2 percent monthly in August and September, and retail price increases of 2 percent in August and only 1 percent in September.

From January to September 1951, food prices increased only 6 percent, while the price of fuel and light declined 3 percent during the same period. The major increases occurred for commodities which are imported or made from imports, such as clothing (53 percent increase), electrical materials (40 percent), and building materials (22 percent).

Developments in the field of wages are difficult to determine, as most laborers receive part of their compensation in the form of food or other merchandise, or at subsidized prices. The rise in the cost-of-living for laborers since the first half of 1950 (50 to 60 percent) has therefore been somewhat less than the rise in retail prices, but wage payments have definitely failed to keep pace with the rise in the cost-of-living. Farmers have suffered from depressed living conditions, in that prices of farm goods have remained relatively stable while prices of goods consumed by the rural population have greatly increased.

## 3. Public Finance

The government budget deficits in Formosa, caused by the necessity to finance a 640,000-man military establishment and a large number of mainland immigrants, have been the chief cause of inflation on the island. Total expenditures of all levels of government in the calendar year 1950 were equivalent to about NT\$1,949 million (about US\$189 million at the 10.30 rate then prevailing). Overall revenues were NT\$1,118 million, leaving a deficit of NT\$831 million or 43 percent of expenditures. Of this deficit, nearly 20 percent was covered by proceeds from the sales of ECA-imported commodities; the rest was covered by the liquidation of government assets, including gold, and by inflationary means such as note issuance. For 1951, total expenditures are estimated at NT\$2,200 million (about US\$142 million at the 15.46 average foreign exchange certificate rate), revenues at NT\$1,600 million, and the deficit at about NT\$600 million. Borrowing against ECA sales proceeds during the first half of the year, selling government assets, issuing bonds, and obtaining advances from banks are expected to cover most of this deficit, but there remains an estimated NT\$72 million uncovered cash deficit for the year. To meet the budget deficit, therefore, further extraordinary financing will be required.

For 1952 a government budget has been prepared with the benefit of advice from MAAG and the ECA Mission, and is in process of adoption, calling for the expenditure of nearly NT\$2,700 million (about US\$172 million at the current foreign exchange certificate rate of 15.65). It is estimated that ordinary revenues (including taxes which are projected as 37 percent higher than in 1951) can total perhaps NT\$2,100 million, leaving a deficit of approximately NT\$600 million to be covered by extraordinary measures.

On the revenue side, while the 1952 budget is probably more realistic than that of the previous year, it represents an ambitious attempt by the government to exercise a maximum degree of self-help, and it is therefore entirely possible that some revenue collections may fall short of estimates. As estimated, revenue collections represent nearly 22 percent of national income, which is unusually high for the Asian area. The chief revenues are from customs duties, monopoly taxes, and surpluses of government enterprises. About 35 percent of total tax income is in the form of direct taxes.

The budget for 1952, as well as for prior years, does not include expenditures for the support of the MDA Program, the agricultural program of the Joint Commission on Rural Reconstruction, and many essential projects of industrial maintenance, reconstruction and expansion. These expenditures are met by withdrawals from ECA counterpart, in addition to those withdrawals made to help cover the government budgetary deficit referred to above.

Excluding the budgets of the local governments, which are balanced by a subsidy from the Provincial Government, the major purpose of the Central and Provincial Government budgetary expenditures is to support the military effort. For 1952 it is estimated that 62 percent of total expenditures will be for military purposes. Military expenditures of this magnitude force exclusion from the government budget, or deferment, of expenditures essential to the civilian economy, such as wage increases for public servants and military personnel, necessitated by increases in domestic price levels and development and expansion of educational facilities. Also, there is almost no provision in the 1952 budget for servicing the sizable foreign debt.

#### 4. Money and Credit

The inflationary impact of the unbalanced budgets, while reduced by the import of commodities financed by ECA aid, has resulted in a sharply increased money supply. During 1950 alone the currency issue increased nearly 50 percent; it may double in 1951, although it is hoped that at least part of the most recent issues can be retired early in 1952. Bank deposits have increased fourfold since the beginning of 1950. The position of the Bank of Taiwan--the bank handling note issue and foreign exchange transactions--is relatively weak, with cash on hand amounting to only 5 percent of active deposits, advances to the government amounting to more than 25 percent of total assets, and a very small reserve for bad debts and depreciation. Despite the steep climb in money supply, the government budgetary situation and resulting price inflation have caused a paradoxical shortage of money for financing productive enterprises. Interest rates on commercial bank loans have risen from 3.45 percent monthly to 4.5 percent monthly in 1951 (although rates had previously fallen from a high of nearly 14 percent monthly in 1949). These high interest rates, together with heavy taxation and fear of confiscation, have been strong deterrents to productive investment. Consequently, government financing and the ECA counterpart fund have been the only effective channels through which to undertake investment activities.

#### 5. International Trade and Payments

Although data on external payments is imperfect, it is estimated that in 1950 exports and invisible receipts totaled about \$109 million, of which sugar exports alone represented \$74 million, or nearly 70 percent. Against these resources were imports and invisible payments estimated at \$168 million, resulting in a current account deficit of about \$59 million. This deficit was met by the arrival of ECA-financed items valued at \$20 million and the drawing down of Chinese foreign exchange holdings and gold reserves to the extent of about \$39 million. The already substantial Chinese external debt, including sizable arrearages, precluded the floating of any new external loans to help meet the balance-of-payments deficit.

At the beginning of calendar 1951, the balance-of-payments outlook was even more unfavorable, with gold and foreign exchange reserves nearly exhausted, decreased foreign exchange earnings anticipated from sugar exports because of a poor crop, and increased imports required to maintain the civilian economy and keep the military establishment in operation. Fortunately it has been possible materially to increase rice exports in 1951 due to the second consecutive year of bumper crops. This factor, coupled with increased exports of tea, bananas, and salt, will partially counteract the sizable decline in sugar exports. It is anticipated that foreign exchange availabilities may total as much as \$96 million in 1951, as compared with \$109 million in 1950. With increased import requirements more than offset by estimated reductions in invisible payments, there is expected to be a current-account deficit of approximately \$59 million, the same magnitude as in 1950. This deficit will be almost entirely met by ECA aid, although a small drawing down of the already badly depleted gold and foreign exchange reserves may be required to cover the balance of the current-account deficit, as the floating of any additional foreign loans is still unlikely.

The Nationalist Government's gold and foreign exchange reserves are already so low that no further reduction can be counted on to meet a balance-of-payments deficit. In fact, in the event that a larger balance-of-payments deficit occurs in FY'52 than that presently foreseen, additional ECA aid may be required in the current fiscal year. Ignoring accrued fixed and current obligations, it is estimated that at the end of 1951 gold and foreign exchange resources of the government and its bank will approximate \$30 million in gold bullion, plus minor amounts of free foreign balances totaling approximately \$1.7 million. It is essential that the government be permitted to hold a certain gold reserve, both to insure confidence in the financial position of the island and to finance certain continuing obligations. Of the gold holdings, \$21 million is currently held as reserve against currency in circulation totaling the equivalent of about \$35 million. In addition, there are outstanding demand deposits totaling the equivalent of about \$40 million. With the inflationary experience on the China mainland still freshly in mind, some reserves must be maintained to avoid a total loss of confidence in the note issue. This is especially true in the face of continuing inflationary pressures which reflect political as well as economic considerations.

For FY'53, the outlook for Chinese foreign exchange availabilities is somewhat improved. Current indications are that sugar exports will be nearly restored to the 1950 level and that rice and other exports will be maintained at approximately the same levels as in 1951. Assuming that invisible receipts will remain at about the same level as in 1951, or at least will not materially decline, total Chinese foreign exchange availabilities may total as much as \$125 million. Availabilities of this magnitude, together with ECA aid in the amount being requested, are expected to be sufficient to cover imports and other international payment items without drawing further upon gold and foreign exchange reserves.

APPENDIX II

FORMOSA

TEXT OF AIDE MEMOIRE REGARDING CONTROL OF BUDGETING  
AND EXPENDITURES OF CHINESE FUNDS

(Submitted July 20, 1951, by U. S. Ambassador Karl L. Rankin to Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.)

"The United States Government is engaged currently in developing programs of economic and military assistance for Formosa and other areas of the Far East. The United States Government cannot, however, go forward with the prospect of successful implementation of the program for Formosa without assurances that the Government of China will cooperate effectively in bringing its military and civilian expenditures on the island under planned control. Therefore, the United States Government requests as a matter of urgency that the Government of China formulate and propose for urgent consideration by, and discussion with, representatives of the Government of the United States some practical procedure to accomplish this purpose. Such procedure would assure that effective supervision and control is exercised continuously over budgeting and expenditure of resources and funds available to the National Government of China and to all divisions of Government, Provincial and Local, for support of the military establishment and civilian economy. Efficient implementation of United States economic and military assistance programs depends upon working out the arrangements referred to above."

## APPENDIX III

FORMOSA. LOCAL CURRENCY REQUIREMENTS AND AVAILABILITIESTable A. Estimated Local Currency Requirements for Calendar Years 1952 and 1953.

(million NT\$)

	<u>Calendar Years</u>	
	<u>1952</u>	<u>1953</u>
<u>Local Currency Requirements:</u>		
<u>Chinese Government Budgeted Expenditures</u>	2670	2700 a/
Military	1229	
Civil	435	
Construction and maintenance projects	306	
Local governments	700	
<u>Other Needs to be Provided for by ECA Counterpart</u>	460 b/	550 c/
Support for military assistance program	225	
JCRR program (rural reconstruction)	60	
Industrial reconstruction, maintenance and expansion (local cost of ECA industrial program and other high priority projects)	135	
Administrative expenses of ECA, CUSA, JCRR, JCWhite	40	
TOTAL	<u>3130</u>	<u>3250</u>
<u>Means of Meeting Requirements:</u>		
<u>Chinese Government Budgeted Revenues</u>	2101	2100 a/
Taxes	824	
Monopolies	300	
Government enterprise profits	296	
Miscellaneous	111	
Local governments	570	
<u>Chinese Government Financing by Other Means</u>	279	300 a/
Liquidation of assets	70	
Bond issue	100	
Additional special taxes	109	
<u>ECA Counterpart</u>	<u>750 b/</u>	<u>850 c/</u>
TOTAL	<u>3130</u>	<u>3250</u>
GRAND TOTAL both years	<u>6380</u>	

a/ The Chinese Government budget is assumed to be of about the same magnitude in 1953 as in 1952.

b/ Of total 1952 ECA counterpart of 750, 290 is for government budgetary support and 460 for other enumerated purposes.

c/ Of total 1953 counterpart of 850, 300 is for government budgetary support and 550 for other enumerated purposes.

Table B. Proposed Uses of ECA Counterpart, 1952 and 1953  
(million NT\$)

	<u>Calendar Years</u>	
	<u>1952</u>	<u>1953</u>
Government budgetary assistance (maintenance and construction projects in budget)	290	300
MDAP support	225	270
JCRR program (agricultural production)	60	60
Industrial maintenance and expansion	135	180
Administrative expenses of ECA, CUSA, JCRR, JGWhite	<u>40</u>	<u>40</u>
TOTAL	<u>750</u>	<u>850</u>
GRAND TOTAL		<u>1600</u>

Table C. Means of Raising ECA Counterpart Through Importation of ECA Salable Commodities

	<u>US \$</u>	<u>NT \$ equivalents</u>
		<u>\$ 10.30 rate</u> (in millions)
FY'51 salable items yielding counterpart in calendar 1952	12.5	129
FY'52 salable items	57.4	591
FY'53 salable items	69.8	719
FY'54 salable items yielding counterpart in calendar 1953 <u>a/</u>	<u>15.6</u>	<u>161</u>
TOTAL	<u>155.3</u>	<u>1600</u>

a/ Even if there were no ECA aid appropriated for FY'54, this amount of NT\$ could be derived from the draining of the pipeline in existence at the close of FY'53, plus the collection of sales proceeds accounts receivable.

P H I L I P P I N E S

FY 1953 BUDGET PRESENTATION

Contents

PART I. Philippines. FY 1953 Program

1. Importance of the Area to the U. S.
2. The Philippine Economy and Political Development.
3. Effect of the War.
4. Other Main Problems.
5. The Bell Mission.
6. The Quirino-Foster Agreement.
7. Magnitude of Proposed Grant Aid Program for FY'53.
8. Objectives of the Proposed FY'53 Program.
9. How the Program Supports the Objectives.

PART II. Program Tables

PART III. Project Descriptions

APPENDIX. Current Economic Situation

Part I

PHILIPPINES. FY 1953 PROGRAM

1. Importance of the Area to the United States

The Philippines is of major political, strategic, and commercial importance to the United States. Its establishment and retention as a self-supporting friend of this country is an accepted element of American foreign policy.

The continued political and economic development of the country, because of its long-standing role as the major colonial experiment of the United States, is important to demonstrate to the other underdeveloped nations of the world that cooperation and friendship with the United States is a beneficial policy. This is particularly true in the light of developments elsewhere in Asia, where a major theme of Communist propaganda is that cooperation with the United States is tantamount to accepting a renewal of colonialism.

The Philippines is also important to the United States in a strategic military sense. It is the southern anchor of the Japan-Formosa-Philippines defense line. U.S. air and naval bases are established there by treaty, and the United States is pledged to the Philippines' defense.

2. The Philippine Economy and Political Development

Prior to July 4, 1946, when it was granted its independence by the United States, the Philippines was a commonwealth under the American flag. The United States had acquired the islands from Spain in 1900 and had tried in the intervening period until 1941 to prepare the country for self-government.

Political development in the Philippines compares favorably with the rest of Asia. The forms of representative government are observed and, although the observance is not up to the best western standards, it is a creditable advance for a people who only within the past half century have had the opportunity to practice even the primary techniques of government.

The Philippine economy is underdeveloped, specializing in the production of foodstuffs and raw materials, and importing from abroad most of its requirements for finished goods. Even so, Philippine living standards improved gradually until 1940 and outran those of the rest of Asia, although obviously they were still not high.

Philippine society has been marked, since the Spanish occupation, by great extremes between rich and poor and by the concentration of economic power. Large estates farmed by tenant or wage labor are a characteristic of the economy. Independent land holdings are numerous but usually of a small size (usually less than 4 acres) and are inadequate to support an adequate standard of living.

Physical possibilities exist to bring about a substantial improvement of the Philippine economy and social structure. Production techniques are backward, and even modest improvements in them would result in significant increases in production. In some of the islands of the archipelago, particularly Mindanao, there are substantial amounts of arable land, which are still part of the public domain and are not cultivated. The islands also have rich timber resources and considerable quantities of minerals and water power.

3. Effect of the War

During the war, the Philippine economy suffered basic and far-reaching damage, as great proportionately as any other country in the world. The nation's modest industrial plant was 90 percent destroyed. Its largest city was flattened. Its basic agricultural establishment ran down, irrigation facilities were destroyed, and the livestock and work animals slaughtered.

Much of this physical damage has been repaired but a substantial amount still needs to be done. This is particularly true in the case of repair of communications, restoration of mines, and the repair of neglect to the important abaca plantations.

Until 1940, the rate of production growth outran by a modest degree the rate of population growth. During the war years, however, population growth overtook the nation's declining production and the loss has not yet been made good. In 1950, real per capita income was only about 85 percent of the 1938 level.

#### 4. Other Main Problems

Between 1946 and 1951, the cumulative effects of war damage, heavy investment on reconstruction, and an inadequate fiscal policy materialized in the form of an inflation that could be held in check only by heavy imports of consumer goods from the United States. The effect of this inflation, in turn, was to hamper the nation's reconstruction and nearly to exhaust foreign exchange reserves, which had come in large part from U.S. Government grants and expenditures. As a result, with the tapering off of U.S. expenditures in 1950, the Government had to impose drastic exchange and import controls, which further added to the inflationary pressure.

Postwar economic deterioration in the Philippines, as compared to prewar, has caused a further widening of the extremes between rich and poor and a greater concentration of economic power. The Philippines' inflation, in particular, has operated to favor the holders of wealth as against the mass of the people, and the lag of production behind population growth has caused widespread economic hardship. The result has been a marked growth in popular dissatisfaction and unrest.

Inadequate diversification of the Philippine economy has created postwar economic difficulties, as it did prewar. The economy is extremely dependent on the prices of three commodities -- copra, sugar, and abaca -- and comparatively minor changes in export prices of these goods have caused disturbing fluctuations of economic activity in the country.

Profiting from these obvious causes of popular dissatisfaction, Communist-led guerrillas -- the so-called Huks -- have engaged in open rebellion against the Government. The effect of this action has been to put a strain on the Government's financial resources, to destroy or immobilize a considerable amount of productive land and capital, and to provide a focal point for popular dissatisfaction expressing itself in violence.

#### 5. The Bell Mission

As a result of the adverse developments between 1946 and 1951, the United States Government, at the request of the Philippine Government, sent an economic mission to the Philippines in July 1950 -- the Bell Mission. The purpose of this mission was to determine the causes of the continued unsatisfactory economic state of the Philippines and to make appropriate recommendations for the remedy of these conditions.

The mission reported that a great deal of progress had been made in the reconstruction of the Philippines, but that much more still needed to be done. Specifically it recommended measures to: increase tax revenues as a curb to inflation; increase investment in new industries; improve techniques of production; accelerate the settlement of new lands; improve Government administration; and increase and diffuse economic opportunities.

To assist the Philippine Government in carrying out these measures, the mission also recommended that U.S. financial assistance be extended over a five-year period in the amount of \$250 million in grants and loans. It was stipulated that this assistance should be made conditional upon the carrying out by the Philippine Government of reform measures of the scope and character recommended by the mission.

The mission's report was made public in October 1950. It met with the general approval and endorsement of the Executive Branches of the U.S. Government and the Philippine Government, and constitutes the basic frame of reference for the ECA program.

## 6. The Quirino-Foster Agreement

To assist the Philippine Government in preparing the groundwork for implementing the recommendations of the Bell Report, President Truman requested Mr. William C. Foster, at that time Chief of the Economic Cooperation Administration, to proceed to the Philippines to outline to the Government the conditions which the United States required be met as a prerequisite to the granting of further U.S. economic aid. In this sense, the prospect of aid was used as a lever to move the Philippine Government to take steps that it would not otherwise have taken or that it would not have taken so soon.

The specific conditions that were laid down, as embodied in the Quirino-Foster Agreement of November 14, 1950, were: 1) the adoption of tax measures designed to raise a specified sum of additional revenue; 2) the adoption of a minimum wage law; and 3) the adoption of a Congressional resolution expressing the favorable intent of the Philippine Congress with respect to the balance of the Bell recommendations. This was a sizable installment on the Bell Program. The tax goal alone represented a 70 percent increase in tax revenues while the minimum wage law was strong anti-Huk medicine and assisted directly the sectors of the population that had suffered most from the war and its aftermath.

In the six months following the signing of the Quirino-Foster Agreement, the Philippine Government completed substantial compliance with its terms. The tax goal was achieved and somewhat exceeded. A minimum wage law was enacted that brought immediate relief to over 30 percent and over a period of two years will benefit approximately 90 percent of the wage force. A joint resolution was unanimously adopted by the Philippine Congress to the effect that "early and preferential consideration" would be given the balance of the Bell recommendations.

In recognition of this performance by the Philippine Government, an interim ECA allotment of \$15 million was made available in May 1951 and a program in which the Philippine share of grant aid amounted to \$32 million was approved by the U.S. Congress for FY'52.

## 7. Magnitude of Proposed Grant Aid Program for FY'53

For FY'53 grant aid of approximately \$50 million is proposed. This represents a substantial decrease from extraordinary U.S. outlays received by the Philippines annually between 1946 and 1950. It is the same amount that was originally requested last year at a time when Philippine reserves and export prices were higher than they are now and when Philippine Government expenditures on its armed forces were less than at present. These funds will be concentrated in the fields of agriculture, public works (primarily roads and irrigation facilities), and public health. About \$10 million is proposed for the importation of salable commodities for the maintenance of essential supply -- all of the producers' goods type.

In addition to the \$50 million proposed as grants in FY'53, there is a possibility, as indicated in the submission of the Export-Import Bank, of new loans aggregating \$25 million or more. These loans would be made for feasible projects in the field of industry, mining, power and other public works. The grant program is in part designed to support the loan program, in particular by financing industrial and mining surveys, and more generally by aiding the construction of public works (roads, bridges) which will enhance the credit-worthiness of potential loan projects.

Provision of about \$20 million\* of grant funds for salable commodities is necessary for two reasons: first, during the last year and a half production and investment have been hampered by drastic curtailment of imports dictated by the need to conserve depleted reserves. In December 1949 when import controls were initially imposed, reserves of the banking system totaled approximately \$260 million (of which \$226 million was held by the Central Bank). After reaching a high of \$383 million in June 1951, reserves have dipped again to \$317 million in November of this year. Should the reserve level drop further, there is a reasonable presumption the Government would again impose restrictions on imports, thus stimulating a rise in import prices and thereby adding undesirable inflationary pressure.

\*Includes about \$10 million for fertilizer (included in agriculture), the distribution and sale of which is controlled by the Philippine Fertilizer Administration.

A second compelling reason for the inclusion of salable commodity imports is the need to generate sufficient counterpart to minimize the impact of a substantial development effort upon the Philippine budget, notwithstanding the larger revenues likely to materialize as a result of the tax legislation enacted earlier this year. Considering the Government's need for cash balances and for funds to finance neglected services, to rehabilitate public works damaged by the war, and to meet debt service requirements and expanded outlays for defense, only limited availabilities will exist for financing economic development. The ECA contribution to counterpart funds will accordingly comprise a highly strategic sum to be used for projects which the Government could not otherwise undertake. This type of aid, however, is contemplated only for a relatively brief transitional period until budgetary revenues can catch up with the expenditure level required for a development effort which the Philippine economy can support.

#### 8. Objectives of the Proposed FY'53 Program

The purpose of the program is to continue to help carry out the recommendations of the Bell Mission. It is based on the assumption that the United States can effectively help the Philippine Government solve its pressing economic problems as long as that Government shows by its deeds, as it has in carrying out the Quirino-Foster Agreement, its desire to help itself.

To accomplish this, the aid program is directed toward achieving four main objectives:

- a. To help increase the rate of production growth so that it will catch up with and again exceed the rate of population growth;
- b. To help establish a trend toward broadened economic opportunities and a more equitable distribution of wealth, as an offset to the present concentration of wealth and economic power in a relatively few hands;
- c. To help restore and increase the efficiency of Government administration; and
- d. To help back up economically the military measures being undertaken to curb the Huks.

Equivalent in size to only about 2 percent of the Philippine national income, the proposed program depends for its effect as much upon the character as upon the volume of expenditure. Project selection has accordingly been confined to those undertakings which will have a multiplier effect and which lie outside the range of those the Government can, or private enterprise is likely to, undertake.

#### 9. How the Program Supports the Objectives

In the general category of aids to production growth fall all the proposed expenditures in the fields of agriculture, forestry, and fisheries; also highway construction, river control, handicraft development, industrial and mining surveys, and technical education. They comprise about \$30 million, or approximately 60 percent of total proposed expenditures in the program. The primary purpose of these expenditures is to unleash self-generating forces that will keep Philippine production ahead of population growth and that will stimulate the development of more widespread economic opportunities for the mass of the people.

The major projects under this broad category, requiring nearly \$21 million, provide for production aids to agriculture, mainly extension and technical services, fertilizer, and irrigation facilities. The primary purpose of these expenditures is to bring about some of the quick increases in agricultural production that are feasible by the application of modern techniques.

Another major enterprise under this broad category -- involving the expenditure of nearly \$7 million -- comprises a group of projects calculated to accelerate homesteader settlement of Mindanao and other virgin areas of the Philippines. These will entail the construction of highways, the elimination of malaria, the building of hospitals and schools, the establishment

of some credit facilities, and the improvement of Government efficiency in providing land titles and subdividing the public domain. Through these expenditures it is planned to clear away enough of the existing impediments to land settlement to relieve the overcrowded areas of the Philippines of at least half of the current population increase. The effect of this broad-gauged venture will be not only to increase production but also to provide in the form of land for the landless the best possible counterweight to Huk activity and existing agrarian discontent.

The third group of projects classed as aids to production growth involve the expenditure of about \$2.5 million for the provision of technical services and assistance to technical education. The primary aim in this instance is to help remove obstacles to production represented by inadequate techniques. Another objective is to establish more clearly the potential economic resources of the country and to develop concrete means for exploiting them.

The balance of grant aid funds programmed for specific projects (approximately \$10 million) is allocated to the fields of public health, housing, education and public administration.

Public health projects account for \$6.9 million, or about 14 percent of total proposed expenditures. These projects deal mainly with endemic disease control, child health betterment, improvement of water supply and sanitation, establishment of health centers, and rehabilitation of hospitals and laboratories. The projects have been selected with a two-fold objective in view: (a) to reach the largest possible number of people, thus enhancing the basic health and hence productive capacity of the nation; and (b) to strengthen government services in this field.

Through activities such as these, it is estimated that the public health component of the aid program will extend directly into 30 to 40 percent of all Philippine homes, although individual benefits will be modest. The improvement in water supply, nutrition and health conditions generally will be an aid to production efficiency as well as an important contribution to improved morale.

The remaining \$3 million, or about 6 percent of total proposed program expenditures fall in the categories of aid to Public Administration, General Education and Housing. The purpose of expenditures on government administration and education is primarily to improve the capacity for self-government by bringing to bear the services of American technicians on such problems as customs and tax collection, civil service administration, minimum wage enforcement, and the creation and strengthening of a primary and secondary school system.

Expenditures of this nature are among the most strategic that can be undertaken under the program. It is estimated, for example, that recent suggestions of one American tax technician to the Philippine Government, with respect to the use of cigarette stamps, increased tax revenues from this single source by more than \$5 million -- the equivalent of 10 percent of the proposed FY'53 aid program. By the same token, assistance to the educational system is a direct means of reaching that portion of the Philippine population who must eventually be responsible for pushing forward the political and economic development upon which hinges the country's eventual independence of U. S. aid.

The housing program is one with great popular appeal in the cities that suffered from bombing, none of which has since achieved its prewar housing status. It is intended as a governmental measure to win popular support and will additionally be useful in terms of morale, social benefits and favorable publicity for the U. S.

In general, it is conceived that the proposed expenditures will help to achieve the overall objectives of the FY'53 program in one or a combination of three ways: (a) by serving as a lever, in the manner of the Quirino-Foster Agreement, to induce beneficial governmental actions; (b) by serving to break bottlenecks to production or institutional development; and (c) by serving to provide quickly at least some concrete evidences among a large number of people of the good will and friendship of the U. S. It is believed that

as a result of the expenditures proposed for FY'53, production can be expanded to catch up with population growth; that an increasing number of economic opportunities can be created and some of the inequities of income distribution corrected; that government administration can be improved; and that, through basic economic improvement and betterment of morale, the military effort against the Huks can be backed up and a climate created in which a peaceful permanent evolution to a better internal and external situation can be achieved.

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More detailed information will be found in Part II, Program Tables;  
Part III, Project Descriptions; and the Appendix, Current Economic Situation.

Part II

PHILIPPINES. Program Tables

- Table 1. Estimated Cost of Program (Grant Aid Only).....  
by Major Project Category
- Table 2. Revised FY '52 and Estimated FY '53 Dollar Cost  
of Program (Grant Aid Only) .. by Major Project
- Table 3. Estimated Breakdown of FY '53 Program (Grant Aid  
Only) ... by Project Within Major Category
- Table 4. Estimated FY '53 Breakdown of Supplies and  
Equipment ... by Commodity Group

PHILIPPINES

Table 1. Estimated Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Costs (in thousands)			
	Total	Dollar Cost		Dollar Equiv.
		Supplies & Equipment	Services	of Local Currency Cost <sup>b/</sup>
<u>ESTIMATED FY '53</u>				
1. Emergency Relief	-	-	-	-
2. Public Health	6,945	6,575	370	9,038
3. Agriculture, Forestry, Fisheries	21,085	19,975	1,110	25,547
4. Transportation, Power, Other Public Works	8,988	8,608	380	14,062
5. Handicraft and Manufacturing, Mining, Other Industry	501	411	90	603
6. General Engineering Advisory Services	-	-	-	-
7. Education	2,121	1,621	500	994
8. Public Administration	345	-	345	135
9. Maintenance of Essential Supply <sup>c/</sup>	10,144	10,144	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>50,129</u>	<u>47,334</u>	<u>2,795<sup>d/</sup></u>	<u>50,379</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>94.4</u>	<u>5.6</u>	
<u>REVISED FY '52</u>				
1. Emergency Relief	-	-	-	-
2. Public Health	3,274	2,989	285	4,295
3. Agriculture, Forestry, Fisheries	10,774	10,248	526	13,966
4. Transportation, Power, Other Public Works	5,814	5,714	100	9,555
5. Handicraft and Manufacturing, Mining, Other Industry	512	275	237	1,166
6. General Engineering Advisory Services	-	-	-	-
7. Education	900	751	149	1,068
8. Public Administration	726	-	726	242
9. Maintenance of Essential Supply	10,000	10,000	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>32,000</u>	<u>29,977</u>	<u>2,023<sup>e/</sup></u>	<u>30,292</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>93.7</u>	<u>6.3</u>	

PHILIPPINES

(Footnotes to Table I)

- a/ Exclusive of loans discussed with the Export-Import Bank Staff and referred to in Part I of the individual country studies.
- b/ Converted at the official exchange rate of 2 pesos = US\$1.
- c/ Requisites for production plus other essential civilian supplies. See Table 3, Item 9.
- d/ \$2,070 for TA experts; number of persons distributed as follows: Public Health, 18; Agriculture, Forestry, Fisheries, 48; Transportation, Power, Other Public Works, 19; Handicraft and Manufacturing, Mining, Other Industry, 5; Education, 30; Public Administration, 18; Total, 128. Also, \$725 for trainees, distributed as follows: Public Health, 20; Agriculture, Forestry, Fisheries, 78; Transportation, Power, Other Public Works, 19; Handicraft and Manufacturing, Mining, Other Industry, 3; Education, 10; Public Administration, 15; Total, 145.
- e/ \$1,663 for TA experts; number of persons distributed as follows: Public Health, 20; Agriculture, Forestry, Fisheries, 32; Transportation, Power, Other Public Works, 8; Handicraft and Manufacturing, Mining, Other Industry, 17; Education, 8; Public Administration, 48; Total, 133. Also, \$360 for trainees, distributed as follows: Public Health, 10; Agriculture, Forestry, Fisheries, 36; Handicraft and Manufacturing, Mining, Other Industry, 7; Education, 14; Public Administration, 36; Total, 103.

ECA: FEPD  
November 30, 1951

PHILIPPINES

Table 2. Revised FY'52 and Estimated FY'53 Dollar Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Dollars (in thousands)					
	Total Dollar Cost		Percent of Total Program Cost (Categories 1-9)		Percent of Total Project Cost (Categories 1-8)	
	FY'52	FY'53	FY'52	FY'53	FY'52	FY'53
1. Emergency Relief	\$ -	\$ -	-	-	-	-
2. Public Health	3,274	6,945	10.2	13.9	14.9	17.4
3. Agriculture, Forestry, Fisheries	10,774	21,085	33.7	42.1	49.0	52.7
4. Transportation, Power, Other Public Works	5,814	8,988	18.2	17.9	26.4	22.5
5. Handicraft and Manufacturing, Mining, Other Industry	512	501	1.6	1.0	2.3	1.2
6. General Engineering Advisory Services	-	-	-	-	-	-
7. Education	900	2,121	2.8	4.2	4.1	5.3
8. Public Administration	726	345	2.3	0.7	3.3	0.9
9. Maintenance of Essential Supply <sup>b/</sup>	10,000	10,144	31.2	20.2	-	-
<u>TOTAL DOLLAR COST OF PROGRAM</u>	<u>\$32,000</u>	<u>\$50,129</u>	<u>100.0</u>	<u>100.0</u>	-	-
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	<u>22,000</u>	<u>39,985</u>	-	-	<u>100.0</u>	<u>100.0</u>

a/ Exclusive of loans discussed with the Export-Import Bank staff, and referred to in Part I of country study.

b/ Requisites for production plus other essential civilian supplies. See Table 3, item 9.

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Table 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost <sup>a/</sup>
1. <u>Emergency Relief</u>	\$ --	\$ --
2. <u>Public Health</u>	<u>6,945</u>	<u>9,038</u>
Endemic Disease Control	1,600	1,875
School Health	1,500	1,375
Water Supply and Sanitation	1,400	2,025
Health Centers, Hospitals & Laboratories	1,665	3,308
Health Training	780	455
3. <u>Agriculture, Forestry, Fisheries</u>	<u>21,085</u>	<u>25,547</u>
Agriculture College & Experiment Station	315	750
Extension Training	625	3,000
Soil Survey & Conservation	35	50
Cereal Crop Improvement	370	650
Fertilizer Distribution	10,000	1,500
Irrigation	4,580	4,250
Coconut Development	15	7
Fiber Development	90	50
Animal Husbandry	1,025	750
Rural Reconstruction & Development	975	7,275
Land Settlement	2,555	6,500
Forest Development	300	565
Fisheries Development	200	200
4. <u>Transportation, Power, Other Public Works</u>	<u>8,988</u>	<u>14,062</u>
Highway Rehabilitation & Construction	3,840	6,642
Low-Cost Housing	2,000	4,000
River Control	2,515	3,100
Technical Education	633	320
5. <u>Handicraft and Manufacturing, Mining, Other Industry</u>	<u>501</u>	<u>603</u>
Handicraft Development	201	303
Industrial & Mining Surveys	300	300
6. <u>General Engineering Advisory Services</u>	--	--
7. <u>Education</u>	<u>2,121</u>	<u>994</u>
Agricultural Vocational Schools	901	498
Other Vocational Schools	600	196
General Education	620	300
8. <u>Public Administration</u>	<u>345</u>	<u>135</u>
Technical Assistance (Type A Trainees)	75	--
Technical Assistance (Type B Experts)	270	135
9. <u>Maintenance of Essential Supply</u>	<u>10,144</u>	--
Requisites for Production	10,144 <sup>b/</sup>	--
Other Essential Civilian Supplies	--	--
<u>TOTAL COST OF PROGRAM (Categories 1-9)</u>	\$ <u>50,129</u>	\$ <u>50,379</u>
<u>Total Cost of Projects (Categories 1-8)</u>	<u>39,985</u>	<u>50,379</u>

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~~CONFIDENTIAL - Security Information~~PHILIPPINES Table 3.

(Footnotes)

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a/ Converted at the official exchange rate of 2 pesos = US\$1.

b/ Commodity components as follows: cotton, 400; agricultural machinery, 2,000; iron and steel mill materials, 2,000; industrial machinery, 2,000; unmanufactured leather and leather products, 500; rubber and rubber products, 850; pulp, paper and paper products, 750; chemicals and related products, 1,000; miscellaneous, 644. See Table 4, Salable Commodities.

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PHILIPPINESTable 4. Estimated FY'53 Breakdown of Supplies and Equipment  
By Commodity Group

C &amp; F Dollar Cost (in thousands)

Commodity Group	Total Cost		Cost of Salable Commodities <sup>a/</sup>	
1. <u>Food</u>	\$ -	\$ -	\$ -	\$ -
2. <u>Feed and Fertilizer</u>	<u>9,985</u>		<u>9,960</u>	
Protein feed		25		-
Fertilizer		9,960		9,960
3. <u>Natural Fibers</u>	<u>400</u>		<u>400</u>	
Cotton		400		400
4. <u>Tobacco</u>	-		-	
5. <u>Other Agricultural Products</u>	<u>1,391</u>		-	
Miscellaneous inedible animal and vegetable products		1,391		-
6. <u>Fuels</u>	-		-	
7. <u>Industrial Raw Materials</u>	<u>12,085</u>		<u>3,750</u>	
Iron and steel mill materials and products, including ferro-alloys		6,657		2,000
Brass, bronze and their products		32		-
Pulp, paper and paper products		1,140		750
Chemicals and related products		<u>4,256</u>		<u>1,000</u>
Medical and pharmaceutical preparations		1,675		-
Agricultural pesticides		293		-
Miscellaneous other chemicals and chemical preparations		2,288		1,000
8. <u>Capital Equipment</u>	<u>17,013</u>		<u>4,000</u>	
<u>Agricultural Machinery</u>		<u>3,775</u>		<u>2,000</u>
Tractors and tractor parts		2,474		1,200
Agricultural equipment excluding tractors		1,301		800
<u>Industrial Machinery and Equipment</u>		<u>13,238</u>		<u>2,000</u>
Construction, mining and conveying equipment		7,639		1,500
Motor vehicles and parts		2,062		-
Other industrial machinery, n.e.c.		3,537		500
9. <u>Other Manufactures and Raw Materials</u>	<u>6,460</u>		<u>1,994</u>	
Leather and leather products		509		500
Rubber and rubber products		858		850
Miscellaneous		<u>5,093</u>		<u>644</u>
Misc. iron & steel manufactures		1,908		544
Scientific & professional instruments		2,325		-
Misc. industrial materials and manufactured commodities		860		100
<u>TOTAL DOLLAR COST</u>	\$ <u>47,334</u> <sup>b/</sup>		\$ <u>20,104</u>	
<u>Percent Salable Commodities</u>			<u>42.5%</u>	

<sup>a/</sup> Requisites for production (Table 3, Category 9) plus fertilizer (Table 3, Category 3) for controlled distribution and sale by Philippine Fertilizer Administration.

<sup>b/</sup> For distribution by major project category, see Table 1, column 2.



for medical and nursing schools and advisors in administration to assist local health officials to install sound administrative practices; and to enable the economy to sustain a continuing program after the termination of assistance from the United States.

The program is expected to have a beneficial psychological as well as practical effect by demonstrating to the population as a whole the Government's interest in and concern for its health and welfare.

Endemic Disease Control

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:   \$   288,000	FY'51:           -
FY'52:           880,000	FY'52:       1,015,000
FY'53:       1,600,000	FY'53:   \$ 1,875,000

a) Malaria Control. Malaria is the leading cause of absenteeism and consequent low labor productivity in the agricultural regions. It is an important obstacle to the opening of new territories for settlement, and the development of natural resources. These are all fields in which the ECA program is vitally concerned.

The economic significance of the disease is indicated in official figures, published in 1950, which show that the population suffers 4,000,000 attacks of malaria annually, and that the number of man days lost from productive enterprises each year due to malaria amounts to 20,000,000.

The program is designed to expand present limited malaria control activities of the Department of Health. In the beginning, it will concentrate on areas where other ECA projects are in progress, such as land settlement, road building and agricultural development. It will be extended to other areas as soon as possible. The control work will take the form of elimination of disease carrying mosquitoes, destruction of breeding places, spraying of houses and distribution of anti-malarial drugs.

It is anticipated that by the end of FY'52 the malaria training center at Tala will have been rehabilitated and that two to four mobile control units and four permanently based control centers will be established and operating.

This work will be expanded in FY'53 to additional areas by means of more mobile units and permanent control centers to meet the specific needs of communities. Wider coverage will be given Mindanao, a key area in the MSA program. A beginning also is to be made on more effective control in northern and central Luzon, thereby contributing to an improvement of living conditions for many people who are subjected to communist-fostered propaganda and depredations.

The budget for the malaria control division of the Department of Health seldom has amounted to more than one-half of one centavo per capita per year. This is inadequate for any significant program of control. The Department is making efforts to obtain larger appropriations, pending the outcome it will be necessary to finance a substantial part of the peso cost with counter-part funds.

b) Nutritional Disease Control. The Filipino diet is deficient in vitamins A, D and B Complex, and in fats, proteins and iron. In some cases, foods abundant in these factors are available but either are not popular or are so prepared as to destroy their nutritional value. In other cases, such foods are unavailable to the masses because of limited quantities produced. A vigorous nutritional educational and research program is necessary to teach the people how to grow, select and prepare nutritionally important foods.

Beri-beri is the most dangerous nutritional disease in the Philippines. It is the second leading cause of death, especially in infants, with a mortality rate of 138.05 per 100,000 of population as of 1948. It is a significant cause of illness in expectant and nursing mothers.

This disease is caused by a deficiency of vitamin B in the diet. The deficiency is created in rice-eating areas by the milling process which removes the covering of the rice grains. The project aim is either to determine an alternate process which will retain the important vitamin content or restore the removed vitamin by artificial enrichment.

Studies are now being made to determine the most effective method of achieving this aim with a view toward initiating the project during the fiscal year 1952. Several methods have been proposed, including artificial enrichment and rice "conversion" by parboiling. They would involve the procurement of certain machinery and equipment. The work to be initiated in FY'52 will be extended in FY'53 to different key localities.

The National Rice and Corn Administration, the Institute of Nutrition and the Department of Health favor a rapid development of rice enrichment. These agencies will be able to meet the peso costs with their own budgeted funds. Also under consideration is the creation of a revolving fund by which revenues accruing to it from the sale of "premix" to the rice mills would provide funds for continuation and expansion of the process.

c) Tuberculosis Control. Tuberculosis is the leading cause of death in the Philippines, the mortality rate amounting to 164.95 per 100,000 of population in 1948. Ten per cent of representative groups of the general population have pulmonary tuberculosis. Hospital facilities for the treatment and isolation of the disease are negligible. The most practicable and economical means of controlling the disease, are the development of community chest clinics for diagnosis and treatment of early cases; inoculation of susceptible persons, principally children, with BCG vaccine; education on prevention of infection and home nursing care for severe cases.

It is anticipated that substantial progress will have been made by the end of FY'52 in activating ten chest clinics in the capital cities of ten provinces and ten mobile BCG vaccination teams. This work is to be extended in FY'53 to fourteen additional provinces.

A plan is being considered under which peso costs of the project will be met substantially by the Philippine budget combined with voluntary fund drives.

School Health

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:   \$   220,000	FY'51:               -
FY'52:           430,000	FY'52:   \$   375,000
FY'53:         1,500,000	FY'53:       1,375,000

More than four million children between the ages of seven and sixteen are enrolled in public schools. This constitutes about one-fifth of the total population. These children are estimated to represent from eighty to ninety per cent of all the families in the country. Many are afflicted with debilitating diseases which are treatable and often preventable. These include intestinal parasites, beri-beri and other vitamin deficiencies, typhoid, malaria, yaws, skin infections and others. Treatment of such conditions in children will cure them before permanent damage is done. Health education will improve general living conditions in their homes and communities. The medical-dental service of the Department of Health has an organization and a small staff for health work among school children. Its budget, however, is not adequate for a comprehensive program attacking basic problems.

Clinical equipment and supplies, medicines and educational material, including projection apparatus and film are being supplied in anticipation that the project will be actively in progress in fifteen Luzon provinces by the end of FY'52. It is estimated that by that time it will have affected 500,000 school children. This work will be expanded in FY'53 to the Visayan Islands and Mindanao. Eventually, it will be extended to the other provinces at a rate estimated to reach 1,000,000 new children each year.

The Department of Health will provide an administrative and operating budget of approximately 2,000,000 pesos annually, the funds to be derived from voluntary contributions by school children. It is anticipated that as the program enlarges it will be possible to increase the voluntary contributions from fifty centavos per pupil per year to possibly one peso. Part of the ECA effort in this field will be devoted to assisting the Department in developing other local sources of revenue to assure continued operation of the program when outside assistance is no longer available.

Water Supply and Sanitation

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 12,000	FY'51:	-
FY'52:	540,000	FY'52:	\$ 775,000
FY'53:	1,400,000	FY'53:	2,025,000

More than seventy-five per cent of the populace of the Philippines obtains its water supply from unsafe sources such as untreated shallow wells and surface waters. Pollution caused by inadequate personal and community sanitation facilities results in wide prevalence of amoebic dysentery, typhoid and other enteric fevers, schistosomiasis and intestinal parasites. These diseases impair the physical vigor and earning capacity of a large percentage of the population. The project is designed to provide the means for insuring safe water and elemental sanitation facilities for as many communities as possible.

Supplies and equipment ordered during FY'52 will, it is estimated, provide safe potable water to 435 communities throughout the islands. In FY'53 it is planned to provide for protecting the water of an additional 1,000 rural communities through the sinking of artesian wells, the chlorination of existing water systems and the construction of water purification plants in possibly one or two medium-sized communities. Provision also is made for the promotion of construction of privies and latrines, few of which are now in existence.

It is anticipated that much of the peso cost will be covered through organized civic efforts in the communities to be benefitted. It may be necessary to draw upon counterpart funds for the transportation of imported equipment to provincial distribution centers.

Health Centers and Hospitals

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 13,500	FY'51:	\$ -
FY'52:	1,005,000	FY'52:	1,816,000
FY'53:	1,665,000	FY'53:	3,307,500

a) Rural Health Centers. Many of the rural communities in which live the greater part of the population have neither medical nor nursing services. Established provincial facilities often fail to supply the villages with even periodic service because of inadequate resources. Private physicians as a rule eschew the smaller towns and villages for provincial capitals as locations.

A substantial majority of the population thus is without medical or nursing aid. Bad sanitary practices prevail. Infectious diseases claim a high morbidity and mortality. The people generally are uninformed of corrective and preventive measures.

This project is designed to strengthen the existing free medical services of rural communities and to establish such services where they do not now exist. The organization in selected villages of small clinics, each with a resident nurse, will be stimulated. It is expected that by the end of FY'52, five central administrative units, each with ten rural health center satellites, will have been established, equipped and made operative. In FY'53 it is planned to establish and equip 30 additional central administrative units, each with an average of ten rural centers operating under them. Eventually, it is intended that every rural region will have a minimum, at least, of medical, nursing and midwifery services.

It is planned to finance most of the peso cost by organizing civic cooperation in the communities and areas to be benefitted. This will be supplemented by municipal and provincial contributions and by departmental appropriation.

b) Hospital Rehabilitation. Of 80 government-supported hospitals established to provide free medical and surgical services to indigents, the larger part were damaged and looted during the war and occupation. Virtually all are in need of rehabilitation, enlargement of bed capacity and modernization. Since these provincial hospitals generally are the major centers of medical service, any improvement in their facilities will benefit large numbers of people.

It is anticipated that detailed project plans and specifications will have been completed and procurement of equipment for a number of hospitals will have made substantial progress by the end of FY'52. This effort will be expanded in FY'53.

The Department of Health will be expected to provide funds for the physical construction and improvement of the hospitals to the extent the peso costs cannot be met through local and provincial fund-raising campaigns. Local financing will be stressed and probably will be a factor in priority selection of hospitals to be covered by the project.

Health Training and Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	419,000	FY'52:	314,000
FY'53:	780,000	FY'53:	455,000

This project has a two-fold aim: first, to improve the quality and scope of professional training of doctors and nurses; second, to disseminate health education material to promote individual and community effort for the improvement of personal, home and community health conditions.

a) Medical Training. The country has four medical schools, only one of which meets the standards of the American Medical Association. Needed improvement in the quality of instruction can be achieved by detailing medical educators from the United States to teach in local schools for periods of three months to one year. Eight American educators from the U.S. will be assigned in FY'53 to medical schools in Manila for varying periods of three months to one year. The peso cost will be met out of counterpart funds.

b) Nurse Training. In many rural communities, nurses perform many of the functions of physicians because of the scarcity of the latter. Their

importance in the public health field cannot be over-emphasized. Nurses who are to perform rural health center work need special training in public health, preventive pediatrics, first aid and midwifery.

It is anticipated that by the end of FY'52, authorization will have been made for the sending of at least ten native teaching or administrative nurses to the United States for advanced training, and five American nursing educators to the Philippines to teach in nursing schools. Training activities will be expanded in FY'53 by the sending of several more Filipino nurses to the United States and the assignment of four additional American nursing educators to the Philippines.

c) Health Education. Many health authorities are convinced that health education is potentially more important than curative work in countries like the Philippines. There, many basic facilities for sanitation are lacking, but could be provided by the people themselves if they could be shown how and persuaded to take action. It is proposed to undertake energetic education measures designed to instruct rural and urban dwellers in personal health habits and community sanitation. Such measures will be integrated with specific action programs of well-drilling, latrine construction and disease control.

By the end of fiscal year 1952, a systematic health education campaign will have been initiated, including the production of films, posters, books and pamphlets and the activation of audio-visual mobile units to tour rural areas. This work will be extended in FY'53. The bulk of the peso costs of this project will be met from counterpart funds in view of the fact that the Department of Health has only a limited amount in its budget for this purpose.

### 3. Agriculture, Forestry, Fisheries

	<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:	\$ 2,722,000	FY'51: \$ -
FY'52:	10,774,000	FY'52: 13,966,500
FY'53:	21,085,000	FY'53: 25,547,000

In consonance with the major program objectives, the agricultural portion of the program is designed to increase output and work opportunities as rapidly as possible, and to help improve the distribution of farm income. Additionally, long-term needs are recognized in the aim to strengthen the technical and public service aspects of Philippine agriculture.

The need for a large increase in agricultural output and productivity is emphasized by a single fact: It now takes 70 percent of the working population to grow the food and provide agricultural materials and exports.

Similarly, the need for an increase in work opportunities is reflected in the extent of underemployment and unemployment in Philippine agriculture. There is normally a vast pool of unutilized manpower, especially in the over-populated provinces of Luzon, where landholdings are small and the full-work capacity of the cultivator and his family is not used under present conditions. More than 90 percent of rice land under cultivation harvests only one crop a year; this has the effect of enforcing idleness upon a very large segment of the population.

The achievement of these objectives will indirectly benefit the distribution of farm income, and direct measures to achieve this will be taken, as well as in the program for extension of rural credit. The agricultural program places major emphasis upon the opening up of Mindanao for land settlement.

With respect to the long-term effort, the single agricultural college of the Philippines (Los Banos) is being rehabilitated; extension services, designed to disseminate a limited number of basic techniques to the population, are being supported; development of improved seeds is being fostered; and research activities, covering abaca, rice, copra and other crops, are being financed.

Agricultural Colleges and Experiment Stations

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 931,000	FY'51:	\$ -
FY'52:	215,000	FY'52:	254,500
FY'53:	315,000	FY'53:	750,000

The College of Agriculture of the University of the Philippines at Los Banos is the only advanced agricultural training, research and experimental institution in the Philippines. Prior to World War II, it was the leading seat of agricultural education in Southeast Asia and attracted students and educators from many countries. Its buildings and equipment were almost totally destroyed during the Japanese occupation and its campus was used as a concentration camp.

The College, together with its Experimental Station, is now being physically rehabilitated and re-equipped with FY'51 and FY'52 funds. A major corollary problem is the lack of a well-trained staff of younger men to succeed the older faculty members as they are retired. To insure the proper building up of a faculty of high professional standards, technical assistance will continue to be required. This will take the form of expert American educators assigned to teach and improve research methods at Los Banos, and of the dispatch of Filipino agricultural educators abroad for refresher courses and advanced training.

Many government attempts to increase agricultural production have failed because they were not preceded by the experimental work necessary to provide essential factual information. The establishment of a system of experiment stations located in key regions where localized study of specific problems may be carried out is necessary to provide this essential information as an integral part of the work of the Central Experiment Station being established at Los Banos.

By the end of fiscal year 1952, the physical rehabilitation and re-equipment of the College of Agriculture is expected to be largely completed and the Central Experiment Station will be nearing completion. A substantial beginning also will have been made in the establishment of the experiment station system. This rehabilitation activity has resulted in the largest freshman class in agriculture in the history of the College, now numbering 527 compared with 275 last year.

Technical assistance at the College of Agriculture and the new Central Experiment Station is to be continued in FY'53, and additional equipment will be provided for the system of outlying experiment stations.

It is planned to make needed counterpart fund contributions for strengthening the staff of the College and Central Experiment Station contingent upon increased appropriations by the Philippine Government, which are now inadequate. In the long run it is anticipated that the entire increase in financial support required for this institution will be provided by Government funds.

Extension, Training and Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 260,500	FY'51:	-
FY'52:	1,350,000	FY'52:	\$ 1,015,000
FY'53:	625,000	FY'53:	3,000,000

An increase in agricultural production in the Philippines depends on two principal factors: Research and experimentation with modern scientific

methods and the dissemination of practical education to farmers, together with demonstration and technical assistance in the application of improved agricultural techniques.

a) Agricultural Extension. The extension work now being done by separate bureaus of the Department of Agriculture and Natural Resources reaches only a small number of people. Extension facilities, services and supervision are inadequate. The project aims at the development of a uniform extension service; the training and equipment of increased numbers of qualified personnel; the enlargement of governmental agricultural services available to farmers; and generally to guide and assist the Government in the task of making available to the rural population the benefits of modern agricultural research and techniques.

It is hoped that by the end of FY'52 legislation creating a unified extension service under the Secretary of Agriculture and Natural Resources will have been enacted. In addition to the technical assistance supplied in the preparation of the legislation and in planning the new organization, the project will provide transportation, educational training and equipment, and training of several trainees in the United States.

In FY'53 it is planned to assist in expanding this service to district, provincial and municipal levels, with some increase in the technical assistance to be supplied. Training for additional Filipino extension workers in the United States is contemplated. Government and provincial budget sources now provide approximately 2,472,000 pesos annually for this purpose. It is estimated that an additional 4,300,000 pesos will be required under the new legislation.

b) Training and Education. The level of professional agricultural training in the Philippines is low. Due to poor scholastic standards, graduates of most agricultural colleges are poorly equipped to contribute to government service or private industry. There is a need for advanced training of these graduates in the United States or other countries.

The establishment of a comprehensive Philippine Government agricultural information and educational service also is necessary to educate farmers on matters of vital importance to them. At present there are no such facilities. The project is designed to encourage the creation of such a service in the Department of Agriculture and Natural Resources to meet the basic needs of the rural populace.

It is anticipated that by the end of FY'52, ten graduate students will have been sent to the United States for advanced training in various fields of agriculture. Specialists also will be trained in press, radio, publications, motion pictures, film panel strips, and other media; and the existing educational activities of the various bureaus will be coordinated.

These educational activities begun in FY'52 will be expanded in FY'53 in the fields of land tenure, rural credit, fertilizer distribution, irrigation, disease and pest control, and land settlement. Initial assistance from counterpart funds probably will be necessary pending the outcome of efforts to obtain adequate government budget funds for the work.

Soil Survey and Conservation

	<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:	\$ 167,500	FY'51:	\$ -
FY'52:	10,000	FY'52:	154,500
FY'53:	35,000	FY'53:	50,000

Prerequisites for increased agricultural production are adequate knowledge of soil conditions and proper soil utilization. The importance of protecting soil resources has not yet been fully recognized in the Philippines,

with the result that crop yields are low and soil losses enormous. Requests for soil analysis far exceed the Department of Agriculture's present capacity. The project is designed to enlarge this capacity to expand work already in progress on fertilizer tests and major crops and soil conservation, and to expedite soil classification by provinces and detailed soil surveys for special crop problems.

By the end of FY'52, it is anticipated that improved soil survey facilities will have been equipped and will have begun enlarged operations. The FY'53 plan will be limited to technical assistance and research. An American soil conservation specialist will advise and guide the government's expanded soil survey and conservation work and Filipino trainees are to be sent to the United States. A countrywide fertilizer research program will be initiated. Peso costs of this project will be financed by the counterpart fund.

Cereal Crop Improvement

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	590,000	FY'52:	142,000
FY'53:	370,000	FY'53:	650,000

a-b) Rice and Corn Improvement and Multiplication. An important factor in the low productivity of the major crops of rice and corn is the lack of improved and tested seeds. Present limited government research and experimentation into improved seed varieties should be expanded and seed farms established from which farmers can be supplied.

It is anticipated that by the end of FY'52, research and experimental equipment will be in procurement. Two American experts, a rice breeder and a corn breeder will be on the job. Equipment also is to be provided in FY'53 for ten seed farms on which improved seed will be multiplied and from where they will be made available to farmers at reasonable prices with the aid of the Agricultural Extension Service.

Funds available through appropriation have been inadequate for this activity. Additional appropriations will be necessary to enable the government to take full advantage of the assistance provided under this project.

c) Cereal Pest Control. Annual losses in the Philippines' major cereal crops due to rodent and insect pests are estimated as high as 30 percent. The utilization of proper control methods could reduce these losses by 65 or 70 percent. The aim of the project is to assist the government in instituting a comprehensive program of control, employing the latest scientific methods.

It is hoped that by the end of FY'52, two field laboratories will have been established, one each in the two major rice producing districts, and work started on a series of tests to determine the most effective control measures. The FY'53 plan will be limited to the provision of technical assistance. The Philippine Government now spends about 50,000 pesos annually for this work. Efforts are being made to have this inadequate appropriation expanded.

Fertilizer Distribution

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 1,044,500	FY'51:	-
FY'52:	3,015,000	FY'52:	\$ 1,054,500
FY'53:	10,000,000	FY'53:	1,500,000

Rice yields in the Philippines average only about 28 bushels per acre, the lowest in Southeast Asia, and it is necessary to import large quantities of this staple to meet the country's basic food requirements. Corn yield averages only 9 to 11 bushels per acre. One of the principal reasons for these low yields is the limited use of fertilizer. The project aims to bring about increased productivity by promoting and encouraging its wider use.

By the end of FY'52, 43,000 metric tons of fertilizer supplied by ECA will have been sold principally to small area rice and corn farmers. It is being sold on credit as well as cash terms and is reaching farmers who in many instances never used it before. Approximately 660,000 acres or 13 percent of the rice acreage will be fertilized with this tonnage. It is estimated that properly applied fertilizer will increase crop yields from 20 to 50 percent. Approximately 200,000 small farmers will benefit from the project. The ECA fertilizer program already has had the effect of stimulating demand for commercial fertilizer.

The plan for fiscal year 1953 will supply additional quantities of fertilizer calculated to increase the rice yield by approximately 4,000,000 bushels and the corn crop by 200,000 bushels.

The peso cost of the project will be financed by revenues from the sale of fertilizer direct to farmers.

Irrigation

	<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:	\$ 681,500	FY'51: -
FY'52:	2,200,000	FY'52: \$ 1,700,000
FY'53:	4,580,000	FY'53: 4,250,000

The Philippines never have produced basic food stuffs in quantities adequate for the population. This problem has been aggravated by a population increase of about 25 percent in the last 10 years. One of the principal means for increasing food production is through the application of irrigation water to rice lands. A limited government irrigation program has demonstrated that rice yields can be doubled by this means. It will make it possible to grow second crops during the dry season when none can be produced. The project aim is to provide facilities for expanding irrigation as fast as possible through the installation of irrigation pumps and gravity irrigation systems.

a) Irrigation Pumps. By the end of FY'52, a total of 250 pump units will be supplied to the Irrigation Pump Administration of the Department of Agriculture and Natural Resources and put into operation to cover 125,000 acres of rice land. These pumps later will be sold to small area rice farmers on reasonable credit terms through farmer-operated and controlled irrigation associations. They are expected to double the production of the area involved. The FY'53 plan calls for approximately 375 additional pump units to be installed to irrigate 180,000 acres and bring about an estimated increase of 5,100,000 bushels of unhulled rice. The project will be self-liquidating over a period of five years. No net outlay of counterpart funds will be involved.

b) Gravity Irrigation. During FY'52, it is expected that procurement of earth-moving equipment and construction steel to be used for diversion dams and main canals will be undertaken after the completion of an irrigation survey by a group of U.S. experts. When completed, the gravity irrigation works to be constructed with FY'52 funds will provide permanent irrigation for approximately 25,000 acres with a net annual production increase of approximately 1.5 million bushels of unhulled rice.

The work will be expanded in fiscal year 1953 with the provision of additional machinery and equipment to bring about enlargement of the irrigated area and provide the basis for a long-term program of gravity irrigation construction works. Part of the peso cost will be financed from the counterpart fund.

Coconut Development

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 90,500	FY'51:	-
FY'52:	59,000	FY'52:	\$ 145,000
FY'53:	15,000	FY'53:	7,000

A section of southern Luzon which grows over 30 percent of all the coconut trees in the country is affected or threatened with a coconut plant disease, the cause of which is not known. A recent survey indicated that the disease already has killed or put out of production over 1.5 million trees of bearing age in four provinces and that it is spreading northward, threatening two of the three most important coconut producing provinces in the Philippines. Loss of income to the provinces now affected runs to over \$3,000,000 annually, creating an emergency situation in one of the mainstays of the economy. Before effective control methods can be devised, the cause and means of spreading of the disease must be determined. The project aim is to assist the Government in its studies toward this end. Another objective is to introduce improved coconut growing and copra drying methods to help raise the country's rank from near the bottom among the major producing countries in point of copra quality.

By the end of FY'52, technical assistance and equipment for improved coconut disease and development research and experimentation is expected to be fully installed and in operation. Experimental methods will be tested on a small scale to determine whether it is possible to control the spread of the disease even before its cause is found. The Filipino research and experimentation staff will be increased from two to fourteen persons. Technical assistance will be continued in FY'53. Possibilities of raising the peso cost from planters and commercial interests to be directly or indirectly benefited by the project will be explored in order to remove as early as possible the need for the use of counterpart funds.

Fiber Development

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 338,000	FY'51:	-
FY'52:	111,000	FY'52:	\$ 150,500
FY'53:	90,000	FY'53:	50,000

Abaca fiber is a basic Philippine export product and of strategic importance to the United States. The present volume of production remains substantially below prewar levels. One reason for this is the alarming prevalence and spread of mosaic disease. Substantial intensification of the Government's work on disease control and eradication is vital. In addition, abaca culture and production must be improved to increase yield and improve quality. The first objective requires laboratory and field research studies as well as experimentation, demonstration and practical application of mass control measures. The second contemplates assistance in the establishment of new plantations by assuring planters adequate sources of healthy planting material.

An American plant pathologist is now at work with the Government and technical equipment, insecticides and weed killer supplies are being provided. Experimental control work will be continued in FY'53 and development work on fertilizer and cultural practices initiated. The Government is using revenues from abaca inspection fees to help meet the peso costs of the work. The Department of Agriculture and Natural Resources expects to provide additional funds.

Animal Husbandry

	<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:	\$ 63,500	FY'51: -
FY'52:	1,010,000	FY'52: \$ 1,160,500
FY'53:	1,025,000	FY'53: 750,000

Prior to World War II, livestock raising was an important industry in the Philippines. The number of farm animals, especially cattle and water buffaloes, was greatly reduced by the war and occupation. There is need for increasing the number of work animals (buffaloes and cattle) for which ample grazing land areas are available. Moreover, the amount of animal protein in the diet of the average Filipino is among the lowest in the world. Annual per capita consumption is about 45 pounds of meat, eggs, and fish as compared with approximately 228 pounds in the United States, or if milk is included, 65 pounds as compared to 978 pounds in the United States. It is considered essential that the meat and poultry stock be upgraded, the numbers and stamina of draft animals be increased, and facilities for the manufacture of biologics and the control of animal and poultry diseases be expanded.

By the end of FY'52 progress in livestock upgrading will be achieved through the importation of approximately 200 Brahman cattle and 225 Murrah buffaloes (mostly from India), 750 hogs, 200 breeding boars, 75 goats, 25 sheep, 150 rabbits, and 50,000 chickens (as baby chicks and eggs). These will be distributed to various breeding stations for public stud service and increasing breeding stock, or as in the case of poultry, sold directly to the public. Work will be in progress on developing and demonstrating methods of local feed production and pasture improvement. Equipment also will be provided the Bureau of Animal Industry to increase the output of sera and other biologics.

This work will be extended in FY'53 with additional imports of certain breed stock and other animals and the provision of tractors, farm implements, feed processing machinery, improved seeds, veterinary and laboratory equipment and building materials.

The regular operating budget of the Bureau of Animal Industry for FY'51 -'52 is 1,540,698 pesos. With this budget it maintains eight stock farms, 16 breeding stations and four breeding centers. The Government has appropriated 3,277,900 pesos altogether for the rehabilitation of livestock since the war.

Rural Reconstruction and Development

	<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:	\$ 40,500	FY'51: -
FY'52:	25,000	FY'52: \$ 3,042,000
FY'53:	975,000	FY'53: 7,275,000

Agriculture is the primary industry of the Philippines. More than 70 percent of the population is dependent upon it for a livelihood, and approximately two-thirds of the gross national product is derived from it and related activities. The social and economic status of the rural population is so low that it has contributed to deep-seated dissatisfaction and even violent unrest in some areas, creating a fertile field for aggressive communistic infiltration and propaganda. The sub-standard level of living prevailing generally is being attacked vigorously through various projects designed to increase agricultural productivity and thereby contribute to the economic betterment of the masses.

More complex is the social problem, which has been brought about by the following factors: Fragmentation of land holdings, wide-spread tenancy, discriminatory rental rates, lack of producer-marketing facilities, usurious interest rates and low farm wages. These conditions have kept the rural areas in a state of abject poverty and unrest for many years. The project aim is to supplement the technological improvement of agriculture by aiding in a thorough-going reform of those institutions and conditions that contribute so heavily to the deplorable state of the rural masses.

a) Land Transfer and Tenancy Amelioration. The Philippines are plagued by a pernicious land tenure system. Farms are small, averaging in total farm land area per farm 4.1 hectares; total tillable area per farm is 3.1 hectares. Almost 25 per cent of all farms contain less than one hectare and more than 50 per cent, less than 2 hectares. Tenants, constituting 35 per cent of total farm operators, actually operate only 25 per cent of the total farm area. Tenancy frequency varies as between provinces from 1.8 to 67.9 per cent. Landlords legally are entitled to a minimum of 30 percent of the gross products, but usually receive up to 50 percent.

Sharecropping is most prevalent in Central Luzon where communist-inspired rural strife and rebellion are most rampant. There is scant opportunity now for tenants to acquire their own holdings, except on a rental basis, or to protect their tenure. The project aim is to encourage and promote the formulation of basic policies and methods of land tenure reform, including the establishment of fair tenancy practices and legislation looking toward government purchase of farm lands and their resale to tenants on reasonable terms.

It is anticipated that by the end of FY '52, legislation to implement land reform objectives will be enacted into law, and that development of an administrative structure, including establishment of the Land Commission System, will be in progress. In addition to U. S. expert assistance supplied for planning these reforms, three Filipino delegates were sent to the International Conference on Land Tenure in 1951, one of whom is to remain in the United States for a full year's study.

Technical assistance will be continued in FY '53 to assist in organizing and implementing major reform measures. Additional Filipino trainees will be sent to the U. S. It is anticipated that peso costs will be borne largely by the counterpart fund.

b) Farm Credit. A large percentage of Filipino farmers carry excessive debt burdens which prevent them from increasing production and achieving any semblance of economic and social stability. No organized sources of credit are available to them. Instead, they must rely on private money-lenders, primarily landlords and merchants, who exact excessive interest charges. The aim of this project is to promote a government-sponsored rural credit system on cooperative principles, rediscounting facilities to serve all types of rural financing agencies, and the entrance of private financing institutions into the rural credit field.

A preliminary study of possible procedures for approaching farm financing problems has been initiated by the Central Bank, aided by an American rural credit specialist provided by the project. By the end of FY '52, it is hoped this will have been followed by remedial legislation. Limited technical assistance will be provided in FY '53, including both U. S. expert advice and training of Filipinos in the United States. This will be one of the major counterpart projects. Government financial institutions will be utilized for technical assistance, rediscount purposes, and as probable sources of capital in the sale of securities issued by the new system.

c) Warehousing. Lack of warehouses in which rice and other crops can be stored until the appropriate time for marketing contributes significantly to the depression of income of Filipino farmers. They need modern storage facilities which will permit them to use warehouse receipts as security for loans without having to sell their crops at depressed prices as soon as they are harvested to pay off subsistence loans at usurious rates.

The project is designed to help meet their need by providing a substantial amount of imported construction materials and rice-drying machinery in FY '53. Possibilities for the financing of the peso cost of this project are being examined.

d) Agriculture Cooperatives. The project aim is to help fill

the need for effective farmer cooperative enterprises through which credit, warehousing, marketing, processing, purchasing, and other facilities can be developed by the farmers themselves, with public and private assistance.

It is hoped that by the end of FY'52 the Philippine Congress will have enacted legislation designed to protect the independence of cooperatives, penalize corruption and insure democratic farmer member control over cooperative affairs. Technical assistance will be provided in FY'53 with a U. S. expert assigned to the Philippines and the training of Filipino personnel in the United States. A substantial counterpart contribution will be necessary initially to supplement present inadequate government budget resources.

Land Settlement

<u>Dollar Cost</u>	<u>Dollar equivalent of Local Currency Cost</u>
FY'51:       \$   83,500	FY'51:       \$       -
FY'52:       1,797,000	FY'52:       4,003,000
FY'53:       2,555,000	FY'53:       6,500,000

Brightest future hope for the landless Filipino peasant is the opportunity now being offered him, through the Government's resettlement plans for Mindanao, to acquire his own farm and the right to work it for himself and his family.

One of the principal reasons for present widespread Philippine economic and political unrest is the overcrowding of agricultural land in large parts of Luzon and some of the Visayas. This results in farm sizes too small and share-cropping conditions too discriminatory to permit large numbers of farm people to attain adequate subsistence.

On the other hand, there exist large areas of undeveloped virgin land, particularly in Mindanao. A migration to Mindanao has been in progress for some time, and now is estimated at the rate of 5,200 families per year through one port. Organized resettlement is being undertaken on a small scale by several Philippine Government agencies. The project aim is to promote, expedite, facilitate, and increase the movement of farm people from overcrowded areas to new land, and thereby to improve economic conditions of those who remain in the old areas as well as of the new settlers. The development of new lands will, moreover, contribute significantly to increased agricultural, mineral and forestry production.

Four basic steps are considered necessary to establish minimum facilities required for large-scale resettlement in Mindanao:

- 1) expediting land classification and subdivision; 2) improving machinery for providing clear legal titles; 3) construction of access roads; 4) malaria control.

All of these are prime objectives of this project. Their fulfillment would clear the way for a mass migration calculated to assuage the socio-economic plight of thousands of agricultural workers now struggling for sub-standard existence in overcrowded areas.

a) Public Land Subdivision. Because of the inability of the Bureau of Lands of the Department of Agriculture and Natural Resources to subdivide public lands fast enough to meet the demand, many new home-seekers are forced to squat on occupied areas or lots already applied for by others. Even when squatting on unclaimed public lands, they suffer from uncertainties of ownership. Acceleration of the rate of public land subdivision is a prerequisite to successful resettlement.

By the end of FY'52, equipment and technical assistance will have been supplied to a sufficient number of survey parties of the Bureau of

Lands to increase the land subdivision rate from 100,000 to 400,000 hectares annually. Technical assistance will be continued in FY'53 to accelerate this rate. Counterpart funds will be required initially to meet the peso cost of this project.

b) Land Classification. Another bottleneck to intensified agricultural resettlement is the limited land classification facilities of the Bureau of Forestry of the Department of Agriculture and Natural Resources. Before settlers can obtain legal ownership, public land must be subdivided. Before public land can be subdivided, it must be classified for agricultural use. The most acute squatter problems have arisen in the fertile agricultural areas of Mindanao where approximately 2,800,000 hectares of public domain is estimated to be eligible for release for agricultural uses.

By the end of FY'52, equipment and technical assistance will have been supplied to a sufficient number of Bureau of Forestry survey parties to increase the land classification rate from 100,000 to 400,000 hectares annually. Technical assistance will be continued in FY'53. Efforts are being made to obtain the release of more Bureau of Forestry revenues to cover the peso costs of this expanded work.

c) Land Settlement Operations. Activities under this project are keyed to the Mindanao resettlement work of three government organizations - the Philippine Army (EDCOR), the Land Settlement and Development Company (LASEDECO) and the Social Welfare Administration.

Prime incentive held out in these operations is the grant of 10 hectares of land to each homesteader desirous of pioneering a new life. This is supplemented by nominal assistance, including the provision of elemental tools and seeds required to start a crop and construct a home.

Road building and malaria control projects under the public works and public health programs are coordinated closely with resettlement activities.

It is anticipated that by the end of FY'52, equipment will have been provided for land clearing, road construction, bridge building, well digging, malaria control, and construction of certain community facilities to assist in the settling of approximately 14,000 persons in 2,400 families.

The plan for FY'53 is to expand this aid to permit the settlement of at least 50,000 families with a total of approximately 275,000 persons. The peso costs of this project will be financed by counterpart funds and by Philippine Government budget sources, which provided 2,300,000 pesos in FY'51 for this purpose.

Forest Development

<u>Dollar Costs</u>	<u>Dollar Equivalent of Local Currency Costs</u>
FY'51:     \$ 13,500	FY'51:     \$ -
FY'52:     392,000	FY'52:     350,000
FY'53:     300,000	FY'53:     565,000

In forestry development, there is an opportunity to make use of what is probably the least utilized of all Philippine resources. Although forests cover some 53 percent of the land area and contain the largest potentially accessible stands of hardwoods in the world, only 12 of its 3,000 known species of wood are employed commercially. Research, scientific testing, experimentation, and practical demonstration are essential activities almost non-existent at the present time. Equally important is the broader application of modern forest management, maintenance, fire protection, and selective timber cutting methods. The School of Forestry at Los Banos requires substantial additional rehabilitation and improvement to

serve its function as central forestry training center. A forest products laboratory is a high priority need to investigate and promote better and more diversified utilization of woods and other forest products and thereby give major impetus to greatly enlarged industrial development.

By the end of FY'52, a forest products laboratory will have been established and equipped, aided by technical assistance. In addition, rehabilitation of the School of Forestry will have been initiated and equipment for improved reforestation work will have been supplied. Rehabilitation and modernization of the School of Forestry will be completed in FY'53. Technical assistance also will be provided, especially in modern forest management methods. A substantial part of the peso cost of the project will be financed by regular government budget sources.

Fisheries Development

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: -	FY'52: -
FY'53: 200,000	FY'53: 200,000

The production of animal protein in the Philippines is far less than minimum requirements. In 1950 nearly 13 million pesos of fisheries products were imported. Due to natural conditions in the water surrounding the Philippines, deep sea fishing cannot readily be expanded. On the other hand, many thousands of hectares of swamp land exist that could be converted into fish ponds. Experience indicates that the cost of their construction can be amortized over a relatively short period of time. They can contribute approximately 10,000 pounds of fresh fish annually for each hectare of fish pond. The aim of this project is the establishment of pilot fish farms and fish nurseries in selected areas for demonstration purposes.

In FY'53, equipment and materials will be supplied to construct four demonstration fish ponds and four fish nurseries in selected areas. It is anticipated that ECA activity in this field will stimulate the government to provide adequate peso funds for carrying on the work.

4. Transportation and Public Works.

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$3,633,000	FY'51: \$ -
FY'52: 5,814,000	FY'52: 9,555,000
FY'53: 8,988,000	FY'53: 14,062,500

As in other fields to which it is closely related, the principal objectives of the Public Works program are to assist directly in increasing productivity and to stimulate employment by providing more work opportunities.

The success of the proposed large-scale development of Mindanao will depend to a great extent, for example, on the construction of an adequate system of roads and bridges to provide access to the interior. The Public Works program places major emphasis on this work which directly will give new jobs to large numbers of skilled and unskilled labor and indirectly new opportunities for work to thousands of new settlers. At the same time,

it will contribute substantially to increased output in the areas of agriculture, forestry, minerals and power.

Also contributing directly to increased output while providing immediate work opportunities is the control of river flood conditions, on which the public works program concentrates. Wide areas of politically sensitive central Luzon whose dense population is beset by recurring seasonal floods will be the beneficiaries. As well, the reclamation of valuable agricultural lands and new permanent irrigation sources will result from the flood control portion of the program.

From the long-range standpoint, the rehabilitation of technical education facilities at the University of the Philippines and the provision of improved training and education for public works pursuits constitute a major step toward the creation of a sound manpower basis for future activities in this field.

Highway Rehabilitation and Construction

	<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:	\$3,000,000	FY'51: \$ -
FY'52:	2,900,000	FY'52: 4,875,000
FY'53:	3,840,000	FY'53: 6,642,500

a) Mindanao Development Roads. The first prerequisite of the Mindanao development program is basic transportation consisting of an integrated system of roads. Present roads lack many connecting links. The project aim is to assist the Philippine Government in constructing the most important missing links. To this end, technical assistance, road-building equipment, re-enforcing and structural steel, and equipment for central road machinery repair shops will be provided.

By the end of FY'52, it is anticipated that six construction units will be activated and work started on 616 kilometers of roads. One new construction unit and shop will be provided in FY'53, increasing to seven the number of working units. The construction of an additional 207 kilometers of roads will be undertaken. Part of the peso cost of this project will be financed from regular Government and Provincial budget sources.

b) Bridge Rehabilitation and Construction. Existing Mindanao roads require the construction of a number of permanent bridges to replace present inadequate temporary structures or ferries, so that the basic road network will provide all-weather and year-around service, and facilitate movement of heavy road-building equipment to the proposed development roads. This project is not considered for a loan because of the probability that toll charges might have to be made to service it. This would defeat the purpose for which the project is designed, namely, to provide a true public service.

It is anticipated that bridge surveys and plans will be completed by the end of FY'52. Twenty-six bridges over as many rivers in eight provinces are proposed for construction in FY'53. Part of the peso cost of this project will be financed from counterpart funds and regular Government and Provincial budget sources.

c) Road Maintenance Training. A road system requires an experienced and well-trained, road-maintenance organization. For the most part, the present maintenance system is based on inefficient and uneconomical use of hand labor. The project aim is to change this system to gang maintenance, using mechanized equipment wherever possible. It is planned to send several U. S. maintenance experts to the Philippines in FY'53 to give on-the-job instruction to the maintenance employees of the Bureau of Public Works. Maintenance equipment, primarily trucks and truck graders, also will be provided.

Peso costs of the project are expected to be covered by regular maintenance funds of the Bureau of Public Works.

Low-Cost Housing

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 603,000	FY'51:	\$ -
FY'52:	1,465,000	FY'52:	2,930,000
FY'53:	2,000,000	FY'53:	4,000,000

Social as well as economic problems are created by existing urban slum conditions, particularly in Manila, which in terms of squalor go far beyond those found in most large cities. These conditions are the result of war-caused destruction, lack of rebuilding, and the influx of people from dissident or distressed rural areas. A program of urban low-cost housing - combined with slum clearance - would directly improve the deplorably low living standard of urban, low-income families and thereby the productivity of Philippine industrial labor, and low and middle-salaried government employees. At the same time, it would be a means of extending to the under-privileged city masses an area of social benefit which would tend to counteract communist propaganda. The project aim is to create a dramatic contrast calculated to induce strong public pressure for a more ample and continuing Government attack on the problem.

By the end of FY'52 the Philippine Government's Kamias Project No.3, on which construction is in progress with aid from FY'51 funds, is expected to be completed. This project will house 962 low-income families.

Technical assistance and equipment will be provided in FY'53 for the initiation of new projects, to be determined by a comprehensive survey, embracing rural, self-help type housing as well as the relief of urban slum conditions. A revolving fund created by the Government's Peoples Homesite and Housing Corporation can contribute part of the peso requirements for this work.

River Control

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	1,449,000	FY'52:	1,750,000
FY'53:	2,515,000	FY'53:	3,100,000

Important agricultural areas, particularly in Luzon, are handicapped by recurring floods and changing stream courses even during periods of normal rainfall. Earth dam building, dikes, levees, and stream channel straightening and deepening can play a major role in reclaiming valuable agricultural land in areas of dense population. In addition, up-river damming will control the water flow during the changing seasons, thereby not only reducing or eliminating flooding, but also providing a source of permanent irrigation of existing or potential crop land.

By the end of FY'52, flood control work at 20 localities is expected to be in progress with the aid of earth-moving equipment and a small amount of construction materials now being provided. This equipment will permit the completion of the planned projects between flood seasons, thereby bringing quick relief to thousands of people.

It is planned during FY'53 to expand this work to 40 new locations by procuring new equipment to be added to that already in use, and providing technical assistance for planning, supervision and training. Counterpart funds will be required to meet a substantial part of the peso costs of the

project, supplemented by available public works appropriation.

Technical Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	-	FY'52:	25,000
FY'53:	633,000	FY'53:	320,000

a) University of the Philippines College of Engineering Rehabilitation

Because of the limited facilities available at the engineering schools of the University of the Philippines, which have been only partially rehabilitated following the war, completion of that rehabilitation will be an important contribution to the country's economic development.

The establishment of a hydraulics laboratory, patterned after the one at the University of Iowa, is under consideration as a high-priority need for FY'53 in view of the importance of flood control, hydro-electric and irrigation projects. Other proposals include the improvement of the chemical engineering department and the training of civil, mechanical and electrical engineers by strengthening the faculties, libraries and school equipment. It is planned to send a limited number of U. S. educators to the Philippines as organizers and advisors and to send Filipino trainees to leading U. S. universities.

Efforts will be made to obtain more adequate budget appropriations for the University of the Philippines to help defray the peso cost of this project.

b) Technical Training. The aim of this project is to provide the basis for the training of Filipino technicians and administrators in all phases of public works activity so as to insure a sufficient number of qualified nationals to carry on an effective program after U. S. aid ends.

During FY'53 it is planned to employ audio-visual and other media both to provide instruction for trainees and other potential sources of manpower for public works pursuits. In addition, provision has been made to send a limited number of trainees to the U. S. for advance training in certain special fields. The peso cost of this project will be financed largely from the counterpart fund.

5. Handicraft and Manufacturing, Mining, Other Industry.

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$778,000	FY'51:	\$ -
FY'52:	512,000	FY'52:	1,165,500
FY'53:	501,000	FY'53:	603,000

Handicraft Development

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$156,000	FY'51:	\$ -
FY'52:	185,000	FY'52:	277,500
FY'53:	201,000	FY'53:	303,000

Handicraft development can contribute substantially to increasing the income of the farming population and of indigent families in small urban communities. Certain Philippine specialities such as wood carvings, fiber products and other native articles formerly enjoyed great international popularity and provided a source both of employment and foreign exchange. Lack of guidance and standardization has hampered the development of this output. If supplied with the proper tools, technical training and market information, some 80,000 persons could become self-employed craft workers in their own homes during the agricultural off-season with an earning potential of 54 million pesos a year.

Research, tooling and training have been initiated with FY'51 and FY'52 funds, and the Philippine Government, through the Office of Economic Coordination and the Price Stabilization Corporation, has been assisted in establishing research-training-demonstration centers in a multiple-shop compound in Manila for nine basic home industries.

In FY'53 two trainees are to be sent, preferably to Japan, to be trained in the operation of manually-operated tools and equipment for pottery, bamboo, straw, and rattan craft. An additional trainee is to be sent to the U. S. for training in production-management techniques.

Three additional U. S. experts are to be sent to the Philippines for technical advisory services in (1) weaver training, (2) production management, and (3) craft visual education. Equipment also will be supplied to increase the number of modern, levered tools to be distributed to home-workers.

Four government agencies will provide from their budgets part of the funds necessary to finance the peso cost of the project.

Industrial and Mining Surveys

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$378,000	FY'51:	\$ -
FY'52:	267,000	FY'52:	708,000
FY'53:	300,000	FY'53:	300,000

By the end of FY'52 surveys covering coal resources, strategic minerals, irrigation, the Candaba Swamp and Manila Railroad are expected to be in full progress or completed. It is anticipated that in cases where special surveys will be required in FY'53, the Philippine Government budget will help finance the peso costs.

6. General Engineering Advisory Services. None

7. Education.

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 218,000	FY'51:	\$ -
FY'52:	900,000	FY'52:	1,068,500
FY'53:	2,121,000	FY'53:	994,000

Agricultural Vocational Schools

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 86,000	FY'51:	\$ -
FY'52:	550,000	FY'52:	593,000
FY'53:	901,000	FY'53:	498,500

Vocational agricultural education to insure an adequate pool of trained manpower is of particular importance to a long-range agricultural improvement program. The extensive and relatively well-equipped facilities which had been developed in the Philippines prior to 1941 were wiped out during the war and occupation. The aim of the project is to assist in the rehabilitation of existing vocational agriculture schools and to establish new schools in selected locations. Classroom furnishings and equipment, farm machinery and implements, livestock, laboratory equipment and supplies, technical books, instructional aids, and technical assistance are to be provided.

It is anticipated that by the end of FY'52, ten vocational agricultural schools will have been rehabilitated and re-equipped (six in Luzon, one in Leyte, and three in Mindanao). Two new schools will have been established, one in Mindoro and one in Panay.

The plan for FY'53 provides for the rehabilitation of seven additional schools, three in Luzon, one in Palawan, one in Negros, one in Samar, and one in Mindanao, and the establishment of one new school in Masbate. A vocational agricultural education specialist will be sent from the U. S. to assist the Bureau of Public Schools in the organization and administration of the project, and six Filipino trainees will be sent to the U. S.

The peso cost of the project will be financed from Philippine budget sources and the counterpart fund.

Other Vocational Schools

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:    \$132,000	FY'51:    \$       -
FY'52:    350,000	FY'52:    475,500
FY'53:    600,000	FY'53:    195,500

Vocational industrial education to insure an adequate pool of trained manpower is of particular importance to a long-range economic development program. Industrial expansion and diversification depend on trained labor and supervision. Moreover, improved vocational education is one of the most effective antidotes against the excessive postwar trend of Philippine youth toward white-collar education and jobs at the expense of basic productivity.

The extensive and relatively well-equipped facilities which had been developed prior to 1941 were wiped out during the war and occupation. The aim of the project is to assist in the rehabilitation of existing trade schools, and to establish new ones in locations indicated by the overall economic development program. Classroom furnishings and equipment, industrial tools and machines, laboratory equipment and supplies, technical books, instructional aids and technical assistance are to be provided.

It is anticipated that by the end of FY'52, nine trade schools will have been rehabilitated - four in Luzon, two in Mindanao, one in Sulu, one in Cebu, and one in Panay. Two new schools will have been established, one trade school in Mindanao and a cottage-industry, teacher-training institute in Manila.

The plan for FY'53 provides for rehabilitation of eight additional schools, seven in Luzon and one in Samar, and the establishment of one new school in Luzon. Two vocational, industrial-education specialists from the U. S. will assist the Bureau of Public Schools in installing equipment, training local instructors, and developing an effective system of vocational guidance and placement. Four Filipino trainees will be sent to the U. S.

The peso cost of the project will be financed by Philippine budget sources and the counterpart fund.

General Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: -	FY'52: -
FY'53: 620,000	FY'53: 300,000

Widespread illiteracy prevails in the Philippines, particularly in the rural areas, but the younger Filipinos are avid for education. There never have been adequate facilities to meet basic needs and this is truer today than ever before.

Progress brought about by American influence and direction over a long period before the war has been substantially negated by the effects of war and occupation. The general system of education, especially in the field of normal schools, has been set back sharply by a grave shortage of qualified teachers, inferior curricula, lack of basic equipment and overloading of existing facilities.

The UNESCO Consultative Educational Mission of 1949 reported that of the 65,000 teachers in the Philippines, 35,000 were unqualified because of incomplete professional training. Moreover, the ratio of pupils to teachers averages approximately 59 to 1, placing a serious burden on the already poorly manned and ill-equipped staff.

Substantial assistance is needed to help the government rehabilitate its normal and general educational system. Simply stated, its problem is to establish more schools and train more teachers if present and coming generations are to be equipped to participate effectively in the building of their new nation.

It is proposed to assist the Department of Education initiate improvements in both the youth and adult education fields. The project calls for the assignment of six American technical experts to advise and consult on adult education, primary, secondary and college education, normal schools and audio-visual techniques. Thirty-five normal school educators also are to be assigned from the U. S., seven for a full year and 28 for three months. The latter will specialize in organizing "vacation" training classes in the 13 normal schools now operating. Seven American night school specialists also will be made available, along with a small amount of basic school equipment and supplies.

8. Public Administration

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Costs</u>
FY'51: \$375,000	FY'51: \$ -
FY'52: 726,000	FY'52: 241,500
FY'53: 345,000	FY'53: 135,000

"The success of the development program may depend more on the efficiency and honesty of the public service than on any other single factor."

This quotation from its official report was the basis of the Bell Survey Mission's recommendation for the improvement of the Philippine Government's administrative apparatus. The Public Administration project is designed to help implement this recommendation.

Larger responsibilities are placed on an already weak administrative service by American assistance designed to rehabilitate and stimulate the Philippine economy. Low salaries, inadequately trained personnel and political pressures have resulted in widespread inefficiency and, in many cases, official corruption. If these conditions are allowed to continue, they could, in fact, negate the gains to be expected in wide areas of the economy.

The project aims at raising the level of efficiency and probity of the 30,000 Filipinos now employed in public administration, as well as strengthening the organizational structure of the governmental machine.

To assist in the accomplishment of this objective, expert American advisors and consultants will be assigned to key departments of the government to advise Philippine officials, introduce modern administrative methods, assist in improving enforcement techniques and conduct in-service training of government employees. Special training in the U. S. also will be provided for a number of selected Filipino public servants to assist in the development of a more efficient civil service.

During FY'51, nine U. S. consultants were assigned as advisors to the Philippine Government. By the end of FY'52, this number will have been increased to sixteen. Early results have demonstrated that increased collections of revenues can reasonably be expected from improvements instituted in both administration and enforcement of tax laws. The plan for FY'53 calls for an increase to 18 U. S. experts in the field of public administration to be assigned to various government departments.

It is anticipated that by the end of FY'52, six native trainees will be in active training in the United States. This number will be increased to 15 in FY'53.

Peso costs of this project will be financed by counterpart funds.

#### 9. Maintenance of Essential Supply

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 6,678,000	FY'51: \$ -
FY'52: 10,000,000	FY'52: -
FY'53: 10,144,000	FY'53: -

The Philippines has embarked upon a development effort covering the five-year period 1950-54, which - if successful - would result in a significant rise in the gross national product. The planned increase in output, excluding certain sectors of the economy in respect to which plans have not yet been formulated, would raise the gross product from the equivalent of approximately \$2,500 million in 1950 to somewhat under \$3,000 million at the end of FY'53 - an increase of about 20 percent. If this were accomplished, gross output per head would come close to, but would not equal, that in the prewar period (1938).

In fact, of course, an increase of this size is not to be expected. But the national real product is destined to rise to levels at which an enlarged volume of imports will be needed - for stocks and utilization - to (a) maintain the more rapid rate of investment which is called for in the Philippine development program; (b) supply the expanded agricultural and industrial plant; and (c) provide, to some extent, a larger supply of consumers goods. This would occur even in the absence of inflation. In all likelihood, the Philippines will not be able to avoid more inflation if the development program is successful. In this event, the demand for imports would, of course, be stronger.

In view of its development effort, therefore, the Philippine Government needs to conserve and maintain its capital resources, whether available in terms of pesos or dollars; and what are usually considered to be small sums are important. In 1950 the investment component of the gross national product amounted to approximately \$380 million (gross). The development effort requires larger sums than this, and funds for productive investment purposes are relatively scarce.

The proposed outlay of \$10,144,000 to finance essential imports is intended to support and accelerate the rate of investment called for in the overall development program. In the absence of this aid, the Philippines would either have to reduce its investment program somewhat, or, barring a reduction, accept an untenable drawdown of foreign exchange reserves - since it would appear that international transactions in FY'52 and '53 may in any event occasion a balance-of-payments deficit.

It would be undesirable if the Philippine development program were impeded for lack of sufficient capital. Since the end of the war, the U. S. Government has helped the Philippines to reestablish its war-torn economy, and in this way has attempted to help restore the prewar standard of living. This policy is due in part to the special relationship which exists between the Philippines and the United States, and in part to the strategic position of the Philippines in the Pacific.

More than \$6 million was made available from FY'51 funds for the financing of such imports to supplement the Government's foreign exchange reserves. An additional outlay of \$10 million is provided for FY'52. For FY'53, more than \$10 million will be made available to finance imports of producers commodities. The goods included in this category will be principally raw or semi-processed materials, spare parts, and machinery required for increasing domestic production, improving productive processes, and promoting a more diversified and self-sufficient economy.

APPENDIXPHILIPPINES. CURRENT ECONOMIC SITUATION1. National Income, Production and Consumption

The national real income in 1950 (at 1938 prices) amounted to the equivalent of \$565 million. Although this was somewhat higher than in 1938, when the national income amounted to \$518 million, the percentage increase was less than the rate of growth of population. During this period, the population increased by nearly 28 percent; and in 1950 - - five years after the end of the war - - real income per head of population, as well as per gainfully employed person, was still only 85 percent of the 1938 level. Moreover, for a large group of wage-earners in the Philippines, real income per head in 1950 was very much lower than in prewar years. The wartime inflation and its aftermath operated to shift real income from wage-earning groups to profit receivers, since wages - - especially in the early years after the war - - lagged behind the rise of prices.

The agricultural sector of the Philippine economy accounts for the largest share of the national output. In 1950 the products of agriculture (and related activities) accounted for nearly two-thirds of the Philippine gross national product. In the United States for the same year, the products of agriculture accounted for less than one-tenth of the gross product; and it is doubtful that more than 5 percent of the Philippine gross product is of a capital nature. The domestic contribution to the output of capital goods is largely confined to the installation of imported equipment and the provision of labor and some materials in construction. The index of physical production in 1950 stood at slightly more than 97 on a 1937 base. Agricultural output was also slightly more than 97 percent of 1937, while the index of manufactures was up to 102. The index of mining output, however, stood at only 59 percent of 1937.

2. Prices and Wages

Until May 1950 the cost of living in Manila (for a wage earner's family) declined steadily, from an index number of 766 in 1945 to 359 in May (base of 1937). But over the 13-month period ending June 1951 the index rose steadily (except for one month), and in June stood at 412, a rise of nearly 15 percent. This index is heavily weighted by the price of rice, which, over the period, rose by nearly 24 percent.

Similarly, the retail price index (Manila) moved upward. From 267 in May 1950, it rose to 325 in June 1951, an increase of more than 20 percent.

While the cost-of-living index appears to be affected much more by fluctuations in the prices of domestically produced items than by imported items, the opposite is true for the retail price index, which is representative of commodities purchased by middle-income groups.

On the one hand, prices of imported items which entered into the cost-of-living index rose from 275 in May 1950 to 346 in June 1951, an increase of about 25 percent; on the other hand, prices of these items in the retail price index increased by about 30 percent over the same period.

Money wage rates (daily) of skilled and unskilled workers in the industrial establishment of Manila have moved in opposite directions since 1950. Rates for skilled workers, in the first six months of 1951, declined by 7 percent, while rates for unskilled labor rose by about 5 percent. However, real wages for both groups declined -- by nearly 15 percent for skilled workers and by about 4 percent for unskilled workers.

Daily money wage rates of agricultural workers vary as between different regions of the Philippines. Overall, their daily money wage rates declined a fraction between 1949 and 1950 -- from ₱1.73 to ₱1.70.

3. Public Finance

The general fund of the Philippine Government showed a deficit in 1950 of more than ₱150 million\*, but in 1951, principally because of the results of new tax legislation enacted early in the year, the deficit was reduced to a negligible figure.

General Fund Budget  
(million pesos)

	<u>1950</u>	<u>1951</u>
Expenditures	₱426.7	₱406.3
Revenues	<u>273.1</u>	<u>405.4</u>
	₱153.6	₱ 0.9

In respect to 1952, it would appear that (a) a very large increase will occur in both revenues and expenditures as compared to previous years; but (b) it is still too early to forecast with assurance the extent of either a surplus or a deficit in the general fund.

In terms of legislation enacted by the Philippine Congress, general fund expenditures of ₱600 million are possible in 1952. This would entail expenditures 50 percent greater than in 1951.

General Fund Budgeted Expenditures, 1951 and 1952  
(million pesos)

	<u>FY 1951</u>	<u>FY 1952</u>
Dept. of National Defense	₱132.9	₱175.8
"  "  Education	141.1	134.9
"  "  Public Works & Communications	20.0	11.3
"  "  Health	14.0	12.7
"  "  Justice	10.5	9.1
"  "  Agric. & Natural Resources	7.2	7.3
"  "  Commerce & Industry	4.0	3.2
"  "  Congress of the Philippines	6.7	6.0
"  "  Labor	0.9	0.9
All Other	69.0	25.0
	<u>₱406.3</u>	<u>₱386.2</u>
Add:		
Counterpart		50.0
Public Works		35.7
NARIC		10.0
Debt Service (incl RFC)**		118.3
	<u>₱406.3</u>	<u>₱600.2</u>

Several uncertainties make it difficult to view the figure of ₱600 million with confidence. On the one hand, certain of the projected outlays may not be incurred. The ECA Mission in the Philippines expects that use of the counterpart appropriation of ₱50 million will not exceed ₱20-25 million

\* 2 pesos = \$1 U.S.

\*\* In 1951, payments for debt service are included under the "All Other" category. Available data, however, do not show the magnitude of the 1951 payments.

in 1952. Furthermore, the Governor of the Central Bank of the Philippines, in a communication to the Administrator of the Reconstruction Finance Corporation (September 5, 1951), estimates that authorized outlays of public works (of ₱35.7 million) will be utilized only to the extent of ₱25 million. Accordingly, total expenditures may be less by ₱31-36 million than as shown above. In addition, it is still undecided whether the Philippines will be required to make payment on the first installment of the RFC loan. This installment amounts to the equivalent of ₱50 million. If it were funded over a period of 12 years (as requested by the Philippines), the first installment would be reduced to approximately ₱4 million; and total expenditures would correspondingly be less by ₱77-82 million than as shown above.

On the other hand, it is reported that larger outlays for national defense will be required in 1952, perhaps ₱20-30 million more than the figure of ₱176 million shown above, with further increases in prospect for 1953. It is not clear, however, to what extent United States military aid should be used to offset this figure. In 1952, budgetary support of \$10 million is being given to the Philippines, earmarked specifically for the Philippine military forces.

Additionally, it is expected that a small new appropriation will be needed to administer the new minimum wage law; a pay increase for all government workers is being discussed (as usual) in Philippine official circles; and outlays of ₱15-20 million will be incurred in connection with ECA-sponsored projects and activities, although it is not clear at this time whether these outlays are already provided for in the budget.

Excluding any estimate for a possible increase in pay for government workers, the foregoing items might require expenditures of ₱55 million (as a maximum), in which event -- taking account of the possible reductions mentioned above -- net total outlays would come to ₱575 million.

On the side of revenues, the general fund is now receiving the benefits of the new tax legislation. Whereas in the fiscal year 1951 revenues amounted to somewhat more than ₱400 million, it is anticipated that they will aggregate ₱562 million in 1952 -- an increase of approximately 40 percent. Similarly to the balance of payments, much depends on the level of imports, which are subject to various taxes in the Philippines -- especially an exchange tax. In any event, and if expenditures total ₱575 million, a small deficit will be incurred.

Considering the government's need for cash balances, which in previous years have been inadequate, and for funds to finance development, neglected services, and to rehabilitate public works damaged by the war, it is not unlikely that a deficit will be incurred in 1953. Debt service requirements, if fully met, would further enhance the possibilities of a deficit, especially if there is a large increase in defense expenditures.

4. Money and Credit

During 1950 the money supply expanded by about ₱200 million, and at the end of the year amounted to ₱1,241 million, as compared with ₱1,037 million at the beginning of the year.

The chief factors which were responsible for this increase are shown below:

	(million pesos)
<u>Increase</u>	
International Payments (Net)	₱201.0
Government Outgo (Net)	<u>100.1</u>
	301.1
<u>Decrease</u>	
Banking System (all transactions, Net)	<u>88.9</u>
	212.2
Errors and Omissions	<u>9.0</u>
Net Increase	<u>₱203.2</u>

However, in the first six months of 1951 the money supply increased by only \$11 million. The government repaid debt and balanced its budget; and the banking system reduced its loans to the public in view of the reduced level of imports (and for other reasons).

5. International Trade and Payments

The international reserves of the Philippine banking system, which amounted to \$420 million at the beginning of 1949, fell by \$160 million during the year, a sum nearly five times the corresponding reduction in 1948. Export proceeds in 1949 were lower by \$53 million as compared with 1948, and this circumstance, together with a decline in receipts from other sources and a flight of capital in the fourth quarter of the year, were the immediate causes of the sharply adverse balance of payments. The trade deficit alone aggregated more than \$400 million. As a result, exchange controls were imposed in December, 1949, import controls were tightened at the beginning of that month, and the rapid drain on reserves was shortly brought to a halt.

In the calendar year 1950 the Philippines had a current account surplus of \$119 million, but at the expense of a reduced volume of imports; and, accordingly, in the fourth quarter of the year, the authorities began to relax the import controls.

A striking change occurred in 1950 relative to the magnitude and composition of imports. The operation of the exchange and import controls cut money outlays on imports from \$673 million (c.i.f.) in 1949 to \$374 million (c.i.f.) in 1950 -- a reduction of nearly 45 percent. At the same time, the total volume of imports declined by nearly 25 percent. The composition of imports, reflecting the selectivity of the controls, also changed materially; whereas in 1949 consumers goods accounted for two-thirds of the total value of imports, and raw materials plus capital goods the other third, in 1950 the proportion of each to the total was 50 percent.

Liberalization of the controls continued into 1951, and together with a decline in export prices, had the effect of reducing the rate at which reserves were accumulating. For the first half of 1951 the surplus amounted to \$44 million. Although the value of imports in 1951 (first half) was at a higher rate than in 1950, the volume thereof was nearly 6 percent lower.

Balance of Payments  
(million dollars)

	<u>1949</u>		<u>1950</u>		<u>First Half 1951</u>
<u>Receipts</u>					
Exports (f.o.b.)	260		337		248
U.S. Govt. (net)	324		232		52
Other	<u>37</u>		<u>67</u>		<u>53</u>
Total	621		636		353
<u>Payments</u>					
Imports (c.i.f.)	673		374		229
Other	<u>92</u>		<u>143</u>		<u>80</u>
Total	765		517		309
Surplus or deficit	(-) 144		119		44
Errors and omissions	(-) 16	(-)	23	(-)	17
Net change in International Reserves	(-) 160		96		27
Net reserve at end of period (all banks)	260		356*		383*

\* Including a dollar credit of \$10 million arising as a result of a trade agreement with SCAP.

Over the third quarter of 1951, owing to the previous liberalization of import restrictions and the decline of export prices (until August), the Philippine banking system as a whole lost reserves of about \$46 million, and in August controls on imports were tightened. Export prices, following the outbreak of the Korean war rose until November 1950, fell off, then increased -- and by March were one-third higher than in July 1950. Following this, they commenced a downward movement. Notwithstanding, the terms of trade are still favorable to the Philippines compared to the situation prior to the outbreak of the war in Korea.

An evaluation of the balance of payments prospects for the fiscal year 1952 depends largely on the judgment which is rendered in respect to the level of imports; and on whether the Philippines repays \$25 million due the United States Reconstruction Finance Corporation. It seems clear that receipts will run to more than \$600 million, barring any marked change (either upward or downward) in export prices, and excluding aid extended by the ECA (but including \$10 million of aid extended by the United States Department of Defense). At the same time, payments for nontrade items are anticipated at \$140 million. If imports ran to more than \$460 million (excluding ECA aid), the Philippines would incur a deficit. The ECA Mission in Manila characterizes a slightly smaller import estimate of \$450 million as "conservative."

In any event, much depends upon the executive decisions of the Philippine authorities in respect to import control policy. The authorities are reluctant to reduce the reserves of the Central Bank to levels close to \$226 million, which is the amount the Bank held on the day prior to the imposition of exchange controls (December 8, 1949). At that time, the controls were imposed in the belief that exchange reserves had fallen to a "crisis" level. In recent months, Central Bank reserves have been declining. In August, when they approximated \$265 million, the Philippines tightened up the import controls; but on November 9 they had declined still further to \$249 million.

The restriction of imports is hampering Philippine investment at a time when the country is embarked upon a development effort. Even apart from this effort, it is not unlikely that the Philippines will be forced to draw still further on foreign reserves in order to keep imports at a tolerable level in 1952, since rising import prices are helping to maintain unwanted inflationary pressure.

I N D O C H I N A

FY 1953 BUDGET PRESENTATION

Contents

- PART I. Indochina. FY 1953 Program
1. Introduction
  2. Program Objectives
  3. How the Program Supports the Objectives
- PART II. Program Tables
- PART III. Project Descriptions
- APPENDIX. Current Economic Situation

Part I

INDOCHINA. FY 1953 PROGRAM

1. Introduction

In Indochina the military forces of France and the Associated States (Vietnam, Cambodia and Laos) are engaged in open war with the Communist forces of Ho Chi Minh. From its inception in 1946 through 1951, the war has cost the French Government the equivalent of approximately \$2.4 billion, and victory is not yet in sight.

The political situation confronting the three new governments is particularly difficult. War, widespread guerrilla activities, and the ever-present threat of a large-scale Chinese Communist invasion are added to already serious problems in the struggle of these governments to discharge the newly acquired functions of sovereignty. Moreover, in addition to numerous insurgents, the governments must contend with large proportions of the populations which through fear or through a dislike of the continued presence of the French, have adopted a fence-sitting attitude and refuse active support to the governments, particularly in Vietnam. If the non-Communist insurgents and the fence-sitters are to be won over and the people consolidated behind their legally constituted governments, these governments must demonstrate that they are in fact independent states able and willing to bring real benefits to the people. For this task outside assistance is a vital necessity.

The military conflict has led to a serious deterioration in the economic life of the country. Vast destruction has been wrought upon its physical assets. Allied bombings in World War II caused substantial damage to bridges, railways, ports and industrial plants. Following the surrender of the Japanese, Chinese Nationalist forces looted North Vietnam; and in December 1946, with the outbreak of war between Ho Chi Minh and the French, there commenced a wholesale destruction of public buildings, homes, farm animals and tools, factories and other physical properties. This has continued to the extent that some areas of the country are now almost completely laid waste.

The military conflict also has adversely affected security conditions in the countryside. In turn, physical capital (land, buildings, equipment) has not been maintained; and acreage in cultivation has been restricted, with sharp downward consequences for the volume of farm output. To some considerable extent, moreover, farm and other capital has been used up, both by military forces and by the civilian sector of the economy.

An increasing portion of the national product has been diverted into the military effort. French military expenditures in respect to Indochina aggregated the equivalent of \$500 million in 1950, and are currently at a rate of more than \$800 million, with an anticipated outlay of \$1 billion in 1952. Production and investment cannot respond, even in part, to the rapid increase of military expenditures. An increasing portion of domestic supplies and services (construction materials, transportation and other utilities) is being diverted into military use, and is not being compensated for by a sufficient rise in imports. Ordinarily, with almost complete freedom of exchange transactions, imports should have risen more rapidly in the postwar period. However, the structure of wealth and income in Indochina is sharply skewed, and the enormously increased money income of the postwar period went much more into profits and rent than into wages and salaries. Accordingly, those who wished to transfer capital and profits and dividends abroad (mainly to France) were able to do so, but the demand for imported goods on the part of the mass of people was not nearly so effective.

The impact of the military conflict upon exports also has been extremely serious. In sum, as a result of reduced exports and some increase in imports, a \$41 million trade surplus in 1937 has been converted into a \$138 million trade deficit in 1950.

Formerly, 85 percent of the total cultivated area of the country was devoted to the production of rice. But rice acreage has reportedly fallen by nearly 50 percent since 1940 - from 6 million hectares in that year to 3.3 million hectares in 1951. Correspondingly, rice output (unhulled rice) amounted to 8 million tons in 1940 as compared to a forecast of less than 4 million tons during the 1951 crop season.

Except in 1948, rice exports during the five-year period 1946-50 have amounted to less than one-tenth their prewar volume (1937). However, during 1951, a small improvement has taken place. In the first five months, exports totaled about 153,000 tons. This compared with 1,500,000 tons in 1937.

Corn was produced almost wholly for export in the prewar period, when the average annual output approximated 600,000 tons. In 1950, exports came to less than one-tenth their prewar volume, amounting to 40,000 tons.

Production of all minerals is practically at a standstill, except for coal, which has continued in Tonkin. In 1950, production amounted to less than one-fourth the prewar annual average of about 2,300,000 tons. Cement production has been increasing over the last four years, from 97,000 tons in 1948 to an annual rate in 1951 (based on the first six months) of 176,000 tons - about 50 percent of the annual average output in 1939-40 (two years) of 350,000 tons. Exports have been low, since cement is needed domestically in the construction of military installations.

In place of the modest and generally balanced prewar budgets there have been large internal budget deficits during the Japanese occupation and ever since the liberation. The new states, faced with heavy military expenditures, low revenues and outstanding debts to the French of undetermined magnitudes are unable to finance adequate government services, let alone a forward-looking social and economic program. For this reason, all local currency costs must be borne by the counterpart fund. The generation of this fund, to which will go over one-half of the FY'53 dollar aid, is a most important goal.

## 2. Program Objectives

The economic aid program is designed to help offset these circumstances in order that Indochina may be held as a stable and secure area friendly to the West. Thus, economically, the aid program seeks to increase production and offset the drain of the military. Politically, its objective is to increase popular support for the Government by improving the effectiveness of Government services, and to make the Government and the people aware of America's interest in their independence and welfare. Militarily, it seeks to use economic aid as a means of supporting the military effort. Thus it is a corollary to the direct military aid the U.S. is providing.

The ECA program is thus designed to achieve objectives which play a negligible role in the French program. French non-military outlays in Indochina are almost entirely for the purpose of financing (1) purely French governmental and public service functions (e.g., French hospitals and schools); (2) the reconstruction of capital structures owned by French nationals and the French Government; and (3) the balance-of-payments deficit. All told, such outlays in 1951 and budgeted for 1952 (calendar years) run to approximately \$100 million. This contrasts sharply with the military outlays mentioned above.

The ECA program is likewise designed to effect a net diminution in the strength of inflationary pressures. All piaster expenditures which result from the program are more than matched by ECA-financed imports. The piaster costs of the program are obtained from the proceeds of the salable commodity portion of the program, and imports in addition to these are made

available to the governments at no cost. Moreover, the piaster expenditures (i.e., local currency costs of the program) result in higher output or consumption, and thus constitute entirely a net offset to the inflation.

The ECA program proposed for FY'53 is somewhat larger than in FY'52 for several reasons: the military drain on the civilian sector of the economy is scheduled to become greater; as the government services acquire more experience, the area in which economic activities can be carried out will be increasingly extended; and, finally, it can reasonably be expected that the secure area in which the program can be implemented will grow.

### 3. How the Program Supports the Objectives

The economic objective of increasing production and of offsetting the drain and effects of military operations will be furthered by a number of ECA projects. Since 90 percent of the people are engaged in agriculture and 90 percent of the total national production is estimated to be derived from agriculture, forestry and fisheries, primary emphasis is placed on programs in these fields. The aim is to assist the Associated States to regain prewar levels of food, fish and timber production to the greatest extent permitted by the military situation. For example, the fertilizer distribution program which was begun in FY'51 and carried forward in FY'52 should result in additional production per annum of 50,000 tons of rice and 50,000 tons of other food crops. The sale of farm animals on credit and the distribution of seeds and farm tools should restore several thousand destitute farm families to productive effort, and not only increase production of food but remove these families from relief rolls.

The irrigation rehabilitation projects, which in FY'52 restored irrigation to 25,000 acres of rice paddy lands and made 15,000 families self-supporting in the critical North Vietnam area will be continued actively in FY'53, and will extend to Cambodia where 17,500 additional acres will be rehabilitated. The veterinary program, through the restoration of training programs and the provision of essential equipment, will help halt the decline in farm animal and poultry population, presently estimated at approximately 60 percent of prewar. Similarly, fishing and logging equipment plus U.S. technical assistance should aid materially in increasing output of fish and timber during FY'52 and FY'53.

Although industry is definitely of secondary importance in Indochina, the handicraft and cottage-type industries have an important role in the total production picture. They are, moreover, essential activities for the livelihood of thousands of people whose lives have been disrupted. Accordingly, ECA projects to rehabilitate and expand these industries should materially contribute to increasing production and restoring social stability.

The emergency relief program plays a minor but important role in increasing production and in offsetting the drain of military operations by resettlement projects which make refugees self-supporting. Vocational training projects in the educational field will affect production through increasing the supply of skilled labor available for small industry, transportation and handicraft.

Lastly, supplies and equipment imported under Category 9 - Maintenance of Essential Supply - which cannot be produced locally will play a vital part in maintaining and raising production levels and in minimizing the inflationary pressures of the increasing military expenditures. More than half of the dollar aid will be used for this purpose and will also create the counterpart fund essential for the execution of the program.

The political objectives of increasing popular support for the governments and of improving the effectiveness of government services likewise are served by numerous ECA projects. Popular support for a government in large measure depends upon the extent to which it meets the needs and aspirations of the people. With this end in view, ECA has devoted a large share of its funds and effort to assisting the governments of the Associated States to undertake programs in the fields of public health, refugee relief and resettlement, education and public administration.

The ECA public health program has enabled the Associated States to take health measures giving maximum relief from disability quickly to large numbers of people. The malaria control program, already well underway, undertakes to reduce the estimated present 20 percent incidence in controlled areas to 5 percent or less by the end of FY'53. The trachoma control program will reach one to one and a half million out of the three to four million persons afflicted with this disabling and blinding disease. The yaws program, through injections of penicillin, should effect a 25 percent reduction in the estimated 500,000 persons now suffering from this disease.

The village first-aid program will train thousands of village first-aiders and afford simple remedies for many of the most common ailments and accidents to some five million persons in 5,000 villages now having no access whatsoever to medical care. While these programs are demonstrating quickly the interest of the Governments and of the Western World in the welfare of the people of Indochina, the longer range medical and nursing programs will demonstrate to the people the determination of the Governments to make permanent self-sufficient plans for medical care.

The emergency relief program likewise is aimed at increasing popular support for the Governments by showing not only that the Governments are interested in the welfare of the people but also that in the critical war areas the Governments can, on an emergency basis, promptly and adequately meet their needs for food, clothing, work relief and resettlement. The magnitude of the ECA program in this field can be seen from the estimated 500,000 persons who directly benefited therefrom during FY'51. The agriculture program also contributes its share towards building popular support by showing the farmer how to increase his crops and safeguard his livestock, thus improving his standard of living.

An extensive emergency low-cost housing program is already underway in Vietnam with over 1,000 units completed. Additional aid for this purpose is planned through the intermediary of the National Reconstruction Office, set up with ECA funds. This housing program has already attracted widespread favorable comment. The populations will also receive assistance through the provision of essential equipment for the emergency needs of municipal services, including water supply, sanitation and electrification.

Education is another field in which the Governments with ECA assistance can win popular support. Programs for mass education and vocational training are a good antidote for subversive propaganda, as are those for the repair of school facilities and the provision of adequate supplies of improved textbooks. Fifty thousand persons, adults and children, are now learning to read and write in ECA-aided classes and this number will be greatly expanded during the remainder of FY'52 and FY'53.

The weak, inexperienced and ill-equipped Governments also need the tools and encouragement with which to carry their messages to the people. Improved radio broadcasting facilities, printing equipment, and mobile information units are all needed for this purpose.

The political objective of strengthening government services is implemented in some measure by all ECA projects. The experience gained in carrying out the program already has been of considerable value and will be enhanced as the program moves forward into the diversified social and economic fields. Specific provision is made in the FY'53 program for giving training to technicians in addition to the training and experience that larger numbers of government officials will in any case receive in the normal course of the program.

As already demonstrated in FY'51 and FY'52, the military objective of the ECA program is supported by a wide range of ECA projects. The road repair program has provided asphalt and road repair equipment as well as local currency, and has thus made possible the repair of 250 miles of roads used by both military and civilian traffic. This program will be continued and expanded during FY'52 and FY'53. ECA programs for the improvement of inland waterways and port facilities will expedite the handling of both civilian and military cargoes. The telecommunications survey now underway contemplates the installation of a Very High Frequency interurban radio telephone system in South Vietnam and Cambodia which will not only serve essential civilian needs but will be extremely useful to the military in dealing with guerrilla activities in these areas.

The hospital rehabilitation program will benefit the military by relieving them of responsibility for the treatment of civilians in war-devastated areas and by providing facilities which can be used by the military in the event of need. The emergency relief program relieves the military of the obligation to provide for the minimum needs of war refugees. Assistance to vocational education is making possible the training of local labor in crafts such as blacksmithing, vehicle repair and radio, all of which are of extreme value to the military. It is also planned to establish light industries of direct interest to the military.

Much of the equipment imported under Category 9, Maintenance of Essential Supply, is of value to the military. Examples of this are equipment for the tire recapping plant, machinery for a surgical dressing factory, and paper sacks for the cement plant which provides the material needed for the fortifications in North Vietnam.

The proposed program of \$31,552,000 covers only the cost of (1) essential supplies, equipment and services from abroad needed to carry out the projects designed to achieve the ECA objectives; and (2) the salable commodities to be imported to generate local currency in an amount sufficient to pay the piaster costs of these projects and to offset inflationary pressures. It should be noted that this program does not contain any provision - either in dollars or piasters - for the financing of items solely for the benefit of the armed forces, such as uniforms, barracks, vehicles, rations or troop pay. If it is desired that ECA should finance any of these items, an increase in the program must be made for this special purpose.

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More detailed information will be found in Part II, Program Tables; Part III, Project Descriptions; and the Appendix, Current Economic Situation.

Part II

INDOCHINA Program Tables

- Table 1. Estimated Cost of Program (Grant Aid Only).....  
by Major Project Category
- Table 2. Revised FY '52 and Estimated FY '53 Dollar Cost  
of Program (Grant Aid Only) .. by Major Project  
Category
- Table 3. Estimated Breakdown of FY '53 Program (Grant Aid  
Only) ... by Project Within Major Category
- Table 4. Estimated FY '53 Breakdown of Supplies and  
Equipment ... by Commodity Group



INDOCHINA

(Footnotes to Table I)

- a/ Converted at the official exchange rate of 20 piasters = US\$1.
- b/ Includes food, clothing, blankets, medicines and temporary housing for refugees. Wherever feasible, raw materials rather than finished goods will be imported for fabrication by the refugees themselves.
- c/ Requisites for production plus other essential civilian supplies. See Table 3, Item 9.
- d/ \$1,335 for TA experts; number of persons distributed as follows: Emergency Relief, 2; Public Health, 33; Agriculture, Forestry, Fisheries, 24; Transportation, Power, Other Public Works, 9; Handicraft and Manufacturing, Mining, Other Industry, 4; Education, 4; Public Administration, 13; Total, 89. Also, \$245 for trainees, distributed as follows: Public Health, 6; Agriculture, Forestry, Fisheries, 10; Transportation, Power, Other Public Works, 5; Handicraft and Manufacturing, Mining, Other Industry, 18; Education, 5; Public Administration, 5; Total, 49.
- e/ \$1,050 for TA experts; number of persons distributed as follows: Emergency Relief, 1; Public Health, 30; Agriculture, Forestry, Fisheries, 17; Transportation, Power, Other Public Works, 9; Handicraft and Manufacturing, Mining, Other Industry, 4; Education, 3; Public Administration, 6; Total, 70. Also, \$90 for trainees, distributed as follows: Public Health, 2; Agriculture, Forestry, Fisheries, 5; Transportation, Power, Other Public Works, 5; Handicraft and Manufacturing, Mining, Other Industry, 2; Public Administration, 4; Total 18.

INDOCHINATable 2. Revised FY'52 and Estimated FY'53 Dollar Cost of Program (Grant Aid Only)  
By Major Project Category

Major Project Category	Dollars (in thousands)					
	Total Dollar Cost		Percent of Total Program Cost (Categories 1-9)		Percent of Total Project Cost (Categories 1-8)	
	FY'52	FY'53	FY'52	FY'53	FY'52	FY'53
1. Emergency Relief <sup>a/</sup>	\$ 240	\$ 1,000	1.0	3.2	2.5	6.9
2. Public Health	4,100	4,390	16.6	13.9	42.3	30.4
3. Agriculture, Forestry, Fisheries	2,250	3,350	9.1	10.6	23.2	23.2
4. Transportation, Power, Other Public Works	2,503	3,600	10.2	11.4	25.9	24.9
5. Handicraft and Manufacturing, Mining, Other Industry	100	500	0.4	1.6	1.0	3.5
6. General Engineering Advisory Services	-	-	-	-	-	-
7. Education	100	400	0.4	1.3	1.0	2.8
8. Public Administration	400	1,200	1.6	3.8	4.1	8.3
9. Maintenance of Essential Supply <sup>b/</sup>	15,000	17,112	60.7	54.2	-	-
<u>TOTAL DOLLAR COST OF PROGRAM</u>	<u>\$24,693</u>	<u>\$31,552</u>	<u>100.0</u>	<u>100.0</u>	-	-
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	<u>9,693</u>	<u>14,440</u>	-	-	<u>100.0</u>	<u>100.0</u>

a/ Includes food, clothing, blankets, medicines and temporary housing for refugees. Wherever feasible, raw materials rather than finished goods will be imported for fabrication by the refugees themselves.

b/ Requisites for production plus other essential civilian supplies. See Table 3, Item 9.

~~CONFIDENTIAL - Security Information~~INDOCHINATable 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost
1. <u>Emergency Relief</u>	\$ <u>1,000</u>	\$ <u>800</u>
2. <u>Public Health</u>	<u>4,390</u>	<u>4,265</u>
Village Health Teams	1,200	1,350
Village First Aid	900	400
Village Sanitation	300	750
Hospitals and Health Centers	1,100	630
Maternal and Child Health and Nutrition	200	500
Medical Schools and Laboratories	145	15
Training	500	620
Medical and Sanitary Services	45	--
3. <u>Agriculture, Forestry, Fisheries</u>	<u>3,350</u>	<u>5,000</u>
<u>Agriculture</u>	<u>2,950</u>	<u>4,400</u>
Agricultural Research	100	100
Agricultural Extension	150	125
Maintenance of Agricultural Production	300	500
Livestock Production and Disease Control	150	375
Cooperatives and Production Credit	500	750
Irrigation and Reclamation	1,000	1,250
Land Reform and Agricultural Resettlement	100	250
Processing and Storage	350	600
Demonstration and Popular Education Training	150	250
<u>Forestry</u>	<u>200</u>	<u>150</u>
<u>Fisheries</u>	<u>200</u>	<u>450</u>
4. <u>Transportation, Power, Other Public Works</u>	<u>3,600</u>	<u>3,872</u>
Highways	1,575	850
Inland Waterways	300	45
Port Facilities	500	90
Housing and Urban Improvement	340	2,750
Urban Public Services	300	100
Telecommunications	585	37
5. <u>Handicraft and Manufacturing, Mining, Other Industry</u>	<u>500</u>	<u>1,250</u>
Handicrafts	200	250
Small Industry	300	1,000
6. <u>General Engineering Advisory Services</u>	--	--
7. <u>Education</u>	<u>400</u>	<u>1,125</u>
Mass Education	150	170
Textbook Research	30	180
Vocational Education	150	75
Assistance to School Facilities	70	700

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Table 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost
8. <u>Public Administration</u>	<u>1,200</u>	<u>800</u>
Assistance to Public Finance and Other Fields	190	--
Assistance to the Ministries of Information	410	300
Provision of Printing Equipment	600	--
Assistance to National Committees for American Aid	--	500
9. <u>Maintenance of Essential Supply</u>	<u>17,112</u>	--
Requisites for Production	13,412 <sup>a/</sup>	--
Other Essential Civilian Supplies	3,700 <sup>b/</sup>	--
<u>TOTAL COST OF PROGRAM</u> (Categories 1-9)	\$ <u>31,552</u>	\$ <u>17,112</u>
<u>Total Cost of Projects</u> (Categories 1-8)	<u>14,440</u>	<u>17,112</u>

a/ Commodity components as follows: raw cotton, 3,100; gasoline and lubricants, 1,850; vehicles, 500; tires and tubes, 150; iron and steel materials, 600; chemicals, 450; agricultural equipment, 750; construction equipment, 1,600; generators, engines etc., 600; electrical equipment, 200; other industrial equipment, 600; vessels, 500; aircraft and parts, 700; yarn and netting, 512; burlap bags, 700; iron and steel manufactures, 400; commodities n.e.c., 200. See Table 4, Salable Commodities.

b/ Commodity components as follows: tobacco, 1,000; gasoline and lubricants, 1,850; vehicles, 500; pharmaceuticals, 100; tires and tubes, 150; medical supplies and equipment, 100. See Table 4, Salable Commodities.

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Table 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C & F Dollar Cost (in thousands)				
Commodity Group	Total Cost		Cost of Salable Commodities <sup>a/</sup>	
1. <u>Food</u>	\$ 65	\$ 65	\$ -	\$ -
Milk (canned and dried)		65		-
2. <u>Feed and Fertilizer</u>	300		-	-
Fertilizer		300		-
3. <u>Natural Fibers</u>	3,100		3,100	3,100
Cotton (raw)		3,100		3,100
4. <u>Tobacco</u>	1,000		1,000	
5. <u>Other Agricultural Products</u>	90		-	-
Seeds (including seed potatoes)		40		-
Animal breeding stock		50		-
6. <u>Fuels</u>	4,900		3,700	
<u>Petroleum and Products</u>		4,900		3,700
Asphalt		1,200		-
Gasoline and lubricants		3,700		3,700
7. <u>Industrial Raw Materials</u>	3,550		1,150	
<u>Iron and Steel Mill Materials and Products, including Ferro-Alloys</u>		600		600
Tinplate		100		100
Iron and steel sheets		300		300
Structural steel		200		200
<u>Paper and Pulp</u>		350		-
Book paper		350		-
<u>Chemicals and Related Products</u>		2,600		550
DDT and other pesticides		380		-
Medicinal and pharmaceutical preparations - aralen, aureomycin, cimedon, etc.		1,400		100
Misc. industrial chemicals		450		250
Other chemicals - dyes, etc.		370		200
8. <u>Capital Equipment</u>	11,295		5,950	
<u>Agricultural Equipment</u>		1,500		750
Sprayers		50		-
Tractors and parts		800		400
Misc. equipment - plows, planters, cultivators, etc.		650		350

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By Commodity Group

C & F Dollar Cost (in thousands)			
Commodity Group	Total Cost		Cost of Salable Commodities <sup>a/</sup>
<u>Industrial Machinery &amp; Equipment</u>	\$	\$9,795	\$ 5,200
Generators and motors - electric, diesel, etc.		450	250
Engines and turbines - diesel and marine		600	350
Electrical apparatus - radio equipment, misc. appliances, etc.		545	200
Construction equipment - pumps, pipe, drill rigs, etc.		700	400
Bulldozers, scrapers, rollers and other road building equipment		900	200
Misc. construction equipment		1,300	1,000
Industrial equipment, n.e.c. - refrigerating and food processing equipment, etc.		850	250
Machine tools - drills, lathes, etc.		700	350
Trucks, jeeps, station wagons and parts		1,750	1,000
Vessels and equipment - dredge, patrol and fishing boats, etc.		1,300	500
Aircraft and parts		700	700
9. <u>Other Manufactures and Raw Materials</u>		<u>5,672</u>	<u>2,212</u>
<u>Rubber and Rubber Products</u>		300	300
Tires and tubes		300	300
<u>Textiles</u>		<u>2,272</u>	<u>1,212</u>
Blankets and cloth		900	-
Yarn, thread, mosquito & fish netting		672	512
Burlap and cement bags		700	700
<u>Miscellaneous</u>		<u>3,100</u>	<u>700</u>
Misc. iron and steel manufactures - hand tools, etc.		600	400
Hospital equipment - X-ray machines, beds, microscopes, clamps, sutures, retractors, needles, etc.		1,600	100
Commodities, n.e.c. - cameras, sound projectors, phonographs, sewing machines, technical books and periodicals, etc.		600	200
Non-metallic minerals and products - asbestos roofing		300	-
<u>TOTAL DOLLAR COST</u>		<u>\$29,972<sup>b/</sup></u>	<u>\$17,112</u>
<u>Percent Salable Commodities</u>			57.1

a/ Requisites for production plus other essential civilian supplies. See Table 2, Item 9.

b/ For distribution by major project category, see Table 1, column 2.

ECA:FEPD  
November 30, 1951

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Part IIIASSOCIATED STATES OF INDOCHINA. ECA-FINANCED PROJECTS1. Emergency Relief

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost*</u>
FY'51: \$1,195,000	FY'51: \$ 618,000
FY'52: 240,000	FY'52: 550,000
FY'53: 1,000,000	FY'53: 800,000

Widespread destruction of homes, farm animals and equipment during the civil war has forced thousands of destitute villagers into large urban centers, particularly Hanoi, Haiphong and Saigon. This has overtaxed existing relief, housing and sanitary facilities and posed a serious unemployment problem.

In order to alleviate the most urgent refugee needs, ECA during FY'51 provided assistance to the Vietnam Government in the form of free distribution of milk for children, corned beef, blankets, cloth, sleeping mats, needles and thread. It is estimated that some 500,000 persons benefited. Employment on road projects also was made possible for several thousand refugees through use of the counterpart fund. This work has been continued during FY'52 at substantially less dollar cost due to the carryover of late-arriving imports of supplies. Emergency relief will be carried on during FY'53 in the distribution of necessary materials for clothes and selected food supplies, such as canned milk. The project is designed to aid larger numbers of refugees, whose liberation is anticipated as a result of the liberation of new areas.

It is intended to use materials and funds available under this project as an incentive to facilitate the movement of people from crowded urban areas into rural areas of resettlement, or to bring inhabitants back to reconstruct the localities in which they formerly lived. Relief goods will not be distributed on a year-round basis to all poor peoples, but will be held in reserve for selective use in critical areas. It is anticipated also that large numbers of refugees can be employed on road repair projects, harbor construction and land reclamation, thus contributing to the overall production needs of the Associated States.

Local currency will be required to procure relief items, such as indigenous foods, and to meet administrative costs.

2. Public Health

<u>Dollar Cost</u>	<u>Dollar Equivalent Local Currency Cost</u>
FY'51: \$3,729,000	FY'51: \$2,838,000
FY'52: 4,100,000	FY'52: 3,100,000
FY'53: 4,390,000	FY'53: 4,265,000

The public health program seeks to win the loyalties of the people and strengthen the services of the Ministries of Health of the Associated States by helping the latter provide health measures for maximum curative and preventive purposes for large numbers of people quickly. Such a display of official interest in public welfare is calculated to engender among the people greater loyalty to their government.

\* Converted at the official exchange rate of 20 piasters = US \$1.

Indochina's high rate of disability and death are attributed to an unfavorable climate and lack of sanitation, aggravated by war. In the villages, which are almost isolated at present, there is malaria, the dysenteries, skin infections, intestinal parasites, tropical ulcers and scabies. Tuberculosis is a problem everywhere. Trachoma exists largely in North Vietnam, and yaws in Cambodia, Laos and Central Vietnam. Pneumonia is common, and endemic areas of filariasis exist. Epidemics of dengue occur. Syphilis is common in most areas.

Short term projects for the treatment of disease were aimed at those maladies which involve significantly large numbers of people, the control of which can be quickly and effectively put into operation, and the results of which are subject to evaluation. Twelve programs have been undertaken as follows: five village programs for malaria and trachoma control, sanitary wells, first aid stations, and health education; five hospital drug programs for treatment of malaria, trachoma, syphilis, war wounded civilians, and typhoid; a minimum hospital kit program to refurbish damaged and looted hospitals, and a program for furnishing prefabricated hospitals for areas in most urgent need of such facilities.

Longer range programs designed to meet the basic needs of the country in public health services also are planned. These include nursing and public health demonstration, public health fellowships, medical assembly for physicians, a school for laboratory technicians, hospital equipment for special needs, hospital reconstruction, assistance to medical schools, leprosy control, and expanded village sanitation control.

These projects will relieve the military of the burden of caring for refugee civilians, those in newly liberated areas, and civilian casualties resulting from military operations. They also enable the civilian health services to carry on a minimum of activity by offsetting the constant military drain of personnel and facilities.

Village Health Teams

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 850,000	FY'52: \$ 762,500
FY'53: 1,200,000	FY'53: 1,350,000

Malaria control will continue to be the major target of this project. The objective is to reduce the current malaria rate in controlled areas from the present 20 percent of the population to 10 percent in FY'52 and 5 percent in FY'53. Special trachoma teams will continue in some areas, but the first aid posts and mobile medical teams will assume some of the burden of treating this disease. It is hoped to reach one to one and a half million cases out of an estimated three to four million cases by the end of FY'53. Programs for the treatment of intestinal parasites among school children and treatment of several hundred thousand cases of yaws will be inaugurated. It is hoped to treat 150,000 of the worst cases of intestinal parasites and to effect a 25 percent reduction in the yaws rate by the end of FY'53.

Mobile medical dispensaries equipped with laboratories for the treatment of endemic diseases will be sent to the villages. In cooperation with the World Health Organization, funds will be made available for the starting of an anti-tuberculosis campaign using BCG. This disease now affects approximately one million persons.

Village First Aid

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 900,000	FY'52: \$ 302,000
FY'53: 900,000	FY'53: 400,000

The first aid program is designed to meet the barest minimum emergency medical need in 5,000 villages in which there now are no medical or nursing facilities. A standard kit has been designed to provide simple drugs and medical supplies to relieve at least 16 of the most common diseases and injuries. Local personnel are being trained in the principles of first aid and treatment of simple diseases, wounds and injuries. The project has great popular appeal and reaches a large number of people. It is expected that 800 kits will be in operation by December 1951 and 500 additional kits will be placed in operation each month thereafter until completion of the target goal.

Village Sanitation

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 200,000	FY'52:	\$ 335,000
FY'53:	300,000	FY'53:	750,000

Safe water supplies are almost non-existent in the villages of the Associated States. Water generally is obtained from shallow open wells, ponds, streams, canals and other sources which are subject to gross contamination and pollution by human and animal waste. They are responsible to a large extent for the incidence of enteric diseases.

It is proposed to combat this by installing safe well water supplies constructed in accordance with accepted public health standards. The construction of bored hole latrines will be promoted to improve personal and community sanitation. In FY'53, the installation of sanitary wells will be continued toward achieving the three year goal of 2,000 wells. The bored hole latrine program will be inaugurated.

During the fiscal year, the only supplies and equipment to be furnished through the expenditure of dollars will be hand-operated well pumps. Local currency will be used to finance the cost of construction of the wells and latrines.

Hospital and Health Centers

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 1,640,000	FY'52:	\$ 500,000
FY'53:	1,100,000	FY'53:	630,000

Hospital equipment will continue to be supplied in FY'53 to re-equip war damaged institutions, and to carry out limited reconstruction. Minimum numbers of hospital kits will be supplied to meet the emergency equipment needs of hospitals re-established in the former zones of military activity. Drugs also will be provided for the treatment of disease.

Maternal and Child Health and Nutrition

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 50,000	FY'52:	\$ 60,000
FY'53:	200,000	FY'53:	500,000

This long-range program is largely being developed by the World Health Organization to meet an unfilled need in the overall public health program. MSA will support it with a project to provide technical assistance

and certain supplies and equipment for the establishment of pediatric wards in various hospitals, mid-wife schools and the institution of a rice enrichment program to prevent beri-beri.

Local currency costs will be incurred in setting up and partially equipping the centers contemplated.

Medical Schools and Laboratories

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 50,000	FY'52:	\$ 2,500
FY'53:	145,000	FY'53:	15,000

Laboratory equipment and technical publications will be supplied to the three medical schools and to the Pasteur Institute to permit these institutions to expand their research on medical problems and diseases peculiar to the Associated States.

Training

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 350,000	FY'52:	\$ 883,000
FY'53:	500,000	FY'53:	620,000

A principal bottleneck in the health programs of the Associated States is the lack of trained public health personnel. Orientation centers will be established in six major regions of the three States, for recruiting, orienting and placing public health workers. Special training facilities will be developed for special needs, including a laboratory technicians school in conjunction with the Pasteur Institute, and a course of study for x-ray technicians. A medical assembly will be held to bring the four hundred physicians in the Associated States up-to-date on scientific progress in medicine during the past ten years. Assistance in the training of hospital personnel, first-aiders and village health teams also will be provided.

Medical and Sanitary Services

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 60,000	FY'52:	\$ 255,000
FY'53:	45,000	FY'53:	-

Three regional public health representatives are employed under the technical assistance program to supervise the operations of the various programs in their respective regions and to insure that technical advice shall be available at all times to assist regional health authorities.

3. Agriculture, Forestry and Fisheries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 1,619,000	FY'51: \$ 1,261,000
FY'52: 2,250,000	FY'52: 3,500,000
FY'53: 3,350,000	FY'53: 5,000,000

The Associated States of Cambodia, Laos and Vietnam are primarily agricultural. In normal times, upwards of 90 percent of the 25-odd million inhabitants were engaged in agricultural pursuits, including inland and coastal fisheries and the exploitation of forestry resources. Surpluses above domestic needs were produced in most food crops and a variety of other agricultural products including rubber.

Due to the Japanese occupation and the more than five years of civil strife which is still in progress, agricultural productivity has declined to a point where it barely meets local consumption requirements. Rice exports declined to a nominal 135,000 tons during 1950, compared to 1,500,000 tons annually before the war. Corn exports virtually have ceased. Only rubber production has been maintained at near-normal levels. Factors contributing to this decline have been the disruption of internal transport, loss of work animals, deterioration or loss of farm tools, abandonment of rich farm lands because of insecurity, neglect and damage of irrigation and drainage facilities, non-availability of short-term production credit, and a complete interruption of public services and research. For example, rice research had completely ceased by 1950, and all rice seed multiplication stations had been closed or abandoned. Rice varieties have deteriorated and seed supplies have become seriously adulterated.

Next to rice, fish is the most important item in the native diet. Although possessed of a long coastal line and potential off-shore fishing banks, fresh water fish taken from village ponds, streams and rivers make up the most important source of supply. Convenient inland sources are over-exploited for subsistence purposes, while river, lake and coastal resources not immediately adjacent to population centers are unexploited for reasons of insecurity, inadequate transportation, and the lack of primary materials. With careful planning and assistance, both technical and material, it is expected that fish production can be materially expanded, thus assuring adequate production for internal consumption purposes, including military requirements.

Exploitation of forest resources in Vietnam virtually has ceased, except in very limited areas, because of insecurity and loss of equipment. Mechanization is virtually unknown. Production is limited and lumber products are expensive, which tends to defer reconstruction and materially affects the requirements of the expanding military forces. On the other hand, extensive forest resources, especially in Cambodia, are secure and remain available for exploitation by modern means to meet the urgent domestic needs for rehabilitation and reconstruction and military purposes. Properly directed, mechanized practices will serve to increase substantially the present meager supplies of lumber and eventually will contribute materially to meet the critical worldwide demand. Modern demonstrational equipment and US technicians to train indigenous personnel are being supplied.

The Associated States have vast areas suited to agricultural purposes and available for development and exploitation once internal security is restored. The introduction of improved practices through technical assistance and better hand tools, implements and equipment as contemplated under the project will materially increase the productivity of food crops, forest and industrial products needed for military as well as civilian purposes.

Agricultural Research

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 58,000	FY'52: \$ 97,500
FY'53: 100,000	FY'53: 100,000

Under existing unsettled conditions, it is impossible to undertake a full program of practical agricultural research. As conditions improve, however, material and technical assistance will be provided to activate projects of first priority. Toward this end, it is hoped that during FY'53 it will be possible to assist in the re-establishment of a program of essential rice production research, including the reactivation of many of the provincial rice seed multiplication centers in order to arrest the further decline of rice yield and quality.

Agricultural Extension

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 53,000	FY'52:	\$ 30,000
FY'53:	150,000	FY'53:	125,000

Agricultural extension had not been put into practice in the Associated States before the advent of ECA. This project proposes to assist in the establishment of a sound program for disseminating practical information to the village and cultivator levels in an effort to encourage farmers to practice methods designed to improve productivity, facilitate marketing and generally to improve their standard of living. These aids, first initiated in FY'51, were expanded in FY'52, and it is intended that the program of material and technical assistance will be further expanded in FY'53.

Maintenance of Agricultural Production

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 675,000	FY'52:	\$ 435,000
FY'53:	300,000	FY'53:	500,000

During FY'51 more than 14,000 tons of commercial fertilizers were imported and distributed without cost to cultivators as an emergency measure to insure that local rice consumption needs would be met and to demonstrate ways to higher productivity. About one-half of the fertilizers were supplied by ECA. The remainder were purchased and distributed with counterpart funds as the source of credit. The response was immediate and favorable.

The program for FY'52 is being modified and free distribution of fertilizer, to be supplied by ECA, will be continued only in the critical rice-deficient North Vietnam and in the isolated coastal points of Central Vietnam. In South Vietnam, the fertilizer program, while subsidized in part through the use of counterpart funds, will be carried on largely within the framework of commercial facilities.

The FY'53 program will be carried out along similar lines, but on a reduced scale so far as dollar expenditures are concerned. Increased emphasis will be placed on importation through commercial facilities, using counterpart funds, if necessary, to subsidize distribution and usage. The distribution of urgently needed agricultural production supplies and other aids will tend to insure the maximum production of essential food and fish crops required for civilian and increasing military demands.

Livestock Production and Disease Control

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'52:	\$ 40,000	FY'52:	\$ 340,000
FY'53:	150,000	FY'53:	375,000

Livestock and poultry populations have declined to the point where the supply of meat for food is materially reduced and there are not enough draft animals to work the land. Normal sources of supply of work and meat animals have been disrupted by insecurity and interference with transport. Guerrilla bands have inflicted heavy damage and the demand for meat for the subsistence of military forces has been heavy.

Quotas now are enforced to prevent excessive slaughter and depletion of animal breeding resources. Animal disease control, which in 1950 was almost non-existent, has been aided by the provision of essential veterinary supplies and equipment, vaccination teams and training aids for emergency personnel. Technical assistance is being provided to aid in disease control and animal reproduction programs, and in training and research.

Local currency will be required to initiate various programs, including the purchase and distribution of work animals and the construction of animal-breeding and reproduction stations.

Cooperatives and Production Credit

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 120,000	FY'52: \$ 587,500
FY'53: 500,000	FY'53: 750,000

Technical assistance was initiated in FY'51 to study and analyze the status of prewar cooperative societies and the urgent necessity of short-term production credit. These services will be continued in FY'53.

With few exceptions, most of the prewar producer cooperatives are defunct, and no production credit is available to agricultural producers except at usurious interest rates. It is believed that the availability of credit at reasonable rates will do more to stimulate agricultural production than any other single factor.

During FY'52, several pilot, producer-owned cooperatives will be established to combine processing and marketing facilities and short-term production credit to producer-members. Besides limited technical assistance, this project will provide rice milling equipment, transportation facilities, and reconstruction materials. Counterpart funds will be used to cover local construction and installation costs, and to provide necessary initial operating funds. These will be repaid over a period of years. These pilot activities will be expanded in FY'53 to include fisheries and consumer supplies.

Irrigation and Reclamation

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 310,000	FY'52: \$ 550,000
FY'53: 1,000,000	FY'53: 1,250,000

Cambodia, Laos and Vietnam are subjected to torrential rains and floods during the "rainy" season, while during the remaining six months of the year, it is too dry to produce most crops without supplemental water. Substantial areas also are subject to damage by salt tidal waters. Flood control measures have been neglected and facilities have deteriorated through neglect, lack of local funds, and physical damage inflicted by internal warfare and guerrilla bands.

During FY'51, the Sontay Pumping Station destroyed in 1947 was rehabilitated, permitting the production of a second crop of rice on an area of 25,000 acres. During FY'52, additional drainage and irrigation rehabilitation projects will be completed and the program will be continued in FY'53 on an expanded basis.

This project will provide modern earth-moving and other equipment for the repair of dikes and levees, the rehabilitation of drainage ditches, and the construction of sluice gates, as well as pumping equipment for irrigation during the dry season. Technical assistance also will be supplied to assure the maximum utility of equipment and material aids.

Land Reform and Agricultural Resettlement

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 27,000		FY'52: \$ 50,000
FY'53: 100,000		FY'53: 250,000

The physical resettlement of refugees on agricultural lands is a need associated with emergency relief activities otherwise provided for under Category 1. ECA has assisted in several such projects in a small way during FY'51 and '52, principally by making available hand tools and other production aids. Plans are being made to undertake during FY'53 the resettlement of refugee families on agricultural lands in the Plateau area. Expenditures will be used principally for hand tools, simple implements, and other production aids. Technical assistance will be furnished to advise the governments with respect to land reform.

Processing and Storage

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 105,000		FY'52: \$ 762,500
FY'53: 350,000		FY'53: 600,000

Facilities for processing and storing food, especially meat and grain, are inadequate for the military and civilian population. To cope with this situation an engineering survey was made to determine how best the facilities, including refrigeration, at the Saigon abbatoir could be improved and expanded. The survey was completed and remedial measures are being initiated in FY'52. Similarly, the facilities of the Phnom Penh abbatoir will be improved during FY'52 so as to afford limited accommodations for chilled storage of beef and pork.

During FY'53, equipment and supplies will be provided for numerous provincial and village centers for the seasonal storage of rice and corn. These storage centers will serve rice producers in a manner comparable to the way in which refrigerated lockers are employed in many rural centers in the United States. This will insure greater security against the raids of terrorist bands, and tend substantially to prevent rodent and weevil damage.

Demonstration and Popular Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 75,000		FY'52: \$ 125,000
FY'53: 150,000		FY'53: 200,000

An unparalleled opportunity exists for increasing the productive labors of agricultural cultivators through the adoption of simple improvements in techniques and working devices. Modern advances in farm practices are unavailable to most of the rural population. The need and desirability for communicating these improvements to an increasing number of cultivators

by posters, pamphlets, documentary films and other audio-visual media has been emphasized to the local agricultural agencies. Material and technical assistance are being provided to the agricultural services to implement this objective.

Training

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 30,000	FY'52: \$ 42,500
FY'53: 150,000	FY'53: 250,000

For more than five years, there has been no opportunity for students to obtain technical agricultural training. Accordingly, in every field of activity an acute shortage of competent personnel exists to carry on the most rudimentary public service programs. There is urgent need for the initiation of "short course" training programs in virtually every field in order that the personnel shortage may be overcome. Minimum essential training is to be provided as rapidly as trainees can be recruited and training accommodations can be provided. In addition, it is contemplated that young persons showing capabilities for agricultural leadership will be sent abroad for advanced training in modern agricultural techniques and methods.

Forestry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 518,000	FY'52: \$ 330,000
FY'53: 200,000	FY'53: 150,000

The Forestry Services of the Associated States were among the most effective of the several agricultural services developed during the period of French responsibility. The personnel are well indoctrinated in conservation practices and routine administration. All forest lands are public property and concessionaries reimburse the governments for exploitation rights. Normally, these collections are an important source of local revenue.

The forest resources of Cambodia, Laos and Vietnam are among the most valuable in the world. Not only can local demands for lumber be entirely satisfied, but a surplus for export can be produced if logging and manufacturing can be mechanized.

During FY'51 and '52, ECA assisted in the supply of mechanical equipment to develop access roads and trails, in Cambodia in particular, and in the provision of pilot demonstrational equipment. Technical assistance is being supplied to assure proper use and maintenance of equipment and to train personnel. By FY'53, it is hoped the demonstrations completed in Cambodia can be duplicated in Vietnam. Local currency is required for the construction of access roads and to finance the installation and initial operation of demonstrational equipment.

Fisheries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 239,000	FY'52: \$ 150,000
FY'53: 200,000	FY'53: 450,000

During FY'51, ECA obligated funds to provide a small fleet of refrigerated trucks to transport fish from the Grand Lac in Cambodia to the Phnom Penh and Saigon markets. ECA also provided funds for the purchase of several patrol craft for use in the Grand Lac and coastal waters of Central Vietnam and, in addition, for two experimental purse seiners and two experimental drift trawlers for use in Central Vietnam. The use of this equipment will not be generally demonstrated until FY'52 when it is intended to provide additional transportation equipment to serve by land and water the coastal fishing villages of South Vietnam.

In FY'52, substantial quantities of twine and line will be made available to cooperative associations to facilitate the construction of fishing sampans and facilities for the processing of nouc mam, a local fish sauce used by all social levels. Also in FY'52, substantial assistance in the form of pumping and scientific apparatus will be made available for the construction of several fish hatcheries. The program for FY'53 will be a continuation of these projects to insure an expanding production of fish and fish products to meet the urgent requirements of the military and civilian population.

4. Transportation, Power, Other Public Works

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$3,316,000	FY'51: \$4,690,000
FY'52: 2,503,000	FY'52: 3,375,000
FY'53: 3,600,000	FY'53: 3,872,500

Prior to World War II, the railroad transportation system of the Associated States was adequate to serve the areas into which it extended, but even at that time, large segments of the States were entirely dependent upon other forms of transportation. As a result of the war railroad mileage has been cut in half. To insure adequate transport facilities for both civilian and military purposes, therefore, it is necessary to improve highways and to rehabilitate inland waterways, coastal ports, and coastal watercraft.

Because of the rapid expansion of population in urban areas, resulting from the influx of refugees from areas of military operation and those controlled by the Viet Minh forces, public services and housing facilities are being overtaxed. The provision of small amounts of aid for improving the electric and water services and larger amounts for public housing will do much to prevent unrest in the crowded cities.

Telecommunications are extremely difficult to maintain in areas of military operation and guerrilla activities. In order to provide adequate service for both civilian and military activities, uninterrupted by enemy action, it is proposed to install VHF telecommunications systems in South Vietnam and Cambodia.

The FY'53 local currency expenditures for all projects in this category are estimated at 77,450,000 piasters, or \$3,872,500. These costs will probably have to be met from counterpart funds.

Financing of the dollar cost of this program through governmental budgets or International Bank of Reconstruction and Development loans is not feasible because of pressing military considerations and the inability of the States to service additional debt.

Highways

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$1,643,000	FY'52: \$1,150,000
FY'53: 1,575,000	FY'53: 850,000

Aid supplied by ECA (in the form of asphalt and roadbuilding equipment) has made possible a highway repair and reconstruction program to provide suitable roads for transporting essential products in areas most important to food, rubber and industrial production, and to military operations. Repairs are now about 60 percent completed on 250 miles of roads. This work will be expanded so that approximately 400 miles of roads will be improved and maintenance requirements will be met each year. The latter level of road repair is essential to prevent further deterioration. In addition, important bridges will be reconstructed to relieve transportation bottlenecks. Costs of moving goods will decrease, and employment will be provided for many persons, particularly war refugees. The project will also be of invaluable assistance to the military effort.

Inland Waterways

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 500,000	FY'52: \$ 50,000
FY'53: 300,000	FY'53: 45,000

Inland waterways provide the only access, other than highways, from Saigon, the major port of the Associated States, to Laos and Cambodia. The Mekong River which, with its tributaries and estuaries, is navigable for more than 1,000 miles, is the chief means of commerce and transport from Laos to Vietnam. In many places, however, the river lacks channel markings, making travel hazardous and damaging to river craft. Many of the river craft and much of the cargo-handling equipment require repair parts or complete replacement. River cargoes are now delayed -- sometimes as long as six months -- awaiting LST transportation to Cambodia because of the lack of adequate unloading facilities in Phnom Penh.

ECA has provided small items of equipment for the Mekong River ports in Cambodia, and a dredge has been authorized for keeping its channel clear. The FY'53 program is designed to restore the minimum essential barges, tugs, small craft and cargo-handling equipment needed to move crops, raw materials, manufactured goods and military supplies, and also to provide channel markers where most critically needed.

Port Facilities

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 60,000	FY'52: \$ 225,000
FY'53: 500,000	FY'53: 90,000

Due to the lack of rail transport facilities, the only means of transportation of supplies and equipment to the coastal cities of Vietnam is by coastal vessel. Many of these cities and surrounding areas are completely isolated by water. It is important, therefore that ports be maintained and developed, facilitating the receipt, storage, and outshipment of supplies.

During FY'52, a small amount of aid was furnished for this purpose, and it is proposed to continue the project on a somewhat larger scale in FY'53.

It is anticipated that harbor expansion work at Tourane, the principal civilian and military port of Central Vietnam, will be the most important project in this field.

#### Housing and Urban Improvement

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 200,000	FY'52: \$1,350,000
FY'53: 340,000	FY'53: 2,750,000

The construction of public housing is one of the most pressing needs in the urban centers. Influx of refugees from the war areas occupied by the enemy forces has expanded the population of the cities beyond absorptive capacity. ECA has sponsored the construction of low-cost housing units, which could not have been financed by the local governments. Under this program, 515 housing units have been completed in Hanoi, Haiphong and Saigon; 700 units are 90 percent completed in Saigon. It is anticipated that construction of 3,000 additional units will begin in FY'52 and 2,300 units in FY'53. Only small quantities of materials will be imported for this project, mainly asbestos roofing and small items of construction machinery. Local currency costs are relatively much higher and thus far they have had to be met from counterpart funds. It is expected, however, that eventually these projects will be self-liquidating. They are administered by the National Housing Office established with ECA funds.

#### Urban Public Services

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 100,000	FY'52: \$ 600,000
FY'53: 300,000	FY'53: 100,000

The electric and city water systems of many urban areas are disrupted from time to time by enemy action. In many of the population centers, these facilities also are overtaxed by the influx of refugees and military personnel. There is thus urgent need for expansion of water and electric facilities, as well as for rudimentary sanitary services and fire protection.

ECA has supported the overburdened local governments with small amounts of imported equipment, technicians, and counterpart piasters so that adequate urban public services can be maintained. In FY'52 a new deep well will have been completed to assure the city of Haiphong of a water supply safe from guerrilla attack, and minimum equipment, such as garbage disposal and fire trucks, will have been supplied to other cities. This aid will continue in FY'53 and the water supply in several cities will be improved. Technical services supplied by this project will be beneficial in demonstrating to local engineers more effective methods to maximize output with the facilities available.

#### Telecommunications

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ -
FY'53: 585,000	FY'53: 37,500

The telecommunications system between the urban centers of South Vietnam and of Cambodia have never been adequate to the needs of the regions.

During the past ten years the system has deteriorated and guerrilla activity against the open lines has frequently isolated entire areas for long periods of time. These regions are rich in rice, timber and lumber. In order to encourage and increase production of these commodities, adequate communication facilities must be provided.

To meet this need, it is proposed to install a very high frequency radio-telephone system between the major centers of South Vietnam and the major centers in Cambodia, and between Saigon and Phnom Penh. This system has the advantage of being relatively inexpensive to install, easy to operate, and not subject to disruption of service by guerrilla attack.

5. Handicraft and Manufacturing, Mining, Other Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ 385,000
FY'52: 100,000	FY'52: 3,375,000 <sup>a/</sup>
FY'53: 500,000	FY'53: 1,250,000

Small industries and handicrafts exist throughout the Associated States, particularly around the principal cities of Saigon, Hanoi, Hue, Phnom Penh and Vientiane. They play a greater than normal part in the overall economic pattern by turning out a large portion of the total productive effort. This is due to the lack of large industries producing consumer-type and light manufactured goods. Efforts will be concentrated in FY'53 on the rehabilitation of handicrafts and small industries which have been adversely affected by war and civil disturbance. Assistance to be supplied in the form of instruction in new techniques and modern machinery is expected to increase production, widen employment and create new exportable commodities.

Handicrafts

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 50,000	FY'52: \$ 550,000
FY'53: 200,000	FY'53: 250,000

ECA aid to handicraft centers, initiated in FY'52, will be expanded in FY'53. This project is designed primarily to encourage production of exportable products, to train workers skilled in needed trades, and to provide employment for war refugees. The artisans of the Associated States have a distinctive-ly unique method in their handiwork which, if properly developed, can create a foreign market for their products and thus earn needed foreign exchange. Existing centers for artisans are to be supplied with necessary materials and tools, and new artisan centers will be constructed or encouraged in newly liberated areas and in Laos and Cambodia where few such centers now exist. Artisan schools will train workers with skills in mechanics, cabinet making, black-smithing, weaving and other trades. A U. S. technician will work with the governments of the Associated States to advise them on the development and marketing possibilities of existing or new handicrafts. Local skilled technicians will be sent to trade schools in the U. S. for advanced training. The credit fund established in FY'52 to provide loans to handicraft centers will be increased during FY'53.

<sup>a/</sup> Includes local currency equivalent of \$2.5 million for establishing a Credit Fund designed to provide loans required for establishing or expanding handicraft centers and small industries.



Mass Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ 255,000
FY'53: 150,000	FY'53: 170,000

A mass education program aimed at reducing the illiteracy rate is gaining momentum with ECA aid in FY'52 and will be continued in FY'53. Fifty thousand persons are now learning to read and write in 1,600 classes. Methods to be used in reaching the people include specially equipped trucks for travel to remote inland areas, and specially equipped barges for the numerous delta regions. Books and pamphlets to instruct the teachers as well as those for student use are being published in the local languages. Teaching materials will be developed that deal with daily living problems in the villages, providing elemental information on disease prevention and sanitary measures, agricultural techniques and public affairs, the latter dealing particularly with the reasons for the Government's military effort. Four American educators will be provided to help develop the educational program.

Textbook Research

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ -
FY'53: 30,000	FY'53: 180,000

Heretofore most formal education in the Associated States was given in French, with the exception of elementary courses in local languages. Political independence brought a natural desire to have courses taught in the native tongues. In effecting this change, the Ministries of Education are handicapped by the almost complete absence of the proper language textbooks. This project will provide imported primary and adult education material to be translated and printed locally. Printing supplies and equipment will also be provided. Local currency will help defray the printing cost.

Vocational Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 100,000	FY'52: \$ 270,000
FY'53: 150,000	FY'53: 75,000

Aid to selected vocational schools to help meet the critical shortage of skilled workmen and craftsmen will include one vocational school administrator to advise the Associated States with respect to administration and courses of instruction. Local leaders in this field also will be sent to the U. S. for advanced training. Supplies for the schools, such as radio equipment, electrical shops and machine shops, will be provided. Local currency will be used to further equip these schools with materials available locally.

Assistance to School Facilities

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ -
FY'53: 70,000	FY'53: 700,000

The Associated States do not have sufficient budgetary resources to provide adequately for school services. Not only have existing school facilities deteriorated or been destroyed, but local governments are unable to repair, rehabilitate, re-equip or expand them. The project will provide counterpart funds as well as dollar imports.

8. Public Administration

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 334,000	FY'51: \$ 862,000
FY'52: 400,000 <sup>a/</sup>	FY'52: 1,100,000
FY'53: 1,200,000	FY'53: 800,000

The achievement of independence by the Associated States and the gradual withdrawal of the French from the management of governmental services has placed great administrative burdens upon the Cambodian, Laotian and Vietnamese governments. Inexperience, political instability, and the lack of trained personnel make it difficult for the governments to operate effectively. They will need substantial assistance in public administration until they can acquire the necessary experience and until political stability is more nearly achieved. The two are interdependent.

In FY'53, technical assistance will be given the local governments in various fields. Aid will be provided for strengthening the Ministries of Information, for administrative support of the Committee for American Economic Aid and for the establishment of central government printing plants.

Assistance to Public Finance and Other Fields

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ -
FY'53: 190,000	FY'53: -

The Governments of the Associated States are sorely in need of technical advice in all phases of government operations. Although the relationship between U. S. assistance to be provided in this field and that to be provided by France has not been fully worked out, it is almost certain that additional U. S. aid will be requested. Particular need is felt for technical assistance in the fields of fiscal policy, taxation and budget management, and it is expected that in FY'53 such technical assistance will be provided.

Assistance to the Ministries of Information

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ 228,000	FY'52: \$ 550,000
FY'53: 410,000	FY'53: 300,000

<sup>a/</sup> Includes \$150,000 for furnishing boats to the Associated States' customs service. Although customs duties furnish 25 percent of the governments' revenues, enforcement of customs regulations has been handicapped by the inadequacy of equipment. Boats furnished to the customs services will help to reduce smuggling and improve government revenues.

The Ministries of Information of each of the Associated States perform the important functions of acquainting the public with the aims and ideals of their government, the programs it has planned for the benefit of the people, and countering false propaganda. These Ministries are the governmental agencies in closest contact with the people. Their proper and efficient functioning is essential for the creation of loyalty and support for government. Because of their importance, the Ministries of Information in the Associated States have received ECA assistance and will continue to be aided in FY'53 with the tools necessary to reach the public more effectively.

Provision of Printing Equipment

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ -
FY'53: 600,000	FY'53: -

In order to provide each of the independent governments with adequate printing facilities for the production of technical, administrative and informational materials, printing plants designed to meet the minimum needs of each of the States must be provided. This will eliminate dependence upon numerous small private local firms or upon France. Plants will be established at Saigon, Phnom Penh and Vientiane.

Assistance to National Committees for American Aid

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'52: \$ -	FY'52: \$ 550,000
FY'53: -	FY'53: 500,000

As in other participating countries, it was necessary for the Governments of the Associated States to set up completely new machinery for administering the ECA aid program. This was constituted in the Committees for American Aid. Aside from the personnel required, special warehousing and transportation facilities are necessary for protecting and moving supplies. These extraordinary expenses, so essential to effective utilization of ECA aid, cannot be met by ordinary government revenues. Counterpart funds have accordingly been provided to cover the costs.

9. Maintenance of Essential Supply

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$11,605,000	FY'51: \$ -
FY'52: 15,000,000	FY'52: -
FY'53: 17,112,500	FY'53: -

An outstanding handicap to the Governments of the Associated States is the lack of sufficient local currency resources to finance on a proper scale governmental services vital to the support of the war effort and to the elementary well-being of their citizens. Coupled with the shortage of local currency is the limited capacity of the Associated States to pay for necessary purchases outside of the French franc zone. The drastic drop in exports from these States

because of the war has created a heavily unbalanced foreign trade situation which will continue until peace is restored.

These compelling reasons are responsible for the fact that more than half of the dollars allocated to the ECA program are earmarked to finance the import of salable commodities through private channels.

This import program is prepared on the basis of requests presented by the Governments of the Associated States, in the light of the following criteria:

1. The material or service must be connected with national defense support, must be related to the production of strategic materials, or must be of vital necessity to the economy of the country,
2. The supplies or services must be supplementary to those which can be supplied through the French Union, or which can be purchased with foreign exchange available to the local governments.

Through these imports production capacity is increased and additional goods are made available to help absorb inflationary pressures created by the war effort.

Equally, if not the more important result of the sale of these commodities, is the creation of a large counterpart fund to be utilized in financing the local currency needs of all ECA-sponsored projects in the fields of public health, public works and agriculture. This aid could not otherwise be furnished because of lack of governmental funds.

Industrial machinery, industrial supplies, spare parts and vehicles are being channeled to help establish new industries and to maintain established enterprises aiding the war effort.

Tinplate for canning army rations, marine engines for ferries used by the military and civilians, asphalt for roads and airports jointly used by the army and civilians, motor vehicles and parts especially for contractors working with the armed forces, coastal vessels to carry food and material from the south to the main zone of action in the north are provided, together with other supplies and equipment intended to increase the production of food, clothing and rubber.

APPENDIX

INDOCHINA. CURRENT ECONOMIC SITUATION

1. National Income, Production and Consumption

The present war in Indochina has acted as an over-riding drain on all the resources of the Associated States and has severely restricted domestic production and consumption. The national income of Indochina was estimated at about \$825 million in 1949; according to this estimate, per capita money income in that year was only about \$30. Production remains far below prewar levels. Rice acreage has reportedly fallen by nearly 50 percent since 1950 - from 6 million hectares in that year to 3.3 million hectares in 1951. Correspondingly, rice output (unhulled rice) amounted to 8 million tons in 1940, as compared to a forecast of less than 4 million tons during the 1951 crop season.

Except in 1948, rice exports during the 5-year period 1946-50 have amounted to less than one-tenth their prewar volume (1937). However, during 1951, a small improvement has taken place. In the first five months, exports totaled about 153,000 tons. This compares with 1.5 million tons in 1937.

Corn was produced almost wholly for export in the prewar period, when the average annual output approximated 600,000 tons. In 1950, exports came to less than one-tenth their prewar volume, amounting to 40,000 tons.

Production of all minerals is practically at a standstill, except for coal, production of which has continued in Tonkin. In 1950, production amounted to less than one-fourth the prewar annual average of about 2,300,000 tons.

Cement production has been increasing over the last four years, from 97,000 tons in 1948 to an annual rate in 1951 (based on first six months) of 176,000 tons - about 50 percent of the annual average output in 1939-40 (two years) of 350,000 tons. Exports have been low, since cement is needed domestically in the construction of military installations.

It would appear that the level of total consumption has paralleled the downward course of production. As indicated in the following table, food availabilities for domestic consumption have significantly dropped for the postwar period.

Estimated Food Available for Domestic Consumption  
(thousands of metric tons)

	<u>Prewar</u>	<u>1950</u>	<u>1951</u>
Principal Food Imports	28.8	95.8	98.9*
Domestic Food Production (Principal Commodities)			
Milled Rice	4,570.0	3,857.0	3,534.0
Sweet Potatoes	262.2	300.0	300.0
Sugar	69.9	6.4	5.4
Beans and Peas	3.4	3.4	3.4
Total	4,934.3	4,262.6	3,941.7
Decrease from Prewar		671.7	992.6
Percentage Decrease from Prewar		14%	20%

\* Estimated on basis January-May 1951 rate. Food imports January-May 1951 totaled 41,200 metric tons.

2. Prices and Wages

Wage rates in Indochina have failed to keep pace with the rising cost of living. An index of wage rates for unskilled workers in the Saigon-Cholon area shows wage increases of 2,201 percent from 1939 to December 1949,

as compared with a 3,990 percent rise in the cost of living during the same period. In the Hanoi area, wages rose 5,605 percent and the cost of living 11,400 percent over the ten-year period 1940-1949.

The cost-of-living index for Indochinese workers rose 7 percent during 1950 in the Saigon area and 6 percent in Phnom Penh and Vientiane, but dropped 16 percent in 1950 in the Hanoi area due to the relaxation of communist pressure in this area that had existed prior to the end of 1950.

The general wholesale price index for the Saigon-Cholon area (base January-June 1939 = 100) rose from 1,357 in December 1947 to 2,090 in December 1949, 2,180 in December 1950, and 2,400 in May 1951.

### 3. Public Finance

In past years the more important government services were performed for Indochina as a whole by agencies under the French High Commissioner, and the main sources of government revenue were reserved for disposition by these agencies. With the beginning of 1951, all public revenues and most governmental services were transferred to the three Associated States. The mechanics of operating newly-transferred functions are still being worked out by inexperienced personnel of the new governments.

The 1951 French budget for expenditures in respect to the Associated States and the budgets of the States themselves, are dominated by the military conflict. The French budget provides for outlays of 17.7 billion piasters (\$864 million\*), or 86 percent of all public expenditures in Indochina, including 1,852 million piasters of grants-in-aid to budgets of the Associated States, chiefly for military purposes. Military outlays are by far the largest item of expenditures, but civil expenditures are also included. They cover: (1) 630 million piasters for the Office of the High Commissioner to cover remaining French civil services, such as French hospitals and schools, representatives in quadripartite bodies, etc.; (2) 598 million piasters for reconstruction, capital development and technical assistance (of which 533 million piasters benefit French business and other establishments in Indochina); and (3) 882 million piasters specifically designed to cover Indochina's estimated balance-of-payments deficit. Total 1951 expenditures budgeted by both the Associated States and the French will amount to about 20 billion piasters (\$1 billion), of which 81 percent is military in nature.

The budgets of each of the Associated States have increased in size and importance since the breakup of the French "Budget for Common Services." In former years the local budgets of Vietnam, Cambodia and Laos depended for revenue primarily upon the very limited sources of direct taxation. According to the Pau Conventions of 1950, the Associated States now receive the much larger revenues derived from customs duties and revenues of government monopolies, as well as postal and communications profits and other revenues. In 1951, the Associated States may be expected to spend from these revenues about 1,896 million piasters (\$95 million) for non-military government services and roughly only \$3.40 per capita. This is supplemented by the 2,111 million piasters (\$105 million) of non-military expenditure by the French Government (mentioned above).

The breakdown between military and civilian expenditures budgeted by the French and the Associated States for 1951 is summarized in the following table:

	<u>Estimated 1951 Expenditures</u> (millions of piasters)			
	<u>Military Expenditures</u>	<u>Civil Expenditures</u>	<u>Total</u>	<u>Percent of Total</u>
France	<u>15,574</u>	<u>2,111</u>	<u>17,685</u>	86%
Associated States:	1,073	1,896	2,999	14%
Cambodia	193	645	839	4%
Laos	-	203	203	1%
Vietnam	<u>880</u>	<u>1,048</u>	<u>1,928</u>	9%
Total	<u>16,647</u>	<u>4,007</u>	<u>20,654</u>	100%
<u>Percent of Total</u>	81%	19%	100%	

\*Converted at the official exchange rate of 20 piasters = US\$1.

#### 4. Money and Credit

As illustrated in the previous section, total expenditures within Indochina have far exceeded local revenues. This has resulted in a rapid increase in money supply. To some extent this increase has been offset by large-scale remittances and some flight of capital from Indochina, and by an import surplus. Before the war, currency in circulation amounted to 174 million piasters. Currency in circulation rose from 2,936 million piasters in 1947 to 4,756 million piasters by December 1950, and then increased almost 20 percent by August 1951 when it amounted to 5,670 million piasters. These figures, of course, exclude Viet Minh currency issues, which are said to be quite large.

Demand deposits increased in rough proportion to the notes in circulation over the postwar period, rising from 1,082 million piasters at the end of 1947 to 2,170 million piasters in June 1951.

On January 1, 1952, it is planned that an Institute of Issue will be established to perform the currency issue function formerly performed by the privately-owned Bank of Indochina. The Institute of Issue will be a federal agency with equal representation from each of the three Associated States and the French High Commissioner's Office.

#### 5. International Trade and Payments

Indochina's balance-of-payments position has seriously deteriorated in the postwar period as a consequence of the protracted military conflict. Exports have been substantially below prewar levels. In 1949 exports were 74 percent, and in 1950, 80 percent of prewar in terms of value. But the tonnage volume of exports decreased to only 9 percent of prewar in 1950.

Rice exports of 135 thousand metric tons in 1950 were only 9 percent of prewar; likewise, coal exports of 59 thousand metric tons were only 3 percent of prewar. Rubber exports at 53 thousand metric tons in 1950, however, reached 92 percent of the 1937-39 average.

The value of imports, on the other hand, has gradually risen since 1945, and in 1949 amounted to 389 percent, and in 1950 to 354 percent of prewar levels. This reflects, of course, increases in import prices, since the volume of imports (tonnage-wise) has increased by less than one percent -- from the 1938-39 average of 538,500 metric tons to 542,800 metric tons in 1950.

As a consequence, in the last four years Indochina has experienced heavy balance-of-trade deficits in contrast to the typically large trade surpluses in prewar years. Thus, Indochina's trade deficit amounted in 1949 to the equivalent of \$164 million, and in 1950 to \$137 million. This contrasts with prewar trade surpluses of \$25 to \$40 million annually.

Trade with metropolitan France continues to dominate the trade pattern of Indochina, as was the case in prewar years. In 1950 about 80 percent of all imports came from France, 6 percent from the United States, and about 6 percent from neighboring countries of the Far East. Of Indochina's exports, France has continued to received about 50 percent in the postwar period as was the case in prewar years. The American share of Indochina's exports increased from about 7 percent in 1937 to 20 percent in 1950, although decreasing to 12 percent in the first half of 1951. The share of Asian countries in Indochina's reduced exports has remained near the prewar level of 30 percent.

The heavy postwar trade deficits, plus heavy invisible payments and a larger capital outflow have been financed mostly through extraordinary receipts from the French Government. In 1950 exports were equivalent to \$74 million, and imports, \$211 million. It is estimated that total French payments to Indochina amounted to \$355 million to offset the trade deficit of \$137 million and an invisible deficit on current and capital account of \$216 million.

Approximately 90 percent of Indochina's international payments are with France or French overseas territories. International payments to countries other than France amount to roughly \$50 million and receipts from these countries about \$40 million. These payments are largely for trade.

B U R M A

FY 1953 BUDGET PRESENTATION

Contents

- PART I. Burma. FY 1953 Program
1. Introduction
  2. Program Objectives
  3. How the Program Supports the Objectives
- PART II. Program Tables
- PART III. Project Descriptions
- APPENDIX. Current Economic Situation

Part I

BURMA. FY 1953 PROGRAM

1. Introduction

Burma has attained her independence at a time when all of Asia is in turmoil. Beset by internal strife, the Burmese Government is struggling to establish some measure of political stability throughout the country. The task of suppressing insurrectionary groups and bandits is a formidable one. Nevertheless, the Government is determined to quell internal subversion and to resist external pressures. During the past year, Burma's attitude towards Communist imperialism has stiffened. Simultaneously, Burma's mistrust of Western influence has appreciably diminished, largely as a result of U.S. assistance in planning and carrying out the Burmese Government's economic and social rehabilitation programs. A sound relationship, based upon mutual understanding and friendship, is in process of development.

Burma occupies a pivotal position in Southeast Asia. Communist conquest of the country, whether through ideological or military means, would outflank India, Thailand and Indochina, and expose these countries, together with Malaya, Ceylon and the Philippines, to intensified Communist pressures.

Under present treaty arrangements the British Government is obligated to help the Burmese Government organize, train and equip Burma's armed forces.

Apart from the menace of external aggression and armed dissident groups within the country who seek the Government's destruction, the Government is harassed by many problems arising from the clashing aspirations and ambitions of racial groups - e.g., Karens, Shans, Kachus, Karennis, Burmans, Arakanese and Chins. These divergent racial and regional interests render doubly difficult the task of establishing political unity and stability throughout the country. It is imperative for the survival of a Government of the Union of Burma that the word Union become truly descriptive of the situation.

Since 1948, when Burma attained independence, civil strife has ebbed and flowed over much of the country. The most serious armed and organized opposition to the Government is Communist-inspired. While during the past year the Government has pacified large areas, disorder and insecurity still prevail in many parts of Burma. The insurgents are highly mobile and when hard pressed by Government forces they withdraw to the rugged and ill-defined Sino-Burmese border region for re-grouping. Even when guerilla groups are prevailed upon to lay down their arms, the Government is faced with the necessity of providing them with employment to prevent their return to banditry or to the Communist-inspired movements seeking overthrow of the Government.

Economically, Burma occupies a key position in Asia. As a food-surplus area, Burma's huge rice exports would normally supply a substantial part of the import requirements of other Asiatic countries, notably Japan. Thus any strengthening of the Burmese economy in terms of increased rice production and export volume simultaneously contributes to the solution of the food supply problems of other Asiatic countries.

Production in Burma remains far below prewar levels and the major economic activity, rice production, is only 70 percent of prewar. The rice outlook is gradually improving, however, as pacification proceeds. Rice exports for 1951 will approximate 1.3 million tons, as against an average prewar export volume of 3.0 million tons.

Through rigid restrictions on expenditures, often entailing the sacrifice of basic public needs, the Government kept the 1951 budget approximately in balance. However, because of increased expenditures for Government programs in the fields of social and economic rehabilitation, the FY'52 and FY'53 budgets are expected to show moderate deficits.

Burma's economy was virtually wrecked during the past decade by invasion, the ebb and flow of war, denial measures and scorched earth tactics, and postwar insurgency on a nation-wide scale. There has been little reconstruction of prewar capital plant.

Through painful austerity measures, the Government has accumulated fairly sizeable sterling reserves; however, the feasibility of purchasing capital equipment in the sterling area becomes increasingly doubtful because of the demands of Britain's rearmament program. Burma's dollar resources are negligible.

## 2. Program Objectives

The major objectives of the ECA FY'53 program for Burma are two:

- (1) To strengthen the ability of the Government to establish security and unity and meet the needs of the people.
- (2) To increase rice production in order to supply food to deficit areas in Asia and thereby lessen the danger of political unrest in those areas. Increased rice production will also further the first objective by improving economic conditions in Burma both directly and by way of foreign exchange earnings.

The grant program proposed for FY'53 calls for \$21 million to carry forward projects undertaken during FY'51 and FY'52 and to fill additional critical gaps in the Burmese economy. This sum represents a substantial increase over the FY'51 and FY'52 programs, \$10.4 and \$14.0 million respectively. The urgency of the problems confronting the Government and the increasingly effective relationships which have been established make such an increase necessary and desirable. The projects in the FY'53 program are designed to meet critical problems in the fields of agricultural and industrial rehabilitation, health, education and public administration. They will be supplemented with commodity imports to meet Burma's basic production requisites and consumer needs and to provide some local currency for program purposes -- mainly in health, education and agriculture.

The FY'53 program costs will be less than the Government's own expenditures on projects receiving ECA assistance. Local currency costs of the ECA-assisted projects will be more than twice the dollar cost of these projects, and will be borne by the Burmese Government (principally through budgetary provision; the balance through counterpart funds). For example: the ECA dollar contribution to the Public Health program will be \$3,385,000, as against a probable Burmese Government budget expenditure of the rupee equivalent of \$12,163,000. Again: in the low-cost housing program, the Government will probably spend the rupee equivalent of \$9,975,000 as compared to an ECA contribution of \$500,000.

In addition to the proposed grant aid program for Burma, the Government has expressed the hope that it will be able to negotiate loans for certain selected projects. A concrete basis for specific loan projects should be provided by the findings and recommendations of the Knappen, Tippets, Abbott group who are engaged in a comprehensive, two-year survey of Burma's total economic potential. This survey was begun in September 1951, and is ECA-financed. The Government has informally indicated a hope to be able to finance a loan program totaling \$14 million, dependent upon the results of the KTA survey and increased dollar earnings with which to service dollar loans. It is, of course, possible that the Government may seek sterling rather than dollar loans.

Projects regarded as possibly suitable for loans include port rehabilitation, coal mines, mineral exploitation, timber extraction, inland waterway transport, railways, highways, plants for the production of housing and construction materials (e.g., cement, tile and fiberboard), a sugar refinery, a bamboo, pulp and paper mill, and an electric furnace and steel rolling mill. However, as indicated in the Export-Import Bank's submission, it appears highly doubtful that any loans will be made by the Export-Import bank in FY'53 in view of the tenuous security conditions in Burma, its weak dollar position and the absence of final details from the KTA survey. This fact underscores the clear necessity for maintaining the minimum grant aid figure presently proposed by ECA.

### 3. How the Program Supports the Objectives

The program aims in the first place to strengthen the ability of the Government to establish security and unity and meet the needs of the people. If Burma is to retain its recently won independence, it must achieve a far greater measure of political and social unity than it has now or can acquire without friendly foreign aid. The Government must also demonstrate its ability to promote the general welfare.

To achieve greater unification, the Government must find solutions to the problems of the various ethnic groups, referred to earlier, who look askance at the Burmans and are jealous of their semi-autonomous status within the Union. The guerilla or insurgent bands constitute another problem element in the population. Consisting largely of demobilized soldiers and unemployed youth, most of them untrained and without prospects of finding jobs, these bands are currently pillaging large sections of the country. If these insurgents are to be persuaded to give up banditry, they must be convinced that alternative means of earning a livelihood will be provided.

The Government requires more means than it now has at its disposal for persuading these dissident groups and promoting the general welfare. The FY'53 program is designed to help provide such additional means by (a) improving government services, and (b) providing some catalytic aid to undertakings that will get the needed diversification and development program under way.

#### (a) Improving Government Services

The strengthening of Government services, particularly in the fields of public administration, education, agriculture and public health, is a prerequisite to the achievement of political and social unity. Existing services are far below prewar and pre-independence standards of effectiveness, and thus seriously detract from the confidence the people might otherwise have in their government and reduce their inclination to support it. The Government realizes its shortcomings and has taken steps, including provision of large budgetary outlays, to begin strengthening the existing inadequate services. With ECA assistance it can move more energetically and definitely to meet the problems arising in these fields. The more important ways in which ECA proposes to aid in strengthening Government services are indicated below.

(1) Public Health Services. In carrying forward the restoration and expansion of health facilities, the Government faces the dual handicaps of (a) an acute shortage of local personnel and (b) a shortage of foreign exchange needed to employ foreign medical personnel and to procure drugs, supplies and equipment.

Some of the TA personnel provided by ECA under the FY'51 and FY'52 programs are presently manning health teams in areas embracing 600,000 people; the FY'53 program contemplates the activation of two more health teams to a total of seven, which will serve a population of approximately 1,100,000. In addition to the treatment and control of such diseases as malaria, smallpox, syphilis and enteric ailments, the ECA health team personnel will train Burmans to carry this work forward. The FY'53 health team program would train approximately 60 Burmans as health technicians and 160 for spraying and first-aid work in rural areas.

It is expected that the past and proposed ECA aid to the University of Rangoon Medical College, plus substantial contributions from the Government of Burma, will provide facilities and instruction for an additional 500-600 medical students by the end of FY'53. At the same time, it is expected that the institution's academic standards will have been materially raised.

Besides improving the care of in-patients and providing for a 300-bed addition to the hospital, the proposed aid to Rangoon General Hospital will permit the training every year of 30 X-ray technicians, 200 nurses, and 30 laboratory technicians for later assignment to district hospitals.

The proposed FY'53 program makes provision for a broad consultative and advisory service in the general field of public health. Consultants would be provided in sanitary engineering, environmental sanitation, health education,

hospital administration, epidemiology, vital statistics, public health nursing, maternal-child health and nutrition, plus certain technical equipment to enable this group to function effectively. The FY'53 program also provides facilities and equipment for hospital improvement, municipal sanitation, and vaccine production.

(2) Agricultural Extension. The proposed FY'53 program devotes considerable attention to agricultural extension of the type commonly provided in the U.S. It seeks to take advantage of this means of reaching and aiding the minority ethnic groups whose present dissatisfaction with the central Government is creating such strife and weakness within the Union. The program as presented would extend into practically all sections of Burma not held by insurgents.

It is proposed to provide some experts to aid the Government in laying the groundwork for future reform measures in connection with rural credit and land tenure. Small additional amounts are directed to classification of land and water resources and general agricultural research.

(3) Low-Cost Housing. The proposed FY'53 program provides for assistance to the Government's housing program in the form of TA personnel and small quantities of critical materials. The objectives of the large GUB program (\$7.5 million is earmarked in the GUB budget for FY'52) are to provide immediate shelter for 20,000 to 30,000 families annually, beginning in the Rangoon and Mandalay areas, and to demonstrate to private enterprise the profitable possibilities of erecting adequate and cheap dwellings.

As a corollary to the housing program it is planned during both FY'52 and FY'53 to import machinery and equipment for the establishment of pilot plants to produce construction materials.

(4) Education. The Prime Minister, Thakin Nu, and the Burmese Government attach great importance to the development of sound educational policies and to the revival of educational programs which seek to promote the moral and intellectual rehabilitation of the Burmese people. The Rehabilitation Corps, the Mass Education Council and the Burma Translation Society are new institutions sponsored by the Government for these purposes.

The Rehabilitation Corps is an effort to reorient the lives of demobilized soldiers and guerillas, amnestied political offenders, and unemployed youth of a war-torn nation by offering them useful and gainful employment and by utilizing their labor and skills for national reconstruction purposes. It is patterned after the former Civilian Conservation Corps of the U.S. Government. During FY'51 and FY'52, ECA will have provided tools and basic equipment items for the training of two brigades of enrollees (about 1,100 men). The FY'53 program makes provision for additional tools and equipment for training two more brigades. As the Rehabilitation Corps trainees complete their training, they are assigned to public works projects in the cities and to development projects in selected rural areas, including some projects directly supporting ECA-financed activities in the fields of agriculture, public health and public housing.

The Mass Education Council's efforts are directed primarily at the rural communities, where its personnel concentrate on teaching the villagers self-help in educational, agricultural, health and other rural development activities. The Council has already won the confidence and cooperation of villagers in many areas. The audio-visual aids ordered by ECA during FY'51 will be invaluable to the 180 trained MEC workers now operating in some 90 village centers throughout the country. During FY'53, technical assistance will be provided for strengthening the Council's adult education and community organization programs, and mobile audio-visual units will be provided.

During FY'52, efforts are being made to assist the Burma Translation Society by providing a TA advisor on printing techniques, as well as certain basic printing equipment items. The TA advisor will supervise the installation of printing presses designed to increase present printing capacity by 400 percent and to permit the annual publication of 50 educational books in editions totaling one million copies. During FY'53, assistance will be confined to TA personnel, training fellowships and small quantities of printing paper.

The FY'53 program also provides continued aid to educational institutions and activities (including Rangoon University), vocational education, teacher training, and elementary and general education.

(b) Laying Foundations for Economic Development

While expanded agricultural production will improve living standards, a substantial expansion in industrial production will be necessary to enable Burma to raise incomes to adequate levels. In addition to raising incomes, an expansion of industrial production would reduce the present excessive dependence upon imports and would increase job opportunities.

The Government of Burma plans an extensive program of industrialization; and toward that end has instituted stringent austerity measures in an effort to save foreign exchange with which to finance the program. The foreign exchange reserves, however, are not adequate to finance the needed industrial development. Furthermore, they are held in sterling and will probably not finance the growing number of items available only in the dollar area. With ECA aid, the Burmese Government has employed the engineering firm of Knappen, Tippetts, Abbott to survey the entire economy and to make specific recommendations. This survey, as noted, began last September.

The proposed ECA program for FY'53 supplements the Government's more comprehensive industrial development program, mainly by providing technical assistance and some limited mining surveys, and by instituting pilot projects.

It is proposed to provide in FY'53 imported machinery and equipment for small new installations for the production of fiber, textile, ceramic, metal, wood and glass products, and for building materials such as roofing, walls, partitions, drains and water systems. This capital equipment will be provided either for small pilot plants designed to develop or prove processes utilizing local raw materials, or for model plants intended to demonstrate to private investors the potentialities and techniques of small industries new to Burma. Provision is also made in the FY'53 program for continued support to industrial research that will further the goal of expanding the variety of industrial enterprises in Burma. The principal ECA undertaking in the mineral development field in FY'53 is a major exploratory drilling survey of the Kalewa coal beds.

Direct support to the new GUB spinning and weaving mill will be maintained through the supply of suitable raw cotton, also by continuation of the project for improvement of the quality and yield of domestic cotton, and by fiber research. The FY'53 program proposes to continue support to the domestic production of biologicals and pharmaceuticals. The proposed provision by ECA of machinery and spare parts for sale to local producers will supply critical items available only in the dollar area.

The FY'53 program also provides funds that will aid in the diversification of Burma's agriculture. The plans call for development on a cooperative cottage-industry basis of local sugar plants with a daily capacity of three tons; an edible oil extraction plant; and an evaporated milk plant with a daily capacity of 250 gallons. To aid the timber industry, it is proposed to import some modern power saws.

The second major objective of the FY'53 program is to increase rice production. As indicated above, the postwar slump in Burma's rice exports, currently at 1.3 million tons compared with 3.0 million tons prewar, has seriously aggravated famine conditions and political unrest throughout the Far East. If Burma's rice exports could be raised to prewar levels, or preferably beyond that point, they would contribute greatly to economic and political stability in many Far East countries by meeting their minimum food requirements. By seriously retarding the domestic economy, the lag in rice production has also aggravated political tensions within Burma. Since rice provides a livelihood for approximately 80 percent of Burma's population and last year accounted for 85 percent of the export proceeds, the depressed rice production has been largely responsible for the reduction of real incomes to about half the prewar level and has deprived the country of foreign exchange sorely needed for the development program.

Rice production is expected to approximate 5.7 million short tons, or about 73 percent of prewar volume during the crop year 1950-51. This is identical with the 1949-50 production and is seven percent higher than 1948-49. Planted acreage has been estimated at 9.3 million acres for the last two years, leaving idle approximately 2.6 million acres of land cultivated prior to the war. The chief deterrent to the recovery of this land is the cost involved in removing the jungle growth that has accumulated since the Japanese invasion, though banditry and other factors also constitute serious obstacles.

As was the case prewar, the yield per acre is relatively low, averaging less than 30 bushels of rough rice per acre as compared to 50 in the United States and 75 in Japan. The comparatively low yield is attributable principally to poor seed, lack of milling and storage facilities, decimation of water buffalo stock, primitive practices, and inadequate water supplies and irrigation facilities. The proposed ECA aid is largely confined to increasing the yield on land now under cultivation. The ECA projects for improvement of rice seeds, storage, milling and processing, and flood control and irrigation are aimed directly at immediate increases in rice production and exports.

The program contemplates construction of 100 warehouses storing 300,000 tons of rice. Present losses from improper storage run as high as 10 percent. In addition, the present lack of storage facilities forces the farmers to dispose of the paddy immediately after the harvest - often at very unfavorable prices. If the farmers could store their crop for a time, their profits would be higher and they would be encouraged to increase acreage. With respect to rice milling, it is proposed to rehabilitate some existing mills and to install a modern pilot rice mill. It is estimated that improved facilities and methods could increase the milling yield of the rice crop by five percent.

In lower Burma, ECA is now supplying equipment for essential flood control in the delta area. These projects will protect 1,700,000 acres, producing 663,000 tons of rice. The proposed FY'53 program will continue the river control program, but on a much reduced scale. In upper Burma, it is proposed during FY'53 to continue the program for the repair, construction and maintenance of the irrigation systems which supply water to 755,000 acres, producing 294,500 tons of crops, mostly rice.

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Some progress toward restoration of transportation facilities is necessary to stimulate an increase in rice yields. The shattered ports, railways, inland waterway system and highways cannot handle even the reduced rice crops that are now produced. ECA programs for FY'51, FY'52, and that proposed for FY'53 have been designed to provide the immediate aid needed to move the present crops and to put these facilities in a position where their further restoration can be carried on without grant aid. These projects include port rehabilitation, railroad rehabilitation, highway improvement, and inland waterway transport expansion. If procurement for the port projects can be carried through as planned, ECA aid will permit expansion of the capacity of Rangoon Port from 1.4 million tons annually after the war to 2.8 million tons in 1953. Aid to the three outports will increase the present capacity of each by 50,000 tons - i.e., to their approximate prewar capacity.

Increased production of rice is also furthered by other parts of ECA's program, notably by public health projects which increase the productivity of the worker, by agricultural extension projects, and by audio-visual aids.

\* \* \*

More detailed information will be found in Part II, Program Tables; Part III, Project Descriptions; and the Appendix, Current Economic Situation.

Part II

BURMA. Program Tables

- Table 1. Estimated Cost of Program (Grant Aid Only).....  
by Major Project Category
- Table 2. Revised FY '52 and Estimated FY '53 Dollar Cost  
of Program (Grant Aid Only) .. by Major Project  
Category
- Table 3. Estimated Breakdown of FY '53 Program (Grant Aid  
Only) ... by Project Within Major Category
- Table 4. Estimated FY '53 Breakdown of Supplies and  
Equipment ... by Commodity Group

## BURMA

Table 1. Estimated Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Costs (in thousands)			
	Dollar Cost			Dollar Equiv.
	Total	Supplies & Equipment	Services	of Local Currency Cost <sup>b/</sup>
	E S T I M A T E D			FY '53
1. Emergency Relief	-	-	-	-
2. Public Health	3,385	2,570	815	14,289
3. Agriculture, Forestry, Fisheries	4,610	4,130	480	8,000
4. Transportation, Power, Other Public Works	3,795	3,485	310	13,626
5. Handicraft and Manufacturing, Mining, Other Industry	2,400	2,020	380	1,675
6. General Engineering Advisory Services	-	-	-	-
7. Education	1,435	795	640	3,692
8. Public Administration	725	160	565	354
9. Maintenance of Essential Supply <sup>c/</sup>	4,650	4,650	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>21,000</u>	<u>17,810</u>	<u>3,190<sup>d/</sup></u>	<u>41,636</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>84.8</u>	<u>15.2</u>	-
		R E V I S E D		
				FY '52
1. Emergency Relief	-	-	-	-
2. Public Health	2,285	1,189	1,096	11,606
3. Agriculture, Forestry, Fisheries	3,520	3,090	430	6,776
4. Transportation, Power, Other Public Works	3,130	2,926	204	8,200
5. Handicraft and Manufacturing, Mining, Other Industry	1,200	1,117	83	300
6. General Engineering Advisory Services	700	-	700 <sup>e/</sup>	131
7. Education	835	699	136	1,779
8. Public Administration	330	200	130	218
9. Maintenance of Essential Supply	2,000	2,000	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>14,000</u>	<u>11,221</u>	<u>2,779<sup>f/</sup></u>	<u>29,010</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>80.1</u>	<u>19.9</u>	-

BURMA

(Footnotes to Table I)

- a/ Exclusive of loans discussed with the Export-Import Bank Staff, and referred to in Part I of the individual country studies.
- b/ Converted at the official exchange rate of 4.75 rupees = US\$1.
- c/ Requisites for production plus other essential civilian supplies. See Table 3, Item 9.
- d/ \$2,570 for TA experts; number of persons distributed as follows: Public Health, 46; Agriculture, Forestry, Fisheries, 27; Transportation, Power, Other Public Works, 15; Handicraft and Manufacturing, Mining, Other Industry, 12; Education, 31; Public Administration, 17; Total, 148. Also, \$620 for trainees, distributed as follows: Public Health, 25; Agriculture, Forestry, Fisheries, 15; Transportation, Power, Other Public Works, 17; Handicraft and Manufacturing, Mining, Other Industry, 8; Education, 35; Public Administration, 24; Total, 124.
- e/ Total cost of contract with U.S. engineering firm. Includes fixed fee, cost of back-up provided by home office, administrative and overhead expenses, etc., in addition to pay of personnel sent to field.
- f/ \$2,389 for TA experts (including total cost of general engineering advisory contract); number of persons distributed as follows: Public Health, 55; Agriculture, Forestry, Fisheries, 25; Transportation, Power, Other Public Works, 13; Handicraft and Manufacturing, Mining, Other Industry, 4; General Engineering Advisory Services, 21; Education, 8; Public Administration, 6; Total, 132. Also, \$390 for trainees, distributed as follows: Public Health, 23; Agriculture, Forestry, Fisheries, 26; Transportation, Power, Other Public Works, 9; Handicraft and Manufacturing, Mining, Other Industry, 7; Education, 8; Public Administration, 5; Total, 78. For detail on General Engineering Advisory Services, see Part III, Section 6.

BURMA

Table 2. Revised FY'52 and Estimated FY'53 Dollar Cost of Program (Grant Aid Only)<sup>a/</sup>  
By Major Project Category

Major Project Category	Dollars (in thousands)					
	Total Dollar Cost		Percent of Total Program Cost (Categories 1-9)		Percent of Total Project Cost (Categories 1-8)	
	FY'52	FY'53	FY'52	FY'53	FY'52	FY'53
1. Emergency Relief	\$ -	\$ -	-	-	-	-
2. Public Health	2,285	3,385	16.3	16.1	19.0	20.7
3. Agriculture, Forestry, Fisheries	3,520	4,610	25.1	22.0	29.4	28.2
4. Transportation, Power, Other Public Works	3,130	3,795	22.4	18.1	26.0	23.2
5. Handicraft and Manufacturing, Mining, Other Industry	1,200	2,400	8.6	11.4	10.0	14.7
6. General Engineering Advisory Services	700 <sup>b/</sup>	-	5.0	-	5.8	-
7. Education	835	1,435	6.0	6.8	7.0	8.8
8. Public Administration	330	725	2.4	3.5	2.8	4.4
9. Maintenance of Essential Supply <sup>c/</sup>	2,000	4,650	14.2	22.1	-	-
<u>TOTAL DOLLAR COST OF PROGRAM</u>	<u>\$14,000</u>	<u>\$21,000</u>	<u>100.0</u>	<u>100.0</u>	-	-
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	<u>12,000</u>	<u>16,350</u>	-	-	<u>100.0</u>	<u>100.0</u>

a/ Exclusive of loans discussed with the Export-Import Bank staff, and referred to in Part I of country study.

b/ Total cost of contract with U.S. engineering firm. Includes fixed fee, cost of back-up provided by home office, administrative and overhead expenses, etc., in addition to pay of personnel sent to field. See Part III, section 6.

c/ Requisites for production plus other essential civilian supplies. See Table 3, item 9.

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Table 3. Estimated Breakdown of FY 1953 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost <sup>a/</sup>
1. <u>Emergency Relief</u>	\$ --	\$ --
2. <u>Public Health</u>	<u>3,385</u>	<u>14,289</u>
<u>Teams for Health Education &amp; Disease Control (malaria, smallpox, TB, etc.)</u>	<u>1,620</u>	<u>4,848</u>
Health Teams	1,620	4,848
<u>Hospitals, Health Centers &amp; Other Diagnostic Facilities</u>	<u>1,200</u>	<u>8,912</u>
Rangoon General Hospital	200	434
Antibiotics	300	598
Hospital Survey & Construction Program	500	7,182
District Hospital Supplies & Equipment	200	698
<u>Production of Biologicals &amp; Pharmaceuticals</u>	<u>50</u>	<u>120</u>
Manufacture of Biological Products	50	120
<u>Training and Education</u>	<u>515</u>	<u>409</u>
University of Rangoon Med. College	360	359
Consultative & Advisory Services	155	50
3. <u>Agriculture, Forestry, Fisheries</u>	<u>4,610</u>	<u>8,000</u>
<u>Research, Demonstration, Extension and Surveys</u>	<u>1,180</u>	<u>2,608</u>
Livestock Disease Control	30	410
Seed Improvement & Distribution	350	349
Agriculture Extension	275	498
Insect & Plant Disease Control	50	160
Classification of Land and Water Resources	50	219
Cotton Seed Improvement & Distribution	100	174
Agricultural Research	50	499
Fiber Research	50	50
Livestock Improvement	125	99
Rural Credit	50	85
Land Tenure	50	65
<u>Processing and Storage</u>	<u>1,500</u>	<u>1,995</u>
Rice Storage	600	898
Rice Milling & Processing	500	698
Processing of Other Agricultural Products	400	399
<u>Irrigation, Reclamation &amp; River Control</u>	<u>435</u>	<u>1,651</u>
Flood Control in Lower Burma	170	823
Irrigation in Upper Burma	265	828

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Table 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost <sup>a/</sup>
<u>Agriculture Program, Frontier States</u>		
Soil Conservation in Shan State	770	948
Canning Project in Shan State	100	448
Animal Industry in Shan, Kachin & Karenni States	70	40
Agricultural Improvement in Shan State	75	100
Agr. Improvement in Kachin State	125	125
Agr. Improvement in Karenni State	250	125
Agr. Improvement in Chin Spec. Div.	50	40
	100	70
<u>Forestry</u>		
Timber Extraction	700	698
	700	698
<u>Training &amp; Education</u>		
Agricultural College (Mandalay)	25	100
	25	100
<u>4. Transportation, Power, Other Public Works</u>	<u>3,795</u>	<u>13,626</u>
Rangoon Port Rehabilitation	25	10
Outport Rehabilitation	520	150
Railroad Rehabilitation	900	898
Highways	800	798
Inland Waterway Transport	300	299
Low-Cost Housing	500	9,975
Municipal Sanitation & Water Supply	750	1,496
<u>5. Handicraft and Manufacturing, Mining, Other Industry</u>	<u>2,400</u>	<u>1,675</u>
Handicraft & Small Industry	1,100	1,097
Industrial Research Institute	400	399
Mining Survey & Development	900	179
<u>6. General Engineering Advisory Services</u>	--	--
Consulting Engineers (KTA Contract) <sup>b/</sup>	--	--
<u>7. Education</u>	<u>1,435</u>	<u>3,692</u>
Rehabilitation Corps	280	1,436
Mass Education Council	150	429
Burma Translation Society	135	319
University of Rangoon Rehabilitation	200	209
Technical & Vocational Education	170	349
Elementary & General Education	500	950
<u>8. Public Administration</u>	<u>725</u>	<u>354</u>
Audio-Visual Program (Special Film Production Board)	380	299
Advisor to Ministry of Information	45	5
Advisors to Government Agencies	300	50

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By Project Within Major Category

Costs (in thousands)

<u>Major Category and Project</u>	<u>Total Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost<sup>a/</sup></u>
9. <u>Maintenance of Essential Supply</u>	<u>4,650</u>	--
Requisites for Production	2,700c/	--
Other Essential Civilian Supplies	1,950d/	--
<u>TOTAL COST OF PROGRAM</u> (Categories 1-9)	<u>\$ 21,000</u>	<u>\$ 41,636</u>
<u>Total Cost of Projects</u> (Categories 1-8)	<u>16,350</u>	<u>41,636</u>

a/ Converted at the official exchange rate of 4.75 rupees = US\$1.

b/ See Part III, Section 6.

c/ Commodity components as follows: agricultural supplies and equipment, 500; raw cotton, 1,500; machinery and spare parts, 550; photographic equipment and supplies, 150. See Table 4, Salable Commodities.

d/ Commodity components as follows: medical supplies, 500; miscellaneous supplies, 1,450. See Table 4, Salable Commodities.

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Table 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C & F Dollar Cost (in thousands)				
Commodity Group	Total Cost		Cost of Salable Commodities <sup>a/</sup>	
1. <u>Food</u>	\$ -	\$	\$ -	\$
2. <u>Feed and Fertilizer</u>	<u>350</u>			
Fertilizer		350		-
Nitrogenous		250		-
Potash		50		-
Soluble phosphate & phosphate rock		50		-
3. <u>Natural Fibers</u>	<u>1,500</u>		<u>1,500</u>	
Cotton		1,500		1,500
4. <u>Tobacco</u>	-		-	
5. <u>Other Agricultural Products</u>	<u>180</u>		-	
Seeds		80		-
Breeding stock		100		-
6. <u>Fuels</u>	<u>405</u>		-	
Petroleum and products		405		-
Asphalt		405		-
7. <u>Industrial Raw Materials</u>	<u>4,225</u>		<u>500</u>	
Iron & steel mill materials & products, including ferro-alloys		1,720		-
Aluminum, aluminum base alloys and their products		70		-
Copper & brass & their products		100		-
Lead, lead base alloys & their products		35		-
Zinc, zinc base alloys & their products		20		-
Tin, tin base alloys & their products		25		-
Pulp, paper and paper products		85		-
Chemicals and related products		<u>1,705</u>		<u>500</u>
Medical & pharmaceutical preparations		1,135		500
Industrial chemicals other than alcohol		95		-
Other chemicals & chemical preparations		473		-
Alcohol		2		-
DDT, etc.		215		-
Misc. agricultural pesticides		250		-

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Table 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C & F Dollar Cost (in thousands)			
Commodity Group	Total Cost		Cost of Salable Commodities <sup>a/</sup>
8. <u>Capital Equipment</u>	\$ 6,381	\$	\$1,050
<u>Agricultural Machinery</u>		1,640	500
Agricultural equipment, excluding tractors		750	500
Parts for agricultural machinery and tractors, etc.		70	-
Tractors		370	-
Rice mill equipment and parts		450	-
<u>Industrial Machinery and Equipment</u>		4,741	550
Generators and motors		167	-
Electrical apparatus		370	-
Engines & turbines, including pumps		625	-
Construction, mining & conveying equipment		1,294	-
Machine tools		165	-
Metal working machinery		155	-
Industrial machinery, n.e.c.		719	550
Motor vehicles and parts		556	-
Railroad transportation equipment and parts		290	-
Saw mill equipment and parts		400	-
9. <u>Other Manufactures and Raw Materials</u>	4,769		1,600
<u>Miscellaneous</u>		4,769	1,600
Non-metallic minerals and products, including cement		595	-
Misc. iron and steel manufactures		426	-
Scientific and professional instruments		1,179	-
Misc. industrial materials and manufactured commodities		2,245	1,600
Misc. project items		324	-
<u>TOTAL DOLLAR COST</u>	<u>\$17,810<sup>b/</sup></u>		<u>\$4,650</u>
<u>Percent Salable Commodities</u>			22.0

a/ Requisites for production plus other essential civilian supplies. See Table 3, Item 9.

b/ For distribution by major project category, see Table 1, column 2.

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November 30, 1951

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Part III

BURMA. ECA-FINANCED PROJECTS

1. Emergency Relief None

2. Public Health

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost <sup>a/</sup></u>
FY'51: \$ 1,786,000 <sup>b/</sup>	FY'51: -
FY'52: 2,285,000 <sup>b/</sup>	FY'52: \$11,606,000
FY'53: 3,385,000	FY'53: 14,289,000

The level of public health in Burma is at such a low point as to limit individual productivity and add to those factors which threaten political stability. Not only do public health facilities operate at standards of effectiveness far below those common in the west but, due to war and insurrection, these facilities have deteriorated appreciably below prewar levels.

The Government of Burma recognizes the necessity of strengthening the public Health program for FY'52 and FY'53; in fact, it is expected that Burma's budgetary provision for the health program will approximate four times the dollar equivalent of the ECA contribution to this program.

In carrying forward the restoration and expansion of health facilities, the Government faces two handicaps. One is the acute shortage of competent medical and health personnel. Burma has one physician per 13,260 people as compared with one physician per 850 in the U.S., and lacks qualified educators for the training of additional medical and health personnel. The other handicap is insufficient foreign exchange for the employment of foreign medical personnel and for the importation of drugs, supplies and equipment essential for the rehabilitation and expansion of medical institutions and health facilities on a national scale.

To help fill these two gaps, ECA has allocated over 18 percent of FY'53 program funds, plus a substantial portion of counterpart, to the public health program. As in FY'52, a heavy proportion of these funds will be expended on technical assistance - with emphasis upon the professional and practical training of Burmans in the U.S., Burma and elsewhere.

Teams for Health Education and Disease Control  
(malaria, smallpox, tuberculosis, etc.)

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 1,515,000	FY'51: -
FY'52: 835,000	FY'52: \$ 2,415,000
FY'53: 1,620,000	FY'53: 4,848,000

During FY'53, health teams will continue epidemic and endemic disease control work in rural areas commenced in FY'51. The primary objective of these teams, which are led by TA personnel, is the treatment and control of malaria,

<sup>a/</sup> Converted at the rate of 4.75 rupees = US \$1.

<sup>b/</sup> Does not include \$19,000 in FY'51 and \$10,000 in FY'52 for a Port Quarantine project completed in FY'52.

smallpox, tuberculosis, syphilis and enteric ailments, which constitute the main causes of death and incapacity. Emphasis will be placed on preventive medicines and techniques, through the education of farmers and villagers in environmental sanitation, improved nutrition, and other measures, and the encouragement of village participation and self-help. Simultaneously, Burmese trainees accompanying the health teams on an in-service basis will be taught and trained. The Government's training courses for health inspectors, midwives and other workers provide personnel for this training with the health teams. Approximately 27 health technicians are now undergoing training in this manner.

At present, five health teams -- each comprising a TA doctor, engineer and nurse, plus Burmese personnel -- are working in areas embracing 600,000 people. This work will be expanded in FY'53 to areas with a total population of approximately 1,100,000 by the activation of two more health teams. The FY'53 program also provides for the training of 220 Burmans as health technicians and first aides in rural areas. In addition, an American health educator and an American engineer are assigned to the Ministry of Social Services.

Hospitals, Health Centers and Other Diagnostic Facilities

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 111,000	FY'51: -
FY'52: 1,030,000	FY'52: \$ 8,832,000
FY'53: 1,200,000	FY'53: 8,912,000

The four projects within this sub-category are discussed individually below.

Rangoon General Hospital

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 65,000	FY'51: -
FY'52: 50,000	FY'52: \$ 442,000
FY'53: 200,000	FY'53: 434,000

Rangoon General Hospital is the principal diagnostic, treatment and medical training center in Burma. It currently provides care for 750 patients, about 50 percent above its planned capacity, despite serious shortages of equipment and trained personnel.

During FY'51 and FY'52, limited ECA assistance was extended to the hospital in the form of TA and supplies. During FY'53, it is proposed to provide some equipment items, additional supplies, and further TA assistance, together with a 300-bed addition for the care of TB and pediatric cases. The program also includes provision for increasing the hospital staff to 25 doctors, and for the training of 30 X-ray technicians, 200 nurses and 30 laboratory technicians for assignment to district hospitals.

Antibiotics

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 40,000	FY'51: -
FY'52: 200,000	FY'52: \$ 566,000
FY'53: 300,000	FY'53: 598,000

The FY'53 program includes provision of \$300,000 for antibiotics procurable only with dollars. The Government is expected to appropriate the rupee

equivalent of twice that sum for antibiotics from the sterling area. A portion of these drugs will be allocated to district hospitals for free distribution to indigent patients.

Hospital Survey and Construction

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 6,000	FY'51: -
FY'52: 730,000	FY'52: \$ 7,260,000
FY'53: 500,000	FY'53: 7,182,000

The hospital survey and construction program is a long-range project, the initial phase of which contemplates the replacement of 500 beds and a net increase of 500 beds. ECA assistance will be in the form of equipment to supplement that procured by the Government from the U.K. and India. The Government will finance construction costs. ECA will also provide TA consultants to supervise construction and installation, and maintenance of equipment and facilities.

District Hospital Supplies and Equipment

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$ 50,000	FY'52: \$ 564,000
FY'53: 200,000	FY'53: 698,000

By the end of the war, those district hospitals still standing were thoroughly looted and ransacked of everything that could be removed. As a consequence, they function far below minimum standards. During FY'52, an effort is being made to provide for some of the most urgently needed equipment and supplies for the rehabilitated district hospitals and new units. Additional needs will be met in FY'53.

Production of Biologicals and Pharmaceuticals

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 20,000	FY'51: -
FY'52: 110,000	FY'52: \$ 93,000
FY'53: 50,000	FY'53: 120,000

This project is designed to increase the volume and variety of vaccine production. The FY'51 and FY'52 programs provided TA consultant services and a few equipment items, as a start toward the rehabilitation of Burmese facilities for the production of smallpox, typhoid and rabies vaccines. The FY'53 program will provide modern laboratory equipment that will increase substantially the production of smallpox, cholera, plague, triplet typhoid, and rabies vaccines.

Training and Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 121,000	FY'51: -
FY'52: 235,000	FY'52: \$ 245,000
FY'53: 515,000	FY'53: 409,000

The two projects within this sub-category, are discussed individually below.

University of Rangoon Medical College

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 121,000	FY'51:	-
FY'52:	185,000	FY'52:	\$ 242,000
FY'53:	360,000	FY'53:	359,000

One of Burma's basic needs is adequate facilities for the training of physicians, nurses and other public health personnel. Toward this end, the government, with ECA help, is making a determined effort to raise the standards and to improve the facilities of the Rangoon University Medical College.

During FY'51, ECA provided professors of pathology and orthopedics, as well as some equipment items. The FY'52 program is accelerating medical training by providing additional faculty personnel and technicians (about 10), as well as additional equipment in terms of priority needs. The FY'53 program makes provision for modern laboratory and classroom equipment, TA professors in several specialized fields, advanced study in the U.S. for Burmese faculty members, and training in the U.S. and elsewhere for Burmese medical technicians. By the end of FY'53, it is estimated that ECA assistance will have provided facilities and instruction for an additional 500-600 medical students, and simultaneously will have materially raised the institution's academic standards.

Consultative and Advisory Services

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	-	FY'51:	-
FY'52:	\$ 50,000	FY'52:	\$ 3,000
FY'53:	155,000	FY'53:	50,000

The FY'53 program provides for abroad consultative and advisory services to the Ministry of Social Services to fill serious gaps in the educational aspects of public health work. Technical assistance during FY'53 will include consultants in sanitary engineering, environmental sanitation, health education, hospital administration, epidemiology, vital statistics, public health nursing, maternal-child health and nutrition, plus certain technical equipment. This assistance is designed to strengthen the entire Ministry set-up and to raise health standards generally.

3. Agriculture, Forestry, Fisheries

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 1,243,000	FY'51:	-
FY'52:	3,520,000	FY'52:	\$ 6,776,000
FY'53:	4,610,000	FY'53:	8,000,000

Agriculture is the mainstay of the Burmese economy. The war-induced decline in agricultural production not only has reduced the standard of living of the farmers; the consequent drop in the volume of rice exports has affected

adversely the entire economy and upset the traditional import patterns of neighboring food deficit countries. Production is now approximately 75 percent of prewar, due to insurgent activity, the reversion of rice lands to jungle during World War II, inadequate maintenance of irrigation and flood control facilities, loss of draft animals, and lack of agricultural extension services and other facilities.

Burma's enormous agricultural potential cannot be realized without the assistance of foreign technicians, equipment, and supplies. ECA aid, therefore, is pointed toward helping the Burmese to restore and develop this asset with their own resources and personnel. Evidence of the Government's active interest in this program is the fact that it expects in 1953 to supply from its own budget local currency for ECA projects amounting to almost double the equivalent of the dollar aid to be supplied by ECA.

Projects initiated with FY'51 and FY'52 funds were aimed at increasing crop yields and reducing the present high spoilage rate caused by improper milling and storage. In FY'53 it is hoped that more emphasis can be placed also on land use, land tenure, farm credit, and agricultural extension.

Research, Demonstration, Extension Surveys

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 355,000	FY'51: -
FY'52: 1,390,000	FY'52: \$ 2,504,000
FY'53: 1,180,000	FY'53: 2,608,000

Included in this sub-category are the following projects:

- Livestock Disease Control
- Seed Improvement and Distribution
- Agriculture Extension
- Insect and Plant Disease Control
- Classification of Land and Water Resources
- Cotton Seed Improvement and Distribution
- Agricultural Research
- Fiber Research
- Livestock Improvement
- Rural Credit
- Land Tenure

Efforts in the fields of experimentation and research are directed at producing higher yields of better quality crops, and building better herds of draft and dairy animals for Burma's farms.

During FY'51 and FY'52, the ECA program called for technical assistance, supplies, and scientific equipment for livestock disease control; rehabilitation of the University of Rangoon Agricultural College (Mandalay) and Experimental Station; research and experimentation in rodent and insect control; restoration of entomological and mycological laboratories; development and distribution of improved rice and tobacco seeds; and strengthening the extension service.

The FY'53 program proposes continued development of this program as well as rural credit and land tenure.

Processing and Storage

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 320,000	FY'51: -
FY'52: 875,000	FY'52: \$ 1,291,000
FY'53: 1,500,000	FY'53: 1,995,000

Included in this sub-category are the following projects:

- Rice Storage
- Rice Milling and Processing
- Processing of Other Agricultural Products

Deficiencies in Burma's processing and storage facilities are causing tremendous waste. This restricts the quantity and variety of foods available to the population and cuts substantially rice export revenues. Losses resulting from improper rice storage and milling are estimated at between 15 and 25 million dollars per year.

During FY'51 and FY'52, ECA assistance in this field consisted chiefly of providing materials for the construction of modern rice storage facilities, rehabilitation of rice mills, installation of a modern pilot rice mill, and plants for the processing of other agricultural products. The FY'53 program calls for continuation of these projects, aimed at providing 100 warehouses with a storage capacity of 300,000 tons of rice; increasing the milling yield by five percent through improved processing; and the development, on a cooperative cottage industry basis, of local sugar plants with a daily capacity of three tons; an edible oil extraction plant; and an evaporated milk plant with a daily capacity of 250 gallons.

Irrigation, Reclamation and River Control

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 310,000	FY'51: -
FY'52: 210,000	FY'52: \$ 1,830,000
FY'53: 435,000	FY'53: 1,651,000

Included in this sub-category are the following projects:

- Flood Control in Lower Burma
- Irrigation in Upper Burma

Irrigation and flood control are essential if large areas of agricultural land are to be cultivated. The Burmese Irrigation Department lacks both the experts and equipment for repairing wartime damage to its facilities. ECA aid is directed toward helping the Department cope with rehabilitation requirements.

In lower Burma, ECA is supplying equipment for essential flood control in the delta area. These projects will protect 1,700,000 acres, producing 663,000 tons of rice, with an export value of \$8,000,000. Approximately 170,000 farm families will benefit. In addition to materials and equipment necessary for maintenance and repair, ECA has provided modern sluice gates. The FY'53 program will continue the river control program on a reduced scale.

Although part of Burma is subject to the monsoon season, much of the country is sheltered by mountain ridges and lies in a dry belt. Here irrigation is essential for crops and could even increase production by making second crops possible. The repair, construction and maintenance of these irrigation systems will preserve 755,000 acres which currently produce 294,500 tons of crops (mostly rice) and support 75,000 families. Further, ECA has provided equipment for the maintenance of canal and tank systems and sluice gates for the control of water supplies. This will be continued in FY'53.

Agriculture Program, Frontier States

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 182,000	FY'51: -
FY'52: 520,000	FY'52: \$ 667,000
FY'53: 770,000	FY'53: 948,000

Included in this sub-category are the following projects:

Soil Conservation in Shan States  
 Canning Project in Shan States  
 Animal Industry in Shan, Kachin & Karenni States  
 Agricultural Improvement in Shan States  
 Agricultural Improvement in Kachin States  
 Agricultural Improvement in Karenni States  
 Agricultural Improvement in Chin Special Division

During FY'51 and FY'52, a beginning was made to improve agricultural conditions in the Shan, Kachin and Karenni States, as well as in the Chin Special Division. These are among the least developed areas economically and consequently most susceptible to subversive propaganda. Limited quantities of seeds, fertilizers, insecticides and farm machinery for demonstration purposes were provided, as well as the services of an American agricultural advisor. A soil conservation program was begun. Provision also was made for an American animal husbandry expert and for supplies for expanding livestock production. Materials were furnished for the development of canning techniques. Local reaction to these activities has been favorable. The FY'53 program calls for continuation of this work.

Forestry

<u>Dollar Costs</u>	<u>Dollar Equivalent of Local Currency Costs</u>
FY'51: -	FY'51: -
FY'52: \$ 350,000	FY'52: \$ 315,000
FY'53: 700,000	FY'53: 698,000

During FY'52, ECA assistance is being given in the fields of timber extraction and saw milling by bringing modern equipment to Burma. This assistance will be continued in FY'53 in the form of TA experts and certain basic equipment items to help restore the industry to a self-sustaining basis.

Training and Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 76,000	FY'51: -
FY'52: 100,000	FY'52: \$ 126,000
FY'53: 25,000	FY'53: 100,000

American technicians assigned to the various FY'52 agricultural projects will rely heavily upon audio-visual aids for the explanation of new farming methods and techniques. Special assistance will be given to the Agricultural College at Mandalay in this connection. FY'52 plans provide for the rehabilitation of this Agricultural College, with emphasis upon the strengthening of its training facilities. The FY'53 program calls for continuing technical assistance and training aid to the Agricultural College at Mandalay.

4. Transportation, Power, Other Public Works

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 3,616,000	FY'51: -
FY'52: 3,130,000	FY'52: \$ 8,199,000
FY'53: 3,795,000	FY'53: 13,626,000

The war caused wholesale destruction and disruption of transportation, power and other public utilities throughout Burma. These facilities have been further impaired by postwar civil strife. As a result, port facilities would be incapable of handling normal export tonnages. Railways have suffered severely in terms of damage to motive power, rolling stock, backshops, right-of-ways, culverts and bridges; they are further handicapped by fuel shortages. Highways, lacking maintenance, have deteriorated steadily. Housing shortages constitute a grave menace to public health and social stability, a menace aggravated by the influx of refugee elements from rural to urban centers.

During FY'51 and FY'52, ECA assisted the GUB in planning practical approaches to the solution of these problems, by bringing TA advisors to Burma, and by scheduling relatively large quantities of supplies and equipment -- some of which already have arrived. The FY'53 program will provide for railway and highway surveys and some priority equipment items, communications facilities that will immediately service the Inland Water Transport System and will ultimately be integrated into an all-Burma system, continued implementation of the housing program, and port rehabilitation.

Port Rehabilitation

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 3,515,000	FY'51: -
FY'52: 1,450,000	FY'52: \$ 770,000
FY'53: 545,000	FY'53: 160,000

Included in this sub-category are the following projects:

- Rangoon Port Rehabilitation
- Outport Rehabilitation

The key role of foreign trade in Burma's economy and her lack of international land transport routes make her vitally dependent upon ocean shipping. The country's principal port facilities, including those at Rangoon, were almost completely destroyed during the war. Moreover, heavy silting -- from lack of maintenance -- now impedes navigation in several harbors. A program for the gradual restoration of port capacity is therefore essential for the revival of Burma's export trade.

During FY'51, an ECA consultant aided the Government in developing and phasing port rehabilitation projects for the Port of Rangoon and the outports of Moulmein, Bassein, Akyab, Mergui and Tavoy. These plans included provision for mechanical cargo-handling equipment and central warehousing at several ports. Funds authorized during FY'51 and FY'52 have financed the procurement of varieties of harbor and port equipment, and the assignment of a TA expert to outport construction. The FY'53 program continues outport rehabilitation to technical assistance and additional equipment, and also provides for trainees to be sent abroad to study modern methods of port operation and maintenance.

This ECA aid is calculated to expand the capacity of Rangoon Port from 1,360,000 tons annually to 2,850,000 tons in 1953. Aid to the three outports will increase the present capacity of each by 50,000 tons, their approximate

prewar capacity. It is believed probable that these steps will advance port rehabilitation to a point where further restoration and modernization can be financed on a loan basis.

Railways

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	-	FY'51:	-
FY'52:	\$ 500,000	FY'52:	\$ 12,000
FY'53:	900,000	FY'53:	898,000

It is estimated that, during the war, approximately 54 percent of Burma's railway system's assets were destroyed. Rehabilitation work was initiated immediately after the war and this work progressed favorably until civil strife flared throughout the land, whereupon the railways became and continue to be particular targets for the various insurgent factions now harassing the country. There is an increasingly acute shortage of rolling stock, and roadbeds, trackage, culverts, bridges and backshops have deteriorated steadily.

During FY'52 the assistance of one or more TA advisors will be provided to survey the railroad's most urgent requirements. On the basis of their recommendations, it is proposed during FY'52 to provide equipment items needed for backshop rehabilitation.

The proposed ECA aid for FY'53 will send Burmese trainees overseas for specialized instruction, and provide certain basic equipment. This aid is designed to assist in returning the railroads to operation on a self-sustaining basis. The necessity of maintaining land transportation facilities for the movement of troops and supplies to contested areas makes this work important from a military as well as an economic standpoint.

Highways

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	-	FY'51:	-
FY'52:	\$ 400,000	FY'52:	\$ 6,000
FY'53:	800,000	FY'53:	798,000

In FY'52, provision is being made by ECA for technical assistance and road construction machinery, equipment and materials needed for the more urgent repair, construction and maintenance on existing main highways. During FY'53, additional road building equipment as well as certain supplies will be procured. Most of this cost will be borne by the Government.

Inland Waterways

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 15,000	FY'51:	-
FY'52:	180,000	FY'52:	\$ 42,000
FY'53:	300,000	FY'53:	299,000

The development of efficient and cheap transportation made possible by the extensive natural inland waterway system, is vital to Burma's economy. The insurrection has magnified the importance of the waterways since they offer by all odds the safest method of transportation. During FY'51, an ECA

consultant appraised the needs of the Government's Inland Waterway Transport system. As a result, it is proposed in FY'52 and FY'53 to concentrate upon improving IWT's ability to operate its existing fleet efficiently and economically. To this end, technical assistance and various types of equipment will be provided.

Housing

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 86,000	FY'51: -
FY'52: 600,000	FY'52: \$ 7,369,000
FY'53: 500,000	FY'53: 9,975,000

War and insurrection have destroyed many thousands of homes throughout Burma; in scores of instances, whole communities have been burned to the ground. In the Rangoon area alone, it is estimated that from 20 to 25 percent of dwelling accommodations have been destroyed. Tens of thousands of refugees have crowded into urban areas and now live under appalling sanitary conditions, thus constituting a grave menace to the nation's health and social stability.

To relieve this situation the Government has established a National Housing Board and has allotted from its FY'52 budget the equivalent of 7½ million dollars to housing. The objectives of its program are to provide immediate shelter for 20,000 to 30,000 families annually and to demonstrate to private enterprise, the possibilities of erecting adequate but impressive dwellings.

ECA is actively supporting the Government housing program by providing both technical assistance and materials. The four ECA technicians now in Burma include a senior housing consultant, a housing economist, an architect, and a sanitary engineer. As a corollary to the housing program, it is planned during FY'52 to import machinery and equipment for the establishment of pilot plants which will produce locally such housing materials as small rod iron pipe, cement, asbestos roofing, fiberboard, tile and possibly paint - utilizing to the utmost locally available materials.

Because of the magnitude of housing construction to be undertaken by the Government, it will be necessary in FY'53 to import some quantities of cement, asbestos, paints, sanitary wares, building hardware, nailware, and other supplies.

Urban Sanitation and Water Supply

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: -	FY'52: -
FY'53: \$ 750,000	FY'53: \$ 1,496,000

Practically all of Burma's municipalities were severely damaged and in some cases almost totally destroyed during World War II. The insurrections starting shortly after independence was achieved, have precluded the restoration of essential public services. Consequently, sanitation and water supply systems are practically nonexistent outside the city of Rangoon. In FY'53, ECA proposes to provide equipment, supplies, and technical assistance to enable the Government to make a start at correcting this situation. This effort is intended ultimately to provide pure water for 1,000,000 people and is an important corollary of the public health program.

5. Handicraft and Manufacture, Mining, Other Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 19,000	FY'51: -
FY'52: 1,200,000	FY'52: \$ 300,000
FY'53: 2,400,000	FY'53: 1,675,000

Only the beginning of a modern manufacturing industry exists in Burma. Mineral extraction, in contrast, has in the past been a major source of foreign exchange earnings. Small-scale and cottage industries are important in providing part and full-time employment to large numbers of people and in supplying a wide variety of goods for the domestic market. To develop balance in the general economy, it is considered necessary that prewar mineral production be restored and new mineral resources tapped, that small-scale and cottage industrial processes be improved and strengthened, and that the rate of development of modern industry be gradually increased.

In FY'53, ECA may be requested to provide machinery and equipment for mine rehabilitation, following recommendations by technical assistance experts brought to Burma in FY'51 and FY'52. Provision is made in the FY'53 program for continued support, through both technical and material assistance, to industrial research and to the establishment of demonstration or pilot plants for small-scale industries, including the building materials industries. Direct support to the new GUB spinning and weaving mill will be maintained through the supply of raw cotton and by continuation of the project for improvement of quality and yield of domestic cotton.

It is contemplated that any major industrial undertaking recommended by the KTA engineers should be developed on a loan basis. Only exploratory studies or preliminary trials would be undertaken under the ECA program. Of this type, a major exploratory drilling survey of selected coal fields is planned if preliminary tests already being conducted by the KTA group are favorable.

Handicraft and Small Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 9,000	FY'51: -
FY'52: 1,000,000	FY'52: \$ 227,000
FY'53: 1,100,000	FY'53: 1,097,000

With the assistance of 10 to 12 technical experts provided by ECA and the United Nations Technical Assistance Administration, it is expected that the GUB during FY'52 will develop an integrated program for improvement and expansion of small industries. ECA will be requested in FY'53 to provide imported machinery and equipment for small new installations for production of fiber, textile, ceramic, metal, wood and glass products, and of building materials such as roofing, walls, partitions, drains and water systems. Such capital equipment will be provided either for small pilot plants designed to develop or prove processes utilizing local raw materials, or for model plants intended to demonstrate to private investors the potentialities and techniques of small industries new to Burma.

Industrial Research

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: -	FY'51: -
FY'52: \$ 200,000	FY'52: \$ 73,000
FY'53: 400,000	FY'53: 399,000

The Government has requested ECA to provide assistance for the organization and activation of the State Industrial Research Institute, which was founded in October 1947, but which has been confined to restricted and specialized inquiries due to lack of technically qualified personnel. Studies now are being made as to the most effective means of implementing this project, which will be designed to lay a sound foundation for industrial research upon which gradual expansion of activities can be built in the FY'53 program.

Mining

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 10,000	FY'51: -
FY'52: -	FY'52: -
FY'53: 900,000	FY'53: \$ 179,000

Burma's rich mineral resources, which provided a major source of foreign exchange earnings before World War II, have been largely unproductive during the recent insurrection years. Subject to improvement in internal conditions, it is anticipated that the appraisals and the development programs prepared in FY'52 by the TA mining engineer and by the KTA experts will assist in orderly restoration of production in established mines. The principal undertaking presently contemplated in the FY'53 program is a major exploratory drilling survey of the Kalewa coal beds, which will in all probability be requested if analyses of the coal now being made in the United States prove its value. Preliminary surveys of these beds indicate a reasonable expectation that if this mine is developed, the cost of coal at the railhead cage will approximate \$5.00 per ton instead of \$19 imported at Rangoon.

6. General Engineering Advisory Services

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 800,000	FY'51: -
FY'52: 700,000	FY'52: \$ 131,000
FY'53: -	FY'53: -

Since the total cost of the GUB-KTA contract (\$1,500,000) is covered in the FY'51 and FY'52 programs, no provision is made in the FY'53 program for this service, although the GUB-KTA contract's duration will extend through FY'53 into August of FY'54.

7. Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 173,000	FY'51: -
FY'52: 835,000	FY'52: \$ 1,779,000
FY'53: 1,435,000	FY'53: 3,692,000

Included in this sub-category are the following projects:

Rehabilitation Corps  
Mass Education Council  
Burma Translation Society  
University of Rangoon Rehabilitation  
Technical and Vocational Education  
Elementary and General Education

The Government attaches great importance to the development of sound educational policies and to the revival of educational programs which seek to promote the moral and intellectual rehabilitation of the Burmese people. The Rehabilitation Corps, the Mass Education Council and the Burma Translation Society are new institutions sponsored by the Government for these purposes.

The Rehabilitation Corps and the Mass Education Council represent two approaches to closely related problems of social reconstruction. The former is an effort to reorient the lives of demobilized soldiers and guerrillas, amnestied political offenders and unemployed youth of the war-torn nation by offering them useful and gainful employment, and by utilizing their labor and skills for national reconstruction purposes. It is patterned after the former Civilian Conservation Corps of the U.S. Government.

During FY'51 and FY'52, ECA provided tools and basic equipment items for the training of two brigades of enrollees (about 1,100 men). The FY'53 program makes provision for additional equipment for training two more brigades. As the Rehabilitation Corps trainees complete their training, they are assigned to public works projects in the cities and to development projects in selected rural areas, including some projects directly supporting ECA-financed activities in the fields of agriculture, public health and public housing.

The Mass Education Council's efforts concentrate on teaching villagers self-help in educational, agricultural, health and other rural development activities. The Council has already won the confidence and cooperation of villagers in many areas where, for the past 16 months, its organizers have been active in developing rural self-help programs. The Council is now taking steps to improve the content of its teaching programs by coordinating them more closely with the health, agricultural and vocational training programs assisted by ECA.

During FY'53, technical assistance will be provided for strengthening the Council's adult education and community organization programs. Mobile audio-visual units will be provided to widen the coverage of MEC organizers. Efforts also are being made to assist the Burma Translation Society by providing a TA advisor on printing techniques, as well as certain basic printing equipment items. The TA advisor will supervise the installation of printing presses designed to increase present printing capacity by 400 percent and to permit the annual publication of 50 books, chiefly textbooks, in editions totaling 1,000,000 copies.

With completion of the programs initiated during FY'51 and FY'52, the rehabilitation of Rangoon University's physical facilities will be nearly accomplished. However, there are serious gaps in the faculties of Rangoon University and the University College at Mandalay, and the Government has requested ECA to help in securing American professors for several departments. The FY'53 program makes provision for some supply and laboratory equipment items with which to implement the work of strengthened faculties at the two institutions.

The Government attaches much importance to the Technical and Vocational Education project and every effort will be made by ECA to carry forward this work during FY'52 and FY'53. The FY'53 program provides for additional TA assistance and equipment and supplies necessary for the training of approximately 315 students in civil, mechanical and electrical engineering. This project will also assist with the training of 240 artisans and craftsmen and 135 instructor-demonstrators in various fields, as well as with the introduction of modern training aids at the three training centers in Burma.

During FY'52 it is planned to lay the groundwork for the establishment of an agricultural and trade school, and an associated village teachers training school, in Lower Burma. This project would be implemented during FY'53, for the purpose of providing instruction and demonstration of improved practices for farm and village work-shops, and to bring secondary education into line with the realistic needs of the rural peoples.

During FY'53, some assistance will be extended in the fields of elementary and general education for the purpose of raising levels of literacy in Burma.

8. Public Administration

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 507,000	FY'51: -
FY'52: 330,000	FY'52: \$ 218,000
FY'53: 725,000	FY'53: 354,000

Included in this sub-category are the following projects:

- Advisor to Ministry of Information
- Advisors to Government Agencies
- Audio-Visual Program (Audio-Visual Aids Board)

The Government is woefully understaffed at all levels of administration - national, district and village. The system of administration, a throw-back from the colonial era, needs very substantial reorganization and strengthening if it is to direct and serve the growth of political and economic democracy in Burma. ECA assistance, mainly in the form of TA consultants and training programs for Burmese civil servants, is designed to fill critical gaps in the Government's administrative structure.

During FY'52, specific plans are being devised by the Government and ECA to fill the most serious gaps. Emphasis is being placed on in-service training programs to improve the skills and capacities of civil servants, and on programs for training additional personnel for civil service careers. Plans now under development will enable the Government to make an effective beginning in this important field. Fortunately, there is within the Government growing recognition that increased efficiency in public administration is essential for the achievement and maintenance of internal stability.

The provision of a TA consultant for the Ministry of Information is the first step in a program to assist the Government in strengthening the whole administrative structure. During FY'52, this consultant will appraise the Ministry's needs and recommend steps necessary to improve operations. During FY'53, ECA will assist the Ministry in implementing these recommendations by introducing modern public relations techniques, by providing additional TA help as required, and by training Burmese personnel (in Burma and abroad) to carry on the Ministry's functions in accordance with modern administrative practices.

As regards overall assistance for public administration during FY'53, ECA plans to provide 17 TA consultants, foreign training for 24 Burmese civil servants and possibly, small quantities of equipment items. While details of these plans have not been finalized, it is anticipated that, during FY'53, TA assistance will be concentrated on such agencies as the Ministry of Finance and Revenue, the Ministry of National Planning, the Ministry of Commerce and Supply, and other key agencies of the Government.

In addition to extending ECA assistance to the Government in the field of public administration as such, TA consultants assigned to other Ministries such as Agriculture, Social Services, Industries and Mines, and Transport and Communications, for work on specific projects, will further bolster the Government's administrative structure.

In the main, the Audio-Visual Program for FY'53 will be a continuation of program activities initiated during FY'51 and FY'52. This program is designed to provide various agencies of the Government with audio-visual aids and techniques that will make it possible for these agencies to interpret more effectively to the public their functions and roles within the Governmental system, and to increase the effectiveness of their personnel policies and training programs. This activity is being carried on by the Audio-Visual Aids Board of the Ministry of Information.

As an important by-product of this program to strengthen the Government's administrative efficiency, a central film laboratory is being established which will also serve to elevate the technical standards of the entire film industry in Burma.

9. Maintenance of Essential Supply

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 2,630,000	FY'51: -
FY'52: 2,000,000	FY'52: -
FY'53: 4,650,000	FY'53: -

The continued supply of salable producer and consumer goods during FY'53 is necessary for the following purposes: (1) to provide specific production requirements and consumer incentives; (2) to generate local currency with which to finance part of the internal costs of carrying out ECA-assisted projects; and (3) to counteract to some extent any inflationary tendencies which may result from the increased capital expenditures program initiated by the Government during FY'52 and to be continued on a comparable scale during FY'53.

Requisites for Production

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 2,413,000	FY'51: -
FY'52: 1,800,000	FY'52: -
FY'53: 2,700,000	FY'53: -

In FY'51, the principal producer goods financed by ECA were cotton yarn for the cottage weaving industry and some American raw cotton for the Government's new cotton spinning and weaving mill. There is little present need for further ECA aid with cotton yarn imports, which accounts for the reduction between FY'51 and FY'52 in the amount needed for production requisites. During FY'52 and FY'53, the principal item will be raw cotton for the Government cotton mill. This mill at present is producing nearly 10 percent of Burma's grey cloth requirements, thereby effecting an important foreign exchange saving.

Other producer goods imports programmed for FY'53 are limited quantities of tractors and other agricultural equipment, machinery for small enterprises, spare parts for plants already using U.S. equipment, and a few motion picture cameras and auxiliary equipment items for sale to the film industry.

Other Essential Civilian Supplies

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 217,000	FY'51: -
FY'52: 200,000	FY'52: -
FY'53: 1,950,000	FY'53: -

Medical supplies, mostly antibiotics, were the only consumer goods provided by ECA during FY'51, for sale to the public. Approximately the same quantities will be provided by ECA during FY'52 and FY'53. However, the Government and ECA are studying the necessity of undertaking a program of other essential consumer goods imports for FY'53. Primarily, items included in this program would be those most desired in the villages and rural areas. Distribution would be handled through cooperatives and village bazaars to ensure wide diffusion of such imports.

APPENDIX

BURMA. CURRENT ECONOMIC SITUATION

1. National Income, Production and Consumption

Burma's economy is lagging seriously in relation to prewar and, due to the insurrection, has even lost ground in relation to levels of recovery achieved in the early postwar period. National income (at constant prices) was estimated at 58 percent of prewar in the Burmese fiscal year 1949-50 (ending September 30); compared with 74 percent of prewar in 1947-48, just before the outbreak of the insurrection. National income in 1950-51 is believed to have been approximately the same as in 1949-50.

Burma's national income was always low in relation to Western standards, but since World War II the spread has widened markedly. In view of the rapid increase in population (currently estimated at 6 percent over prewar), income on a per capita basis is even more depressed. The per capita income in 1949-50 was estimated at approximately \$33 per year.

Burma has a large potential for economic development. Before the war only a fraction of that potential had been tapped. The existing deterioration in the economy stems basically from destruction of production and transportation facilities during World War II, which have been aggravated by subsequent internal disorders during the past three years. The situation is all the more difficult to remedy because of the very great shortage of trained administrators and technicians due to the departure of the British.

Rice production, which provides a livelihood for approximately 80 percent of the population and last year accounted for 85 percent of export proceeds, is expected to approximate 5.7 million short tons (rough) or about 73 percent of prewar volume during the crop year 1950-51. This is identical to the 1949-50 production and is 7 percent higher than 1948-49. Planted acreage has been estimated at 9.3 million acres for the last two years, leaving idle approximately 2.6 million acres of land cultivated prior to the war. The chief deterrent to the recovery of this land is the cost involved in removing the jungle growth that has accumulated since the Japanese invasion, though banditry and other factors also constitute serious obstacles. As was the case prewar, the yield per acre is relatively low, averaging less than 30 bushels of rough rice per acre as compared to 50 in the United States and 75 in Japan. The comparatively low yield is attributable principally to poor seed, primitive practices, and inadequate water supply and irrigation facilities.

Current output of Burma's rich timber and mineral resources is only a fraction of prewar. Timber output recovered rapidly in the immediate postwar years, but contracted sharply with the onset of the insurrection. During 1949-50, the volume of timber extracted from the forests approximated 29 percent of prewar, compared with 68 percent in 1946-47. Petroleum was an important source of foreign exchange before the war; but current production falls far short of even meeting internal needs. All oil installations and refineries in Burma were completely destroyed as denial measures in 1942, and the planned restoration of the industry has been largely abandoned as a result of the insurrection. The only petroleum plant now scheduled for restoration is the Chauk plant, which, when completed, will supply about 80 percent of Burma's present petroleum requirements. Mineral production is presently confined to a few heretofore unimportant mines, with output just a trickle in relation to prewar. The great Bawdin Mine, which contains deposits of lead, silver, zinc, copper, and nickel ore, presently operates at a small fraction of capacity because of deficiencies in rail and river transport. The important Mawchi tin-tungsten mine is in rebel hands.

Transportation facilities have deteriorated to such an extent that even if production could be restored to normal levels, products could not be moved to their destination. Harbor facilities are also far below normal and would be incapable of handling normal export tonnage if Burma's prewar export volume were regained. Railways have suffered severely in terms

of damage to motive power, rolling stock, backshops, right-of-ways, culverts and bridges. Highways have not been repaired in over a decade. The facilities of the important inland water transport system were severely damaged and the fleet is incapable of meeting even present transportation demands.

The health of the population is at such a low point that it constitutes a positive deterrent to production. Endemic diseases, malaria and other communicable diseases take a tremendous toll in terms of man-hours and general inertia. Another intangible, but nevertheless important deterrent to output is the disintegration of the educational system. Before the war Burma was largely dependent upon Britain for its trained technicians and administrators. In the absence of the British and the Indian technicians, Burma requires substantially larger numbers of trained personnel, but now has substantially reduced facilities for the training of such persons.

Housing constitutes a great problem. The war and insurrection have destroyed many thousands of homes throughout Burma; in scores of instances, whole communities have been burned to the ground. In the Rangoon area alone, it is estimated that from 20 to 25 percent of dwelling accommodations have been destroyed. Large sections of Mandalay were completely devastated. Furthermore, tens of thousands of refugees have crowded into the larger cities and towns and now live under appalling sanitary conditions, thus constituting a grave menace to the nation's health and social stability.

Burma has traditionally relied upon imports for its supply of most non-food consumption goods and all capital goods. There are only the beginnings of light industry in the economy. Small-scale and cottage industries are important in supplying a wide variety of goods for the domestic market, but their output is far below present requirements. To provide foreign exchange for financing capital goods imports required for accelerating economic development, Burma must increase its rice exports. The sharply reduced level of exports obliged Burma to impose a rigid import control system in 1947, thereby cutting off the chief supply of consumption goods. During the last year, these restrictions have been gradually lifted so that now a large portion of imports from the soft currency area, at least, are decontrolled. The cost of the imported products, however, still places them substantially outside the reach of most Burmese.

With per capita income already so low, it is clear that the investment required for reconstruction and development cannot be derived by any further restriction of consumption standards if any degree of political stability is to be maintained.

## 2. Prices and Wages

The Rangoon cost-of-living index has recently risen sharply, reaching 361 percent of 1941 in July. The food component of the index reached its highest point since September 1949. Aside from the level maintained between April and September 1949, when the insurrection was at its worst, these indices are otherwise at their highest point since the war.

A marked seasonal pattern is apparent in these indices, the peak always being reached during the summer, usually in July of each year. As the indices for the period from February 1950 through May 1951 remained considerably below the levels of the previous year, some moderate reduction in the cost-of-living was indicated. During June and July of 1951 this improvement has been cancelled, as the price index is back to its level of a year ago. This rise may be partly the result of deteriorating security conditions in certain districts, affecting the harvesting and distribution of native-grown foodstuffs, coupled with rising prices for most imported commodities.

The most important price in the country is that of rice. The Government has fixed an internal price for paddy (unhusked rice) of Rs. 285 per 100 46-lb. baskets, or about \$50 per long ton. Since the State Agricultural Marketing Board (the Government rice monopoly) sells a third of the crop abroad at a price currently averaging about two and a half times the fixed internal price, the system constitutes a heavy concealed tax on farmers. As the domestic price of paddy has increased only about three and a half times over prewar while items purchased by the farmer have almost quintupled, the

farmer has not managed to hold his own vis-a-vis the rising cost-of-living.

Recent estimates indicate that the average of country-wide wages would approximate Rs. 80 (\$17) per month. In Rangoon Rs. 3 (\$0.63) is considered a good daily wage for an unskilled laborer.

### 3. Public Finance

The Budget estimates for FY 1951-52 (extending from October 1) represent a radical departure from budgets for preceding years in that the effort to show a surplus or at least to hold the annual deficit to a minimum was abandoned in favor of an ambitious program for the development of civil works, housing, industrialization and other capital projects. Total budgetary outlays are estimated at Rs. 817 million (\$172 million) of which nearly 30 percent are readily identifiable as development expenditures in the fields of public health; agriculture, forestry and fisheries; transportation, power and public works; mining and industry; and education.

The net deficit for fiscal 1951-52 has been estimated at Rs. 174 million (approximately \$36.5 million). This compares with deficits of Rs. 13 million (\$2.7 million) in 1950-51 and Rs. 19 million (\$4.0 million) in 1949-50.

The GUB budget omits retained profits of the trading boards (i.e., State Agricultural Marketing Board, the State Timber Board, etc.); hence revenues are actually understated and deficits overstated. Balance sheets of these boards are not available. However, it is clear that the Rs. 13 million (\$2.7 million) deficit for 1950-51 was more than offset by the retained profits of the trading boards. The substantially larger planned deficits for 1951-52 will probably not be offset by the retained trading profits, but in any event the real excess of Government spending over revenues will be less than the budget figures suggest.

Furthermore, an as yet undetermined part of planned Government investment will consist of foreign spending. Such expenditure abroad will not inflate the domestic economy. Only the balance of the budget deficit will increase the domestic demand for goods and services and since there is an appreciable amount of unemployment, only a portion of this spending will have an inflationary impact.

Burma's internal public debt is relatively small. It amounted to Rs. 213 million (\$44.7 million) on September 31, 1951, compared to Rs. 207 million (\$43.5 million) last year. In both years the liability on account of the fiduciary element in the currency amounted to Rs. 100 million (\$21.0 million).

### 4. Money and Credit

Currency circulation reached a post-war peak of Rs. 493 million (\$103.5 million) in April, but since then has declined, reaching Rs. 416 million (\$87.4 million) in September 1951. Although the present level is abnormally high, the seasonal trend is normal since rice marketing ordinarily reaches its peak in March-April of each year.

The Burmese currency is backed directly by sterling, a rupee being defined in the basic Currency Act simply as equivalent to one shilling and six-pence. Thus, the Burmese currency is automatically linked to sterling on a 100 percent reserve basis. Approximately one-third of Burma's currency, however, comprises a fiduciary issue, in excess of the sterling backing held by the Currency Board. The fiduciary issue is limited by law to Rs. 100 million (\$21.0 million), but actually stands in excess of Rs. 124 million (\$26.0 million) at present.

The banking and credit system of Burma is undeveloped and simple. Such credit facilities as do exist are largely confined to the city of Rangoon and are devoted primarily to the financing of foreign trade. Private banking institutions have not been supplemented by any governmental institution for the collection and productive use of such savings as occur. Internal development is handicapped by this lack of domestic credit institutions.

The banks are loosely controlled by the central bank, the Union Bank of Burma, which holds their reserves, markets the three issues of government securities, and acts as a government depository. A program for more rigid control of credit and the local banking institutions by the Union Bank is now being formulated. At present the Union Bank is not a bank of issue and has no responsibility for currency management. That function is performed by the Burma Currency Board in London, which is composed chiefly of British members. Return of responsibility for currency control to Rangoon and assumption of these functions by the Union Bank are also now under consideration.

The bulk of agricultural credit is extended as direct government loans. Advances to cultivators of Rs. 4,660,000 (about \$1.0 million) and Rs. 31 million (\$6.5 million) were provided in the 1950-51 budget, through the credit societies and under the Loans Act respectively.

The Government's experience in the issuance and collection of agricultural loans since the war has been unfortunate. In February 1951, all agricultural loans for 1948-49 and prior years, along with uncollected land taxes, were cancelled and written off by the government. The credit loss for that year alone was estimated at Rs. 36 million (\$7.6 million), and at an equal amount for earlier years. The establishment of a State Agricultural Bank, to supersede both the existing agricultural credit systems, was recommended by the Two-Year Plan of 1948, and a report and specific outline of the project have been subsequently drawn up, but no steps towards implementation have so far been taken.

Money lending functions in Burma have traditionally been performed by money lenders and pawnbrokers. In the prewar era land was the favorite collateral, but at present loans will rarely be made against any security except gold or jewelry. The combination of the unconscionable rates of interest charged by the money lenders and the improvidence of the typical Burmese cultivator led to loss of ownership by actual cultivators of a very large proportion of the agricultural land in Lower Burma.

Other types of credit institutions in Burma are negligible. There is no stock exchange, and only a single stockbroker functions there. Probably not more than half a dozen Burmese companies are organized as public corporations, with their securities available for purchase by the public, and none of these are traded regularly.

The small amount of private savings in the Burmese economy are ordinarily accumulated in the form of gold. This national predilection for gold has raised prices considerably above the world market (the current price is the equivalent of about \$76 per troy ounce), and gold stocks are imported regularly.

## 5. Balance of Payments

Since 1947 Burma has had small soft currency surpluses on international account, and has increased her sterling reserves from the equivalent of \$110 million at the end of 1947 to \$161 million in August 1951. After allowance is made for sterling required as currency backing and presently blocked balances, approximately \$91 million in sterling can be considered as "free" balances.<sup>1/</sup>

<sup>1/</sup> Burma's sterling holdings are subject to certain limitations. About \$70 million are blocked pursuant to the terms of the Burma-U.K. Agreement of 1947, and present legislation requires that all but Rs. 100 million of the currency be backed 100 percent by sterling. However, blocked balances are eligible for providing currency backing. The non-fiduciary currency issue amounted to the equivalent of \$69 million in August 1951. Thus, from the total sterling balances equivalent to \$161 million, the "free balances" amount to the equivalent of \$91 million.

In contrast to the favorable balances with the soft-currency areas, Burma's postwar trade with the United States has almost invariably resulted in dollar drains. Outstanding dollar reserves are negligible. From 1948 to 1950 Burma's exports to the United States averaged only about \$2 million per year; whereas despite every effort to give preference to soft-currency areas of supply, Burma's imports of machinery and technical equipment from the United States were considerably larger. These deficits were financed from the sterling area dollar pool. In 1951 the dollar situation was eased slightly by windfall sales of rice to Okinawa and to Ceylon totaling \$8.1 million. Licenses totaling \$5.0 million were issued during August 1951 for private imports from dollar countries.

The small surpluses in Burma's international accounts which were achieved during the period 1947-50 were due in part to tight import controls. With relaxation of these controls which began in the last half of 1950, it is expected that the surpluses on current account will diminish sharply or disappear altogether in FY'52 and FY'53.

The sharp curtailment in postwar production has been reflected in both a reduced volume and a changed composition of exports. For the 12-month period ending June 1951, rice exports totaled 1.3 million tons (milled basis) or about 45 percent of prewar. From January to July 1951, exports of metals and ores approximated 20,000 tons at an annual rate, or about 17 percent of prewar. The volume of teak exports has declined even more sharply. Thus, the practical stagnation of other major exports has left rice the dominant export commodity, now accounting for about 85 percent of export proceeds.

The external public debt of Burma amounts to \$183.3 million and consists of the following: India \$101.1 million; U.K. \$78.0 million; and U.S. (lend-lease) \$4.2 million. The debt to India has not been serviced since 1942 and no provision for payment has been included in the 1952 budget. The debt to the United Kingdom is a non-interest bearing obligation, with some payments on principal due in 1952. However, an explanatory memorandum incorporated in the Budget states that the British Government has been requested to consent to the postponement of repayment of this loan until Burma's financial condition improves. The United States debt is payable in rupees and thus would not necessarily involve a drain on foreign exchange reserves.

Burma's development program, which is currently in preparation, will call for a combination of foreign and domestic expenditures. The impact this program will have upon the balance of payments may be severe, particularly in view of the tight import controls enforced in 1949-50 and not relaxed until the last half of 1950. To the extent that development is carried forward, imports of both equipment and consumption goods may be expected to increase considerably. On the other hand, since the development program contemplates major capital projects, the favorable effects upon production will not be felt for some time. Considered in this context and in the context of the country's unserviced external debt, Burma's free foreign exchange reserves are small and her capacity to service additional external debt is limited.

I N D O N E S I A

FY 1953 BUDGET PRESENTATION

Contents

PART I. Indonesia. FY 1953 Program

1. Program Objectives
2. How the Program Supports the Objectives

PART II. Program Tables

PART III. Project Descriptions

APPENDIX. Current Economic Situation

Part I

INDONESIA. FY 1953 PROGRAM

1. Program Objectives

ECA grant aid to Indonesia provides limited funds for the purpose of helping the Indonesian Government develop its effectiveness in critical economic and administrative sectors. The United States lent a helping hand when Indonesia was securing her independence; now, U. S. economic aid, although relatively small in dollar amount, can be of great strategic importance in helping the non-communist, democratic government of Indonesia to strengthen the foundations of that independence and advance the nation toward realization of its great potential as a member of the free world.

The island republic of Indonesia, with an estimated population of 78 million, faces the basic difficulties encountered more or less in all underdeveloped areas of Southeast Asia: low standards of living, miserable health conditions, food production lagging behind the growth of population, insufficient industrialization, lack of technical and administrative know-how, and a very high rate of illiteracy (over 90 percent). Communist-inspired and other radical elements, while not now in open rebellion, continue to provoke disorders and strikes. Communist trade unions are very influential.

The present moderate government is in a comparatively weak position and decidedly needs assistance and encouragement. The Indonesian Government and the nation at large are deeply apprehensive that tin and rubber prices, very high in 1950, may continue to fall and thereby destroy the present favorable balance of payments. For this reason, among others, there is an unmistakable sense of urgency in Indonesian attempts to improve conditions rapidly, so as to attain a strategic reserve of strength.

Despite their well-known reluctance to accept foreign aid and particularly foreign experts, the imperative need for such aid is increasingly understood by responsible Indonesian leaders. Vice-President Hatta, one of the fathers of the independence movement, declared a few months ago in a frank radio address to the entire nation that Indonesian reconstruction would not be accomplished by bare hands and pickaxes, i.e., without the aid of foreign capital and modern machinery.

It is true, of course, that at present Indonesia has enough foreign exchange to obtain commodities and experts from the U. S. or from countries other than the U. S. However, the U. S. can perform a useful service by encouraging the Indonesian Government to undertake important activities which it might otherwise not engage upon. The U. S., with its experience, will be able as actual dispenser not only of experts (so badly needed in view of the wholesale departure of Dutch technicians) but also of commodities to channel Indonesian activities effectively into sectors in which the less experienced Indonesians would either do nothing or would operate much less efficiently and less rapidly. It is quite likely, for instance, that with the ambition natural to a new nation the Indonesians would over-commit their free dollars for popular industrial or agricultural schemes and neglect public health and education in which the needs are equally basic.

With its large tin, rubber, and oil resources, Indonesia is actually a country of great natural wealth; in the last analysis Indonesia's problems are political, administrative, and educational rather than economic. The proposed FY'53 grant program of \$11.5 million is distinctly on the moderate side in relation to the many problems facing this very large country. Expressed in figures alone, its prospective impact on the Indonesian economy as a whole may seem very small indeed. It should

therefore be clearly understood and realistically admitted that the significance of this program lies chiefly in its political and psychological effects and in its catalytic nature.

In addition to the proposed grant aid for FY'53, and as indicated in the Export-Import Bank submission, the Bank believes that new loan commitments substantially larger than the amounts proposed for grant aid may be made in Indonesia during FY'53. As discussed in the Bank's submission, these loans may largely be in the fields of power development to provide the basis for medium-scale industrialization, road construction to stimulate the opening up of new resources on the outer islands of Indonesia, specific medium-scale industrialization projects, and irrigation development to begin the agricultural diversification of the outer islands. Projects proposed in the FY'53 grant presentation for a national power survey, for preliminary irrigation work in South Borneo, and for the establishment of central workshops and vocational training centers are designed to facilitate loans in these fields by the Export-Import Bank.

## 2. How the Program Supports the Objectives

The relatively limited funds in this grant program are for projects of a type where even a comparatively small outlay can be expected to produce important psychological and educational results in some critical sector of the Indonesian structure. In view of the scale of action contemplated, and the program objectives, the value of each dollar budgeted must be measured not in absolute or immediate terms but in terms of the chain reaction it can produce. Some illustrations follow:

### General Engineering Advisory Service and Power Plant Survey

One of the projects particularly designed to convince the Indonesian people that broad foundations are being laid for a promising economic future is the project which makes available the skills of the J. G. White Engineering Corporation of New York to advise the Government on the most effective use to be made of the country's over-all resources. J. G. White personnel are serving as consulting engineers for the general development of railroads, harbors, mining, mechanical and chemical industries, electric power and telecommunications.

An ECA-financed survey of potential sites for electric power plants also belongs in this category. Lack of electric power being a basic obstacle to the implementation of Indonesia's development plans, ECA funds will be used to purchase some drilling equipment and employ a few American drill rig operators for a preliminary survey to determine suitable sites for hydroelectric plants.

### Public Health

Other projects are directly concerned with the strengthening and improvement of various public services. To this group belong all undertakings in the Public Health category, but particularly the endemic disease control project which is especially designed to help the Indonesian Government in its fight against malaria. This malady affects 30 percent of the population, and up to 90 percent in some endemic areas. ECA aid for the training of midwives and nurses, and for medical education, serves the same general purpose, and is vitally necessary in a country which at present has only 1,184 doctors for 78 million people. The proposed program also includes further ECA aid for a medical demonstration center to be established at Bandung in Central Java to provide health services for the people of this important area and to serve as training headquarters for health officers and nurses from other regions. Included also are floating clinics to be purchased and equipped by ECA to bring medical and dental services to areas where such services would otherwise be unavailable.

### Public Administration

It is generally recognized that the greatest single obstacle to the creation of a modern unified state in Indonesia is the almost complete lack of trained civil servants. In order to improve the Civil Service, ECA will make available to Indonesia several U. S. public administration experts to survey the existing administrative set-up and make recommendations for improvement. Equipment and specialists will be provided for a business school in Djakarta offering evening courses for civil servants. ECA also proposes to finance an arrangement between the Government and the public administration school of an American university under which American instructors will serve as teachers in Indonesia, while Indonesians will be trained in administrative problems in the U. S.

In addition, substantial assistance will be extended to expand the public information facilities (radio, pictures, print shops, etc.) of the Indonesian Ministry of Information, which is charged with the responsibility for creating, producing, and disseminating all informational and educational programs undertaken by the Government. This mass education program, for which ECA will contribute experts as well as equipment (such as radio transmitters, cameras, sound-recording equipment, amplifier units for installation on trucks, and multilith presses), is designed to enhance the sense of national unity and individual responsibility, and to explain the principles of operation of a free and independent government.

An amount likewise has been set aside for training of cooperative leaders. Since in Indonesia a special service is being maintained by the government to guide and assist cooperatives, this project likewise will help to increase the efficiency of the administration.

### Education

With Indonesia's 90 percent illiteracy rate, no service provided by the government is more in need of aid than education. In addition to amounts earmarked for technical and professional education, ECA will grant considerable assistance to elementary and general education. Funds will be made available to the Indonesian Ministry of Education for the following purposes: American normal school experts will help in the teacher training program; U. S. experts will advise in curriculum planning; preparation of textbooks will be facilitated by ECA-financed supplies and specialists; and teachers, as well as equipment, will be employed for language instruction in modern English. This latter point is particularly important, since English has recently been substituted for Dutch as the "second language" to be taught in Indonesian schools.

### Low-Cost Housing

Indonesia's largest cities at present are dangerously overcrowded. In Djakarta, for instance, three million people are today occupying dwellings that were considered adequate for only one-third as many before the war. Recognizing the political danger inherent in this situation, the Government has now established a People's Housing Service, which has prepared plans for the construction of modest housing units in major cities. ECA will provide the services of a city planner, an architect, and two sanitation engineers, and will also purchase certain key imported materials such as sewer-pipe, cement, paint, and some simple plumbing.

### Agriculture

In addition to the assistance proposed for public administration and public services, the ECA program for FY'53 is also designed to demonstrate ways of increasing and improving Indonesia's agricultural production. Indonesia's population has increased about 10 percent during the last decade, yet her soil today yields no more than before the war. The country depends now on proceeds from exports, particularly

from rubber, to finance the import of considerable quantities of food, especially rice. It is important that food production be brought up to a level sufficient to sustain the increasing population. This is actually a modest target, as consumption standards are very low.

ECA proposes, therefore, to provide fertilizer to be distributed to smallholders producing rice, sugar, tobacco, and vegetables. While the quantities of fertilizer to be imported are not sufficient to raise country-wide yields significantly in the near future, the demonstration of its effectiveness is expected to change appreciably the present negative attitude of the average smallholder toward its use. Additional funds will be made available to aid research, aiming at the expansion of cereal crops, particularly rice.

ECA will also assist the Indonesian Government in its livestock and husbandry program by supplying live animals for breeding purposes and modern equipment such as incubators for chicken raising, and by extending technical assistance. A considerable amount is being earmarked with the same basic objective, for fishery research, for the modernization and expansion of the fishing fleet, and for improvement of existing fish distribution facilities. Since the protein content of the Indonesian national diet is dangerously low, more effective use of Indonesia's inland and sea fishery resources is of particular importance. Aid will also be extended to the Government's irrigation, reclamation, and river control program in Southern Borneo. It is estimated that, with the help of the U. S. engineers and technicians, and the pumping and earth-moving equipment provided for in the program, enough land can be reclaimed to reduce the present 30,000 metric ton annual rice deficit of Borneo by 50 percent.

Specific sums have been set aside for the training of Indonesian agricultural youth leaders in the U. S., and for an over-all training and education program designed to assist the Indonesian farmer in improving his productive techniques.

Apart from an increase in food production, ECA also seeks to help make a start in raising the real per capita income of Indonesian farmers, which at present is extremely low. To this end, it is intended to use funds to provide better processing facilities for smallholders growing rubber and sugar. Rubber exports in 1950 were almost twice the 1938 figure: 632,000 tons compared with 320,000 tons. This impressive expansion is due exclusively to the increased smallholders' production, but the quality of the smallholders' rubber, because of the shortage of processing equipment and chemicals, is definitely below that of the estates. The proposed ECA aid will be sufficient to process half the annual rubber crop of the smallholders. As a result they will be able to sell their improved products at a much better price than today, when disproportionate processing profits are being made by non-Indonesians, particularly Chinese, buyers.

Indonesia no longer produces sugar for export, but such sugar as is produced constitutes one of the most lucrative crops for the small farmer. Since the large sugar mills were almost completely destroyed during the war, ECA will supply small sugar-crushing mills and simple sheet metal pans for sugar processing, thus enabling the smallholders to grow sugar not only for their own consumption but to process part of their produce for sale to surrounding villages and towns.

Indigenous Industries: The Indonesian Government's Urgency Development Plan

Another group of projects aims at an expansion of small-scale industrial production. Due to lagging industrialization, only a very small percentage of the raw materials produced in Indonesia is processed there, and many basic commodities, such as textiles, cement, chemicals, steel, paper and glass, have to be imported although they could be produced in the country. To achieve at least a modest degree of industrialization, the Indonesian Government has adopted a two-year Urgency

Industrial Development Plan, concerned with the immediate task of modernizing existing small-scale facilities, of training skilled personnel, and of exploring future potentialities.

ECA will assist in carrying out the plan, with three aims in mind: first, internal availabilities of industrial production should be increased; second, the real per capita income of artisans and others engaged in small-scale industries should be raised; and third, much of the foreign exchange spent today on commodities imported because of lagging industrialization should be saved.

The Urgency Development Plan provides for the establishment, throughout the country of 26 Central Workshops, where small makers of ceramics, metalware, woodwork, leather goods and umbrellas can bring their products for technical processing which they are not equipped to do themselves. By providing the small-scale artisan with facilities for processing his manufactures, the Government reduces his production costs, widens his profit margin, improves the quality and increases the quantity of his products. ECA will supply equipment and machinery needed to establish one leather tannery and three textile Central Workshops.

In an attempt to remedy the catastrophic shortages of skilled workers, the Ministry of Labor is establishing schools for the training of carpenters, metal-workers, electricians, automobile mechanics and masons. ECA, in close cooperation with a staff of ILO experts working in Indonesia, will provide funds for setting up four such vocational training schools in the important cities of Jogjakarta, Macassar, Palembang and Medan.

The Indonesian Ministry of Labor plans also to create a labor extension service built around training institutes for potential trade union leaders. The training of responsible labor leaders is considered an effective antidote to communist infiltration, and an important step toward the reduction of labor unrest and disturbances, which today impair the productivity of Indonesian industry. ECA will obtain educational supplies for these schools, such as books, magazines, leaflets, posters, film strips and movies. ECA also will provide work-study scholarships in the U. S. for ten Indonesians to study industrial production methods, factory planning, personnel procedures, and accounting methods.

In addition, in view of Indonesia's crippling shortage of technicians and engineers, the sum of \$1.0 million has been earmarked for aid to technical schools. The money will be used to provide graduate scholarships in the U. S. for Indonesian engineers, to obtain the services of a number of U. S. instructors, and to secure audio-visual training aids, textbooks, and specialized equipment for institutes of technical education.

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More detailed information will be found in Part II, Program Tables; Part III, Project Descriptions; and the Appendix, Current Economic Situation.

Part II

INDONESIA. Program Tables

- Table 1. Estimated Cost of Program (Grant Aid Only).....  
by Major Project Category
- Table 2. Revised FY '52 and Estimated FY '53 Dollar Cost  
of Program (Grant Aid Only) .. by Major Project  
Category
- Table 3. Estimated Breakdown of FY '53 Program (Grant Aid  
Only) ... by Project Within Major Category
- Table 4. Estimated FY '53 Breakdown of Supplies and  
Equipment ... by Commodity Group

INDONESIA

Table 1. Estimated Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Costs (in thousands)			
	Dollar Cost			Dollar Equiv. of Local Currency Cost <sup>b/</sup>
	Total	Supplies & Equipment	Services	
	E S T I M A T E D			FY '53
1. Emergency Relief	\$ -	\$ -	\$ -	\$ -
2. Public Health	2,100	1,640	460	3,270
3. Agriculture, Forestry, Fisheries	4,180	3,575	605	3,144
4. Transportation, Power, Other Public Works	400	250	150	2,100
5. Handicraft and Manufacturing, Mining, Other Industry	1,350	1,090	260	1,360
6. General Engineering Advisory Services	275	-	275 <sup>c/</sup>	45
7. Education	1,500	1,070	430	2,500
8. Public Administration	1,695	1,050	645	2,600
9. Maintenance of Essential Supply	-	-	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>\$ 11,500</u>	<u>\$ 8,675</u>	<u>\$ 2,825 <sup>d/</sup></u>	<u>\$ 15,019</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>75.4</u>	<u>24.6</u>	-
R E V I S E D FY '52				
1. Emergency Relief	-	-	-	-
2. Public Health	2,200	1,840	360	3,435
3. Agriculture, Forestry, Fisheries	3,360	3,169	191	2,473
4. Transportation, Power, Other Public Works	100	58	42	50
5. Handicraft and Manufacturing, Mining, Other Industry	500	376	124	550
6. General Engineering Advisory Services	275	-	275	90
7. Education	400	356	44	1,000
8. Public Administration	1,165	894	271	1,700
9. Maintenance of Essential Supply	-	-	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>8,000</u>	<u>6,693</u>	<u>1,307 <sup>e/</sup></u>	<u>9,298</u>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>83.7</u>	<u>16.4</u>	-

INDONESIA

(Footnotes to Table I)

- a/ Exclusive of loans discussed with the Export-Import Bank Staff, and referred to in Part I of the individual country studies.
- b/ Converted at the rate of 11.43 rupiah = US\$1.
- c/ Total cost of contract with U.S. engineering firm. Includes fixed fees, cost of back-up provided by home office, administrative and overhead expenses, etc., in addition to pay of personnel sent to field.
- d/ \$1,745 for TA experts (including total cost of general engineering advisory contract); number of persons distributed as follows: Public Health, 19; Agriculture, Forestry, Fisheries, 22; Transportation, Power, Other Public Works, 10; Handicraft and Manufacturing, Mining, Other Industry, 6; General Engineering Services, 18; Education, 18; Public Administration, 23; Total, 116. Also \$1,080 for trainees, distributed as follows: Public Health, 35; Agriculture, Forestry, Fisheries, 55; Transportation, Power, Other Public Works, None; Handicraft and Manufacturing, Mining, Other Industry, 34; General Engineering Advisory Services, None; Education, 32; Public Administration, 60; Total, 216.
- e/ \$845 for TA experts (including total cost of general engineering advisory contract); number of persons distributed as follows: Public Health, 20; Agriculture, Forestry, Fisheries, 7; Transportation, Power, Other Public Works, 3; Handicraft and Manufacturing, Mining, Other Industry, 2; General Engineering Advisory Services, 18; Education, 2; Public Administration, 13; Total, 65. Also, \$462 for trainees, distributed as follows: Public Health, 24; Agriculture, Forestry, Fisheries, 21; Transportation, Power, Other Public Works, None; Handicraft and Manufacturing, Mining, Other Industry, 20; General Engineering Advisory Services, None; Education, 4; Public Administration, 23; Total, 92.

INDONESIA

Table 2. Revised FY'52 and Estimated FY'53 Dollar Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Dollars (in thousands)					
	Total Dollar Cost		Percent of Total Program Cost (Categories 1-9)		Percent of Total Project Cost (Categories 1-8)	
	FY'52	FY'53	FY'52	FY'53	FY'52	FY'53
1. Emergency Relief	\$ -	\$ -	-	-	-	-
2. Public Health	2,200	2,100	27.5	18.3	27.5	18.3
3. Agriculture, Forestry, Fisheries	3,360	4,180	42.0	36.4	42.0	36.4
4. Transportation, Power, Other Public Works	100	400	1.3	3.5	1.3	3.5
5. Handicraft and Manufacturing, Mining, Other Industry	500	1,350	6.3	11.7	6.3	11.7
6. General Engineering Advisory Services	275 <sup>b/</sup>	275 <sup>b/</sup>	3.4	2.4	3.4	2.4
7. Education	400	1,500	5.0	13.0	5.0	13.0
8. Public Administration	1,165	1,695	14.6	14.7	14.6	14.7
9. Maintenance of Essential Supply	-	-	-	-	-	-
<u>TOTAL DOLLAR COST OF PROGRAM</u>	<u>\$8,000</u>	<u>\$11,500</u>	<u>100.0</u>	<u>100.0</u>	-	-
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	8,000	11,500	-	-	100.0	100.0

a/ Exclusive of loans discussed with the Export-Import Bank staff, and referred to in Part I of country study.

b/ Total cost of contract with U.S. engineering firm. Includes fixed fee, cost of back-up provided by home office, administrative and overhead expenses, etc., in addition to pay of personnel sent to field. See Part III, section 6.

INDONESIATable 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost <sup>a/</sup>
1. <u>Emergency Relief</u>	\$ --	\$ --
2. <u>Public Health</u>	<u>2,100</u>	<u>3,270</u>
Endemic Disease Control	1,050	1,950
Pesticides (DDT) Production	150	125
Rural Demonstration Center (Bandung)	180	700
Clinic Boats and Equipment	175	200
Training of Midwives and Nurses	80	70
Medical Education	365	25
Training and Popular Education	100	200
3. <u>Agriculture, Forestry, Fisheries</u>	<u>4,180</u>	<u>3,144</u>
Research to Expand Cereal Crop Production	145	150
Demonstration of Fertilizer Use	650	130
Livestock Production and Disease Control	300	410
Processing Smallholders' Sugar	150	175
Processing Smallholders' Rubber	750	700
Irrigation and Reclamation	800	250
Modernization of Fishing Industry	900	1,000
Assistance to Fisheries Research	155	17
Agricultural Youth Leader Training	30	12
Training and Popular Education	300	300
4. <u>Transportation, Power, Other Public Works</u>	<u>400</u>	<u>2,100</u>
Exploration Surveys (For Power Plant Sites)	200	100
Low-Cost Housing	200	2,000
5. <u>Handicraft and Manufacturing, Mining, Other Industry</u>	<u>1,350</u>	<u>1,360</u>
Modernization and Rehabilitation of Indigenous Industries	800	1,000
Vocational Training Centers	400	200
Labor Leader Training Centers	100	150
Work-Study Scholarships in USA	50	10
6. <u>General Engineering Advisory Services</u>	<u>275</u>	<u>45</u>
7. <u>Education</u>	<u>1,500</u>	<u>2,500</u>
Technical and Professional Education	1,000	1,500
Elementary and General Education	500	1,000
8. <u>Public Administration</u>	<u>1,695</u>	<u>2,600</u>
Improvement of Public Service	500	700
Cooperative Leader Training	1,000	1,500
Expansion of Public Information Service	195	400
9. <u>Maintenance of Essential Supply</u>	--	--
<u>TOTAL COST OF PROGRAM</u> (Categories 1-9)	<u>\$ 11,500</u>	<u>\$ 15,019</u>
<u>Total Cost of Projects</u> (Categories 1-8)	<u>11,500</u>	<u>15,019</u>

a/ Converted at rate of 11.43 rupiah = US\$1.

INDONESIATable 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C &amp; F Dollar Cost (in thousands)

Commodity Group	Total Cost	Cost of Salable Commodities
1. <u>Food</u>	\$ - \$	N O N E
2. <u>Feed and Fertilizer</u>	<u>625</u>	
Ammonium Sulphate		495
Superphosphate		130
3. <u>Natural Fibers</u>	-	
4. <u>Tobacco</u>	-	
5. <u>Other Agricultural Products</u>	<u>175</u>	
Breeding stock		175
6. <u>Fuels</u>	-	
7. <u>Industrial Raw Materials</u>	<u>1,400</u>	
Iron and steel mill materials, including ferro-alloys - plumbing pipes, etc.		40
DDT and other pesticides		625
Medical & pharmaceutical preparations		235
Industrial chemicals other than alcohol		500
8. <u>Capital Equipment</u>	<u>2,900</u>	
<u>Agricultural Equipment</u>		<u>200</u>
Agricultural equipment excluding tractors - breeding station equipment, cane crushing mills, etc.		200
<u>Industrial Machinery and Equipment</u>		<u>2,700</u>
Electrical apparatus		60
Engines and turbines		215
Construction mining & conveying equipment - track dockyards, pumps, drill rigs, etc.		815
Machine tools		695
Industrial machinery n.e.c. - office machines, dockyard equipment, etc.		175
Vessels & equipment - clinic boats, fish carriers		235
Cold storage & refrigeration equipment		505
9. <u>Other Manufactures and Raw Materials</u>	<u>3,575</u>	
Non-metallic minerals and products - cement, etc.		100
Scientific & professional instruments - laboratory equipment, precision instruments, movie, radio supplies, etc.		1,120
Misc. industrial materials & manufactured commodities - hospital equipment, books, charts, audio-visual aids, etc.		2,355
<u>TOTAL DOLLAR COST</u>	<u>\$8,675<sup>a/</sup></u>	N O N E

a/ For distribution by major project category, see Table 1, column 2.

ECA:FEPD  
November 30, 1951

Part III

INDONESIA. ECA-FINANCED PROJECTS

1. Emergency Relief           None

2. Public Health

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost *</u>
FY 51: \$ 2,836,000	FY 51: \$ 3,070,000
FY 52:    2,200,000	FY 52:    3,435,000
FY 53:    2,100,000	FY 53:    3,270,000

Indonesia's health services have been cruelly victimized by war and civil disturbances. The exodus of Dutch physicians has left the country with one doctor to every 100,000 population, undoubtedly the lowest ratio in the civilized world. Life expectancy at birth is 32 years, compared with 67 years in the U.S. One out of every three babies dies before reaching its first birthday. An estimated 15 to 20 percent of the people have yaws, a disfiguring skin disease; 30 percent have malaria, although in some areas infection is as high as 90 percent; mortality from tuberculosis is over three percent. The Indonesians cannot handle their health problems alone because the doctors and nurses and the facilities and the technical knowledge they require are not available through their own resources.

If allowed to continue, this inability to perform a basic public service could have an adverse effect on popular support of constituted authority and seriously impede economic development.

The public health field, therefore, is regarded as a highly critical sector of governmental responsibility and one to which extensive ECA assistance should be given. Unfortunately, the very shortage of trained personnel in all fields of public health reduces the Government's capacity to utilize aid, and places a definite limitation upon the amount of effective assistance which ECA can extend.

In FY '51, ECA aid consisted almost entirely of commodities vitally needed to help rehabilitate the public health system. This was, however, an emergency measure. Commodity aid in the present fiscal year and in FY '53 is designed to support specific programs in conjunction with an increase in technical assistance.

Endemic Disease Control

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$     788,000	FY 51: \$ 2,500,000
FY 52:     900,000	FY 52:   1,550,000
FY 53:   1,050,000	FY 53:   1,950,000

\* Converted at the rate of 11.43 rupiah = US \$1

During FY '51 ECA aid in this field was almost exclusively for the fight against malaria, Indonesia's foremost health problem. ECA provided the services of two entomologists and a sanitation engineer, as well as medical supplies and laboratory equipment. DDT was used in spraying dwellings and mosquito breeding places in areas inhabited by some 15,000,000 people. Approximately 100,000 malaria victims were treated with ECA drugs, and the laboratory equipment aided not only in research, but also in training public health personnel.

In FY '52, ECA, in addition to providing U.S. experts in entomology, is also sending two Indonesian malariologists to the U.S. for advanced training. This will be increased somewhat in FY '53. But in FY '52 as well as in FY '53 the bulk of the funds allotted to malaria control will still be used for commodities needed for both emergency and long-term activity.

As a result of ECA assistance so far, the effectiveness of the Indonesian Government's malaria control program is estimated to have been doubled. Continuing aid should increase this considerably.

During FY '51, ECA's Public Health Officer directed a small trachoma control program utilizing antibiotics supplied free by the American Cyanamid Company. Results obtained warranted the undertaking in FY '52 of a small operational program to check this highly contagious disease, which annually brings suffering and blindness to thousands. There will be no Trachoma Control program with ECA funds in FY '53.

The World Health Organization has assumed primary responsibility for assisting the Indonesian Government in its efforts to control tuberculosis. ECA, however, cooperates with the international agencies operating in the field of public health, and in FY '52 will assist the WHO by purchasing an X-ray machine for its tuberculosis campaign. In FY '52, ECA is sending two Indonesian specialists to the U.S. for training in the diagnosis and treatment of tuberculosis, and intends to triple this number of trainees in FY '53.

Pesticide (DDT) Production

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY 51:	\$ -	FY 51:	\$ -
FY 52:	120,000	FY 52:	125,000
FY 53:	150,000	FY 53:	125,000

Diseases borne by insect carriers constitute such a serious health menace in Indonesia that an effective control program requires quantities of DDT which, due to world shortage, is difficult to procure abroad. Present Indonesian requirements amount to three thousand tons annually. The Government, therefore, is planning to establish its own DDT plant, at a cost of approximately \$250,000 dollars. ECA will undertake to provide in FY '52, as well as in FY '53, key apparatus and the services of five American specialists who will direct the construction and equipping of the plant.

Rural Demonstration Center (Bandung)

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY 51:	\$ -	FY 51:	\$ -
FY 52:	200,000	FY 52:	600,000
FY 53:	180,000	FY 53:	700,000

The Ministry of Health plans to establish a rural health demonstration center in the mountain area of Bandung, an important section of central Java. The center will serve mainly as a training headquarters for health officers and nurses, but it also will provide clinical treatment for all types of prevalent disease, a limited amount of prenatal and postnatal care, and pediatric service. In FY '52 ECA is providing equipment for the clinics and drugs for initial demonstration purposes.

In FY '53, the Government hopes to extend this demonstration plan to embrace a sanitation program providing pure drinking water and sanitary sewage disposal for the rural villages within the area. ECA will assist this program by providing pilot well-drilling and pumping equipment and, in addition, the services of two American sanitation engineers.

Clinic Boats and Equipment

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ -	FY 51: \$ -
FY 52: 175,000	FY 52: 200,000
FY 53: 175,000	FY 53: 200,000

Many of the people living in Indonesia's three-thousand-mile stretch of islands can only be reached by boat, and many others are more easily reached by sea and river than by road or rail. Floating clinics could make regular calls at sea and river ports where medical and dental services would otherwise be unavailable.

In FY '52, therefore, ECA will provide instruments and drugs to equip six motor vessels needed to conduct an experimental clinic boat program. This project will be followed by a similar one in FY '53. It is estimated that the boats will serve approximately 50,000 to 75,000 persons per annum.

Training of Midwives and Nurses

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ 119,000	FY 51: \$ 100,000
FY 52: 50,000	FY 52: 45,000
FY 53: 80,000	FY 53: 70,000

In FY '51 and '52 ECA provided funds and equipment for the rehabilitation of fifty schools teaching nursing and midwifery. The services of an American nurse specializing in the teaching of obstetrics and pediatrics also was supplied. As a result of her tutelage, eight native nurses have acquired sufficient knowledge to attend institutions abroad. In FY '52, two of these are being sent to American institutions for a training period of one year, and six will study in the Philippines for four months. Ten more nurses now receiving instruction in English are expected to qualify for overseas training in FY '53.

Medical Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY 51:	\$ -	FY 51:	\$ -
FY 52:	210,000	FY 52:	25,000
FY 53:	365,000	FY 53:	25,000

ECA is now arranging for the Medical School of the University of Indonesia to affiliate with a medical school in the United States to enable it to obtain the services of American professors in highly specialized fields.

Present plans call for a contract to be signed between the Indonesian Government and probably the University of California under which five American specialists will be sent to Indonesia to teach subjects now largely neglected for lack of adequate instructors. As in FY '52, funds also will be made available in FY '53 for training in the U.S. of a limited number (13) of carefully selected Indonesian physicians. In addition, urgently needed professional and scientific apparatus for medical schools and university hospitals will be provided to supplement similar equipment purchased under the FY '51 and '52 programs.

Training and Popular Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY 51:	\$ -	FY 51:	\$ -
FY 52:	100,000	FY 52:	200,000
FY 53:	100,000	FY 53:	200,000

Indonesia's formidable health problem could be greatly simplified if the basic principles of personal hygiene and environment sanitation were widely disseminated among the people. Since the Indonesian population is predominately illiterate, the most effective way to reach the mass of people is through the medium of motion pictures.

In FY '52, therefore, ECA is making funds available for the production of a film on the control of malaria, the single greatest scourge in the Indonesian archipelago. Other films will be cooperatively produced with other ECA missions in S.E.A. dealing with the prevention and control of syphilis, yaws, trachoma, malnutrition and intestinal parasites.

ECA also will provide funds in FY '53 for a comprehensive popular health education program utilizing Indonesian facilities and material for film strips, picture pamphlets, posters and five additional health films to be used both for training public health nurses and workers and for disseminating the principles of disease prevention and personal hygiene among the Indonesian people.

3. Agriculture, Forestry, Fisheries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ 3,032,000	FY 51: \$ 1,760,000
FY 52: 3,360,000	FY 52: 2,473,000
FY 53: 4,180,000	FY 53: 3,144,000

Indonesia's population has increased about 10 percent during the last decade, yet her soil today yields no more than before the war. In former years the country produced almost enough food to sustain its people; now she must depend on the proceeds from exports, particularly of rubber, to finance the import of considerable quantities of food. Aware of the dangers inherent in this dependence upon world markets, the Government is making every effort to increase food production in the face of formidable difficulties. Governmental services formerly available to agricultural producers have been disrupted by war and by the loss of Dutch experts. Machinery and tools destroyed or worn out have not been replaced. Irrigation systems have deteriorated.

The following immediate steps can be taken to increase production, especially in the central islands of Java and Madura, where the population pressure is greatest; enrichment of the depleted soil by the use of fertilizer, improvement of seed strains, repair of irrigation systems, and introduction of modern techniques in animal husbandry, especially in cattle and poultry raising. Modernization and expansion of the fishing fleet and improved facilities to store and distribute the catch would, at the same time, add needed protein content to the national diet.

Increasing production is not the only target, however. Indonesian agriculture is also facing the problem of how to process more effectively certain key products, especially rubber but also sugar, grown by smallholders who lack the necessary processing facilities. Proceeds from rubber exports could be greatly increased if processed rubber could be exported instead of the crude product.

In FY '51 ECA funds were used chiefly to meet the urgent need of small farmers and of the forestry service for basic tools and materials. In FY '52 and '53 the emphasis will shift from such emergency rehabilitation measures to a systematic over-all program of increasing the quantity and quality of agricultural production.

Research to Expand Cereal Crop Production

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ 103,000	FY 51: \$ 100,000
FY 52: 70,000	FY 52: 75,000
FY 53: 145,000	FY 53: 150,000

During FY 51 ECA provided two experts on rice-breeding and one specialist in plant diseases. In addition a modest amount of research and laboratory equipment was purchased.

In FY '52 and FY '53 the funds allotted to this long-range project will be exclusively for the services of U.S. specialists in Indonesia and the training of Indonesians in the U.S. It is hoped that in FY '53 as many as 20 Indonesian researchers can be sent to the U.S. for a year; a few American specialists will be placed on duty with the Bogor Agricultural Research Center.

Demonstration of Fertilizer Use

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ 88,000	FY 51: \$ 20,000
FY 52: 1,040,000	FY 52: 200,000
FY 53: 650,000	FY 53: 130,000

Despite intensive cultivation the soil of Java, which supports the majority of the Indonesian people, produces far less abundantly than that of certain other rice-growing areas in the Far East. The Japanese, for example, harvest twice as much rice per hectare of paddy land as do the Javanese. One contributing factor is the average small holder's failure to utilize artificial fertilizer effectively.

As in FY '51 and FY '52, ECA will provide, in FY '53, fertilizer (mainly ammonium sulphate) to be distributed by the Indonesian Extension Service to smallholders producing rice, sugar, tobacco, and vegetables.

The object of this program is not to increase the output of cereal crops in terms of absolute quantities, although it is estimated that the increase in production in FY '52 resulting from ECA shipments of fertilizer alone may reduce Indonesia's rice deficit by ten percent. The primary object is to establish in the mind of the Indonesian farmer the importance of using artificial fertilizer. In addition, plans are being made to send two Indonesian agronomists to the United States for training in techniques for increasing and preserving soil fertility, while a U.S. specialist will go to Indonesia.

Livestock Production and Disease Control

<u>Dollar Cost</u>	<u>Dollar Equivalent Local Currency Cost</u>
FY 51: \$ 60,000	FY 51: \$ 75,000
FY 52: 400,000	FY 52: 500,000
FY 53: 300,000	FY 53: 410,000

During FY '51 ECA made funds available to equip a new Indonesian Foot and Mouth Disease Institute, producing vaccine not only for Indonesia but for other Southeast Asia countries as well.

In FY '52, ECA will procure commodities to assist the government in its campaign against poultry pests, and laboratory equipment to facilitate research designed to improve the strain of beef cattle, draft animals, small animals, and poultry. The purchase of modern incubators and equipment for construction of government hatcheries will make possible volume distribution of improved chicks. In addition, the government has requested ECA assistance in purchasing improved breeding stock. Recruiting of an American expert in animal husbandry to bring the Indonesians abreast of latest developments in the field has been proposed. Three Indonesian students have been sent to study animal husbandry in American agricultural colleges.

During FY '53 ECA intends to reduce the commodity component of this project, but will double the number of students sent to the United States and will bring two additional American specialists to Indonesia.

Processing Smallholders' Sugar

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ -	FY 51: \$ -
FY 52: 85,000	FY 52: 100,000
FY 53: 150,000	FY 53: 175,000

Indonesia no longer produces sugar for export, but smallholders are trying to increase the quantities of cane from which crudely refined sugar is obtained for local consumption. Sugar thus produced is one of the most lucrative crops grown in Indonesia. Since the large sugar mills were almost completely destroyed during the war, ECA in FY '52 provided equipment suitable for village use. It consists primarily of 300 cattle-driven and 40 power-driven crushing mills. The project will be continued in FY '53 on a somewhat expanded scale.

Processing Smallholders' Rubber

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ 555,000	FY 51: \$ 300,000
FY 52: 850,000	FY 52: 140,000
FY 53: 750,000	FY 53: 700,000

Today rubber is Indonesia's most important export crop. Despite war and insecurity, rubber exports in 1950 were almost twice the 1938 figure; 632,000 compared with 320,000 tons. This impressive expansion is due primarily to the efforts of smallholders. The estates during the present year have contributed less than 25 percent of the total. The quality of smallholders' rubber, however, due to the shortage of simple processing equipment and chemicals, is definitely below that of the estates.

During FY '51, ECA took an important step in reducing this difference by providing equipment to be used exclusively by the smallholders. In FY '52, ECA is taking a second step to improve native rubber production by supplying 3,000 tons of formic acid and alum, coagulating agents, which will be sold at cost and on credit if need be. It is estimated that this amount will process half the annual total of crude rubber collected by native producers.

In FY '53, ECA intends to supply more efficient processing machinery, enabling smallholders to improve the quality of their product. This will help to eliminate the disproportionate processing profits by non-Indonesians and raise the living standards of villagers.

Irrigation and Reclamation

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ -	FY 51: \$ -
FY 52: 200,000	FY 52: 45,000
FY 53: 800,000	FY 53: 250,000

Kalimantan, the Indonesian part of Borneo, although a region of great potential wealth, is today a food deficiency area which must import some 30,000 metric tons of rice annually to feed its small population of four to five million.

Long before the war, the Dutch took initial steps to control the waters of the Bariot, Kapuas, and Kahajan rivers. Despite the difficulties of the war and postwar period, slow but steady progress has been made on drainage and irrigation projects, but help is needed to set up water control installations requiring imported machinery and equipment.

A general plan for reclaiming the entire South Kalimantan area has been drawn up. Foremost among the projects is the Alabio Polder Project, designed to bring an area of 15,000 acres under rice cultivation. A levee 22 miles in length, 10 feet wide and 8 to 10 feet in height already has been constructed. All that is now required to reclaim this sizeable area is the installation of three pumping stations. In FY '52, ECA expects to provide funds for these three stations, together with diesel motors, concrete foundations, and inlet and outlet bays. It is estimated that once drained and irrigated, the Alabio area will produce an extra 13,000 to 18,000 metric tons of rice annually.

For FY '53, ECA will propose that the Indonesian Government employ an American engineering firm to assist in carrying out other projects under the Kalimantan development plan. ECA would bear the dollar cost, while the Indonesian Government would finance all local expenses. In addition, ECA will supply machinery and equipment needed to implement the Kalimantan plan.

Modernization of the Fishing Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51:     \$ 1,127,000	FY 51:     \$    700,000
FY 52:           500,000	FY 52:     1,200,000
FY 53:           900,000	FY 53:     1,000,000

Many Indonesians suffer from a protein deficiency in their diet, which reduces their energy and resistance to disease. This situation could be rectified if Indonesian fish resources were adequately exploited. ECA, therefore, has budgeted comparatively large sums toward rehabilitating and motorizing the Indonesian fishing fleet, and for improving storage and distribution facilities.

During FY '51, these funds purchased sixty diesel-engined "majang" fishing boats, with which the Sea Fisheries Service is demonstrating how the use of motorized craft instead of sail boats can multiply the size of the catch. ECA also provided one hundred small diesel engines, some to be used for training purposes and the rest to be installed in "majang" boats of local manufacture. In addition, fifteen "Bonito" boats of larger size and an all-steel tuna clipper were procured to be used in showing the Indonesian fishermen how to exploit the fishing grounds offshore.

In FY '52 ECA, while reducing the amount of aid devoted to reconstructing the fishing fleet, will purchase additional engines for "majang" and fish-carrier boats to be built in Indonesia. In addition, ECA will provide funds for equipping three sea fisheries stations with workshops and dock-yards, in which fishing boats can be serviced and maintained. They will have facilities for training fishermen in improved fishing techniques and in the operation and maintenance of motor vessels.

In FY '53 ECA will purchase a smaller number of diesel engines for installation in boats of local manufacture, and will provide funds to build and equip certain pilot installations, such as ice plants and facilities for freezing and storage. An additional amount has been earmarked

for technical assistance in the handling of this equipment. As part of the integrated fisheries development plan, ECA will also allot funds for the purchase of two all-steel carrier boats.

Assistance to Fisheries Research

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 243,000	FY'51:	\$ 50,000
FY'52:	45,000	FY'52:	5,000
FY'53:	155,000	FY'53:	17,000

During 1951 ECA provided the Indonesian fisheries service with funds for the purchase of a research vessel equipped for use as a floating laboratory and for exploring possible new fishing grounds offshore. ECA also provided laboratory and other technical equipment for the newly established Institute of Inland Fisheries. In FY'52 ECA is sending six Indonesians to the United States and Holland, where they will study such specialized topics as marine architecture, marine engineering, and navigation.

In FY'53 approximately fifteen qualified Indonesians will be sent to the United States for a year of study at U. S. universities, where they will specialize in oceanography, marine biology, and administration. A small amount will be spent on research equipment.

Agricultural Youth Leader Training

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ 11,000	FY'51:	\$ -
FY'52:	15,000	FY'52:	8,000
FY'53:	30,000	FY'53:	12,000

During FY'51 ECA sent six agricultural youth leaders for a three months' study tour in the U. S. The Indonesian Government requested that a similar tour be arranged during the current year. Considering that visits of this type will enable future leaders to learn about the best aspects of American farm life during their formative years, it is intended to expand the program in FY'53.

Training and Popular Education

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	155,000	FY'52:	200,000
FY'53:	300,000	FY'53:	300,000

In FY'52 and FY'53 ECA will undertake an educational program including commodity aid and technical assistance designed to assist the Indonesian farmer in improving his productive techniques.

The Agricultural Extension Service and the Rural Community Training Centers (B.P.H.D.) will receive audio-visual aids to education, such as sound trucks for experimental purposes, motion picture projectors, film strips, still photos, charts, models, and diagrams. In addition, pamphlets will be produced for use in instances where the audience to be reached is

sufficiently literate to make use of them. These visual and printed aids will cover such subjects as soil conservation, seed farms, water storage and utilization, the use of fertilizers, and methods of improving animal breeding. Two audio-visual experts will be brought from the U. S. to concentrate entirely on agricultural training and education, while three American Agricultural Extension Service specialists will advise on general Extension Service techniques and procedures.

Much of the local cost of this program, including wages of local employees and some of the material required, could be defrayed by counterpart expenditures.

4. Transportation, Power, Other Public Works

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	100,000	FY'52:	50,000
FY'53:	400,000	FY'53:	2,100,000

The ECA program for FY'51 made no provision for grant assistance to Indonesia under this category, and the sums suggested for FY'52 and FY'53 have been kept to a minimum since loan financing is a more suitable form of aid for most projects of this nature. Ninety million dollars of the one hundred million dollar Export-Import Bank loan has in fact been tentatively earmarked for increasing electric power and for the rehabilitation and extension of land, sea, and air transport. There developed a real need for grant aid, however, in regard to the following two projects.

Exploration Surveys (for Power Plant Sites)

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	100,000	FY'52:	50,000
FY'53:	200,000	FY'53:	100,000

Lack of electric power constitutes a basic obstacle to the implementation of Indonesia's "development" plans. The development of electric power is essentially bankable, but grant aid is required for preliminary surveys to determine suitable sites for the location of hydro-electric plants.

In FY'52 ECA funds were provided for the purchase of drilling equipment and to finance the services of three American drill-rig operators to conduct surveys at tentative dam site locations. This program will be expanded in FY'53. In the course of their work the U. S. experts will instruct Indonesians in the use of core-drilling machinery, thereby providing trained technicians to assist in carrying out subsequent surveys both of hydro-electric sites and of mineral deposits.

Low-Cost Housing

<u>Dollar Cost</u>		<u>Dollar Equivalent of Local Currency Cost</u>	
FY'51:	\$ -	FY'51:	\$ -
FY'52:	-	FY'52:	-
FY'53:	200,000	FY'53:	2,000,000

It is estimated that almost three million Indonesians live in Djakarta at the present time, occupying houses that were adequate for only one-third as many before the war. Such over-crowding, especially in towns where housing is primitive and sanitation often non-existent, poses a constant menace to health. If steps are not taken to provide more adequate homes in urban areas, dissatisfaction and political instability cannot fail to result. Recognizing the urgent need for action, the Government has now established a People's Housing Service in the Ministry of Public Works and Energy, which has prepared plans for building modest housing units in major cities, with necessary roads, sewers, and limited electrification. Some provision is also being made for supplying building materials at low cost to people wishing to construct their own houses. ECA has been requested to extend substantial counterpart aid for housing development.

It is expected that by FY'53 the People's Housing Service will have had sufficient experience with the problems inherent in its program to request the services of a city-planner, an architect, and two sanitation engineers. In addition, to stimulate building activity ECA will make funds available for the purchase of certain key imported materials such as sewer pipes, cement, paint, and some simple plumbing.

5. Handicraft and Manufacturing, Mining, Other Industry

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 1,334,000 *	FY'51: \$ 1,000,000
FY'52: 500,000	FY'52: 550,000
FY'53: 1,350,000	FY'53: 1,360,000

Industrialization has progressed so little in Indonesia that only a very small percentage of the raw materials the country produces can be processed in the country. To achieve a modest degree of industrialization, the Indonesian Government has adopted a two-year "Urgency Development Plan," which contemplates in part the construction of a limited number of comparatively large factories and plants. Basically, however, it is concerned with the more immediate problems of modernizing existing small-scale facilities, of exploring future potentialities, and of training skilled personnel. The plan provides, in fact, for the establishment of several institutes for industrial and scientific research on building materials, glass, ceramics, textiles and fibers. It also decrees the formation of a labor extension service and the establishment throughout Indonesia of 26 Central Workshops to train artisans and others engaged in small indigenous industries.

In FY'53 ECA expects to contribute aid for the industrial research centers, the Central Workshops, and labor leader training centers. Indonesians also will be sent to the U. S. on work-study scholarships.

Modernization and Rehabilitation of Indigenous Industries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 634,000	FY'51: \$ 600,000
FY'52: 400,000	FY'52: 500,000
FY'53: 800,000	FY'53: 1,000,000

\* The original sum of \$1,889,000 in 1951 has been reduced by transferring \$555,000, "Processing of Smallholders' Rubber," to Category 3, Agriculture.

The bulk of FY'51 funds allocated by ECA to this project was used to provide simple machinery and basic hand tools for central workshops where small-scale makers of ceramics, metalware, woodwork, leather goods, and umbrellas can bring their products for technical processing. A substantial amount also was provided for machinery required by Indonesia's small-scale textile industry and for the services of a consultant on small industries.

In FY'52 ECA is providing funds to rehabilitate and expand the six research institutes maintained by the Ministry of Economic Affairs. These institutes service indigenous industries by improving manufacturing processes, providing new designs, testing manufactured products, and training technicians for the Central Workshops. With the aid of ECA's technical expert, the Government has drawn up a four-point program designed to increase the effectiveness of these institutes. ECA is helping to implement the program by making funds available for the purchase of laboratory and testing equipment.

In FY'53 ECA will assist in further expanding and improving the system of Central Workshops and will provide processing equipment and machinery needed to establish three textile training and processing centers and one leather tannery center.

Vocational Training Centers

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 100,000	FY'52: 50,000
FY'53: 400,000	FY'53: 200,000

In an attempt to remedy the catastrophic shortage of skilled workers, the Ministry of Labor is establishing in Djakarta a school for carpenters, metal workers, electricians, and automobile mechanics. Initially, all students who complete the nine months' course will be expected to serve as instructors in other government trade schools. This training center will be operated along lines which have proven successful at the Central Institute for Instructors in Surabaya. Anticipated student enrollment totals 360, with approximately 90 trainees in each of the four skills.

In FY'52 ECA will assist this training program by providing the necessary machines, hand tools, electrical equipment, and precision instruments.

The International Labor Organization has contracted with the Government to send an advisor and six experts, who will serve with the Ministry of Labor and help to enlarge the vocational training program. In FY'53 ECA will cooperate with the ILO staff and will make funds available for setting up training centers in Jogjakarta, Macassar, Palembang, and Medan.

Labor-Leader Training Centers

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: -	FY'52: -
FY'53: 100,000	FY'53: 150,000

The Indonesian Ministry of Labor intends to establish a labor extension service, similar to the agricultural extension service, built around training institutes for trade union technicians and leaders in areas where industrial labor is concentrated. As a beginning in FY'53, one or two centers might be started as pilot projects.

The training of responsible labor leaders is considered an effective antidote to communist infiltration of the still youthful Indonesian labor movement. ECA will provide funds to purchase educational materials such as books, magazines, leaflets, posters, film strips and movies, and to defray the cost of translating books and documents. At least one American or European expert in trade-union education or administration also will be recruited for each of the centers. The Indonesian Government would supply the buildings, local supplies, and the Indonesian staff.

Work-Study Scholarships in USA

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: -	FY'52: -
FY'53: 50,000	FY'53: 10,000

Arrangements for work-study scholarships comparable to those in Western Europe will be made for 10 Indonesian students to start in the 1952 fall semester.

To strengthen Indonesia's free trade union leadership, three or four of the students will pay special attention to labor-management relations in their work sites. They will also attend one or more of the many summer schools for U. S. trade unionists, and be offered some full-time experience in the headquarters of union internationals or locals.

The remaining students, selected from industries that have counterparts in the U. S., will study industrial production methods, factory planning, personnel procedures, and accounting methods. They are to enroll in a course of apprenticeship under which they would work several days per week and attend school the other days. Upon their return from the U. S., participants in this program should serve as leaders or teachers in their work places or training schools.

6. General Engineering Advisory Services

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 700,000	FY'51: \$ n.a.
FY'52: 275,000	FY'52: 90,000
FY'53: 275,000	FY'53: 45,000

This item provides for the continuation of the engineering service requested by the Government of Indonesia for the calendar years 1951 and 1952. The contract between the Indonesian Government and the J.G. White Engineering Corporation of New York was signed on January 13, 1951, for a two-year period. Its terms call for a mission of J. G. White engineers to advise the Indonesian Government on the most effective use to be made of the country's overall resources. J. G. White personnel are serving as consulting engineers for the development of railroads, harbors, mining, mechanical and chemical industries, electric power, and telecommunications. Interim projects already completed by J. G. White include: re-organization of Indonesia's most important harbor (Priok), surveys of tin and coal mines, and studies of power, transportation, and communication

in Java. On November 1, 1951, the J. G. White mission in Indonesia consisted of 11 professionals, 5 secretaries, and one Office Administrator.

7. Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 400,000	FY'52: 1,000,000
FY'53: 1,500,000	FY'53: 2,500,000

Approximately 90 percent of Indonesia's population is illiterate, and it is obvious that political stability, as well as economic progress, can hardly be obtained without a tangible expansion of technical as well as elementary education. The obstacles to such expansion are formidable. There is a catastrophic shortage of teachers, textbooks, audio-visual training aids, and basic classroom equipment. School buildings are inadequate. There is also a language problem, since the majority of Dutch teachers have left and very few Indonesians know English, although English recently has been substituted for Dutch as the "second" language to be taught in Indonesian schools. ECA aid will be used to help rebuild technical and professional as well as elementary and general education.

Technical and Professional Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 315,000	FY'52: 775,000
FY'53: 1,000,000	FY'53: 1,500,000

The Indonesian Government specifically requested for FY'52 and FY'53 altogether 1,300,000 grant dollars for technical education to reduce the country's crippling shortage of technicians and engineers. Part of this amount will be used to provide graduate scholarships in the U. S. for Indonesian engineers and to obtain the services of a number of U. S. instructors, who will replace, at least in part, the departed Dutch. The remainder will provide audio-visual training aids, textbooks, and laboratory as well as other specialized equipment for technical schools.

Elementary and General Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 85,000	FY'52: 225,000
FY'53: 500,000	FY'53: 1,000,000

Only a minute percentage of the estimated 10 million Indonesian children of school age actually finish primary school. The total enrollment of secondary schools amounts to a mere 120,000. In FY'52 ECA is providing equipment (recorders, records, text and reference materials) and a number of American instructors for a newly established Institute at Bandung dedicated exclusively to the rapid teaching of English. In FY'53, ECA, in cooperation with UNESCO, will assist the Indonesian Ministry of Education.

in four fields: teachers as well as equipment will be provided for instruction in English; American normal school experts will aid in the teacher training program; U. S. educators will advise on curriculum planning for elementary and secondary schools; preparation of textbooks will be facilitated by ECA--furnished supplies and specialists. It is also planned to have twelve Indonesians spend one year in the U. S. to study the American educational system.

8. Public Administration

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 1,165,000	FY'52: 1,700,000
FY'53: 1,695,000	FY'53: 2,600,000

The greatest single obstacle to the creation of a modern unified state in Indonesia is the almost complete lack of competent civil servants. If the present situation persists, the structure of the Republic, in spite of possible gains in the economic and political fields, will remain unstable and vulnerable. For this reason, ECA considers aid in the Public Administration field of paramount importance.

Improvement of Public Service

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 100,000	FY'52: 50,000
FY'53: 500,000	FY'53: 700,000

The ECA FY'52 and FY'53 program for increasing the competence of government personnel consists of three parts:

- a. Funds will be made available to provide several U. S. public administration experts who will survey the existing administrative set-up and make recommendations for improvements.
- b. Equipment and specialists will be provided for a business school in Djakarta offering courses for civil servants.
- c. ECA will finance an arrangement between the Indonesian Government and the Public Administration School of an American university under which a few U.S. instructors will become available for teaching and consultation in Indonesia, while a number of Indonesians will be given an opportunity to study administrative problems in the United States.

About one-half of the amount allotted to this project will be for technical assistance; the remainder will be used to provide classroom supplies, training aids, charts, and office equipment.

Expansion of Public Information Service

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ -	FY'51: \$ -
FY'52: 1,000,000	FY'52: 1,500,000
FY'53: 1,000,000	FY'53: 1,500,000

The Ministry of Information is charged with the responsibility for creating, producing, and disseminating all information and educational programs undertaken by the Government of Indonesia. These programs cover all fields of mass education and training activity. To a large extent they are undertaken in cooperation with and on behalf of other ministries which require extensive mass training programs, especially to implement ECA projects effectively.

Since the Ministry of Information operates the only radio and motion picture laboratory facilities and the only government printing facilities, ECA aid designed to help the government in its task to enlighten the people and to persuade them to cooperate in administrative measures can be most effectively channeled through this agency. The activities of the Ministry of Information also serve the general purpose of enhancing the sense of national unity and individual responsibility. Present plans call for a three-part program, with ECA providing some of the needed equipment as well as technical assistance.

1. Radio Broadcasting: Five high-power and eleven medium-power transmitters are required, together with studio equipment. Four American experts in radio production will be recruited to serve on two-year contracts in Indonesia. Fifteen Indonesians will be sent to the United States and other countries for training.

2. Motion Picture Production: The Government Film Service has requested that ECA provide a sufficient number of technical experts to train personnel, to advise in the actual production of films, and to demonstrate the use of modern equipment. ECA will also provide cameras, cutting machines, and sound recording equipment.

3. Visual Information: In a country where over 90 percent of the people are illiterate, visual information assumes great significance. ECA will obtain for the Ministry motion picture projectors, amplifier units for installation on trucks, simple photographic equipment, and multilith printing presses for information offices in each of ten provincial capitals.

Cooperative Leader Training

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY 51: \$ -	FY 51: \$ -
FY 52: 65,000	FY 52: 150,000
FY 53: 195,000	FY 53: 400,000

The Indonesian cooperative movement consists of about 4,000 cooperatives of all types, with an estimated membership of 800,000. Most of the cooperatives operate at the village level and are of the savings and loan type, but there are also production, consumer, and marketing cooperatives in the larger towns.

The cooperative movement was organized among the people of West Java before the war without help from the government. Now, however, the Republic maintains a cooperative service to guide and assist the movement. This service is well experienced in operations on the village level, but has requested technical assistance to solve problems of organization and financing on a national scale.

During FY'52, ECA is sponsoring a project for sending Indonesians to the United States for a period of three to six months observation and training. The first group of six trainees has already departed and 18 more will follow. A training program of increased magnitude will be undertaken in FY'53.

With the aid of ECA's expert on cooperatives, the Indonesian Government is preparing plans for a central cooperative bank to be financed through the use of counterpart funds. It is anticipated that in FY'53 the implementation of these plans will require the services of two American experts, who will assist with matters of central financing, drafting legislation, and governmental procedure.

9. Maintenance of Essential Supply None

APPENDIX

INDONESIA. CURRENT ECONOMIC SITUATION

1. National Income, Production and Consumption

The gross national product of the Republic of Indonesia was recently estimated by ECA as equivalent to \$3,110 million in 1950, or approximately \$40 per capita, one of the lowest in the world. Indonesia's real per capita income has not reached prewar levels. Of the 1950 gross national product, \$2,585 million, or 83 percent, was derived from agriculture, fishing, and forestry. Industrial production was estimated at \$200 million, or less than 7 percent of the gross national product; mining contributed another 7 percent.

With respect to output of major food crops, rice production was estimated for 1951 at 6.8 million metric tons, slightly above 1950 and about 400,000 tons above prewar (i.e., 1938). As for the other primary food products, corn, sweet potatoes and cassava, peanuts, and soybean production is at about prewar levels. The population has increased in the intervening period, however, by 10 to 15 percent so that per capita food availabilities are below prewar.

Rubber production in 1950 was almost twice prewar, and will be more than twice prewar in 1951. The production of copra was still below prewar in 1949 and 1950, but it is possible that 1951 production may reach or even exceed the prewar level. In the production of many specialized commercial crops, however, Indonesia has not yet recovered. The production of tea, coffee, cocoa beans, palm oil and palm kernels is only about half of prewar levels while sugar, sisal, kapok, and pepper are being produced at an even lower rate in relation to the prewar pattern.

In general, it can be said that small holders are producing about the same quantity of subsistence crops, but that the estates suffered so much destruction during the war and the struggles with the Dutch, and in some cases are still facing such serious insecurity problems, that most commercial export crops are at a much lower level than in the prewar period. Even in the case of rubber, the marked expansion of the small holders' production, rather than estate output, has contributed most to the rise in exports.

The recovery picture in mining is also spotty, although all mining has made a remarkable comeback from postwar lows. Production of tin and tin ores reached in 1950 a level double the 1947 production and slightly higher than the 1937-39 average. Coal production has tripled in the postwar period, but still is only half of the 150,000 tons average monthly production in 1939. Bauxite production is more than twice as great as before the war, and will reach about 600,000 tons in 1951. Crude petroleum production rose in 1950 to 6,420,000 metric tons from a low in 1947 of 1,116,000 tons, but still has not reached its prewar high in 1939 of 7,944,000 tons.

The volume of industrial production was estimated in 1950 at about 60 percent of the prewar level. Industrial concerns have had a particularly difficult time in the last two years, particularly if producing for the internal market in competition with imports, because of increasing costs of production, labor troubles, and increasing taxes coupled with lack of adequate financing, while the changing price relationships made imported commodities relatively cheaper. Comprising only 7 percent of gross national product, industrial production in Indonesia is plainly underdeveloped. Such industry as exists is largely confined to incomplete processing of a few export commodities. The increased income that would result from an extension and improvement in such processing activities is substantial. Other light industry, particularly in the field of consumers goods production, can also be established on an economic basis with a relatively small initial capital investment, and can make a considerable contribution to raising living standards and accelerating the rate of Indonesia's economic development.

Factors which restrict productivity are serious. The maldistribution of the labor force is acute, with a surplus on Java and shortages elsewhere. The extremes in education are great, ranging from 60-90 percent illiteracy to a few specialists as highly trained as can be found in the world. A similar situation exists in the field of public health. In most areas of Indonesia there is less than one doctor per 100,000 people. Life expectancy at birth is 32 years. Thirty percent of the people have malaria; nearly 20 percent have yaws; and infant mortality and mortality from tuberculosis are very high.

Consumption of the three basic necessities of food, clothing and shelter have improved from the postwar low, but are probably still below the prewar level in real terms. The quantity of cotton textiles imported in 1951 will probably be double the 1947 level, but will still be only about two-thirds of the quantity imported in 1937. Hence, Indonesians are not better clothed than before the war, nor has new housing been able to keep pace with the deterioration and destruction of old houses or the rapid growth of urban populations.

## 2. Prices and Wages

Prices in Indonesia have risen substantially from 1938 to June 1951 because of the disruption and inflation caused by World War II and the subsequent struggle for freedom, and because of the large increase in the value of exports.

Domestic prices tend to vary widely in different localities. In June 1951, the retail food price index had reached 22.6 times 1938 levels in Djakarta and 36 times 1938 levels in Palembang, Sumatra. Other cities showed even wider variations. This rise in food prices reflects principally the changes in the price of rice. The variations in the price of rice, in turn, are caused by poor internal transportation, speculative hoarding by millers, and by traditional seasonal changes in supply and demand.

The prices of goods entering international trade reflected changes in world prices and changes in Indonesia's exchange system. In June 1951, the weighted average of the wholesale prices of 18 leading exports was 15 times that in 1938, while the unweighted average of wholesale prices of 45 imported products was 6.5 times 1938 levels. The export price index had reached a high of 21 times 1938 levels in February 1951, reflecting the post-Korean peak in these prices. The index had stood at only 4 times 1938 levels in March 1950. This meteoric rise was caused by the institution in that month of the new exchange system which permitted rupiah prices of exports to double, together with the boost in the world price levels of raw materials caused by the outbreak of the Korean conflict in June 1950. Thus it is obvious that a severe export inflation has gripped the Indonesian economy just as the Indonesian government was taking steps to control its fiscal inflation.

The fact that import prices were only 6.5 times 1938 levels in June 1951 reflects several opposing pressures. Import prices were at approximately the same level from 1947 through 1949. The change in the exchange system in March 1950 theoretically would have permitted import prices to triple, and for a while they were high, but soon the government's action to increase the supply of imports by placing many commonly used commodities on the "free" list had its effect, and rupiah prices dropped somewhat.

To summarize, the net effect of all these changes was to restore in part the relative position of export prices and food prices to something resembling the prewar situation, thus enabling the average Indonesian to acquire a fairer amount of staple commodities for a given quantity of produce. In the third quarter of 1951 the forces of internal fiscal inflation and export inflation have been further attenuated.

No reliable data on the movement of wages in Indonesia exists. The problem of collection of such data is made doubly difficult because a very large part of a laborer's income is in the form of commodities -- payment in kind by the employer and rationed subsidized staple commodities (chiefly in the cities) by the government. However, it goes without saying that in the last year-and-a-half fixed income groups have been drastically

hit by the rise in prices, while laboring groups have been partly able to cushion the severe impact of this rise through wage payments in kind and some wage increases.

### 3. Public Finance

In 1948, 1949 and 1950 Indonesia had budgetary deficits ranging from Rs. 1,305 to Rs. 1,736 million.\* This was the principal cause of inflation in Indonesia during the earlier years. The 1951 budget was estimated in advance to show a deficit of nearly 2 billion rupiah. Much higher revenues from import duties in the first half of 1951 than were anticipated may make it possible, if foreign trade continues at the present high level, to achieve a near budgetary balance in 1951. The improved budgetary situation has been achieved in the face of an increase in total expenditures from 6.6 billion rupiah in 1950 to 7.1 billion rupiah in 1951. This rise has been accompanied by an even greater increase in regular revenues, from 5.0 billion rupiah in 1950 to something under 7.0 billion rupiah in 1951. The largest item in expenditures is military in nature, which amounted to nearly 30 percent of the adjusted total of estimated expenditures in 1951. Civilian capital expenditures were budgeted at Rs. 740.9 million, or over 10 percent of the adjusted total expenditures.

The very small prewar floating internal debt of 27 million rupiah in 1938 increased rapidly in the postwar period from less than Rs. 1 billion on December 31, 1946 to over Rs. 3.3 billion on December 31, 1950. In 1951, however, the trend has been reversed, and the government at the end of September 1951 had paid off about Rs. 1.5 billion of the short-term advances made to it by the Java Bank. The net change during the first nine months of 1951 of the other components of the floating government debt was negligible. In addition to floating debt, the government owes about Rs. 1,540 million on a 3 percent forced loan, which resulted from the monetary purge of March 1950. The external debt of Indonesia at the end of June 1951 amounted to about \$367 million, owed principally to the Netherlands.

### 4. Money and Credit

The money supply in Indonesia, which was about 420 million rupiah in 1938, reached Rs. 2.5 billion at the end of 1947 and nearly Rs. 4.0 billion before the monetary purge in March 1950, chiefly due to the budgetary imbalance. The pressures of the budgetary deficit were somewhat reduced by the balance-of-payments deficits prevailing up to this time. The total dropped to somewhat under Rs. 3.2 billion in May 1950 as a result of the monetary purge. Throughout 1950 the expansive effect of both the budgetary deficit and the newly appearing balance-of-payments surplus was felt, raising the total money supply to nearly Rs. 5 billion at the end of 1950. The rate of increase in the first nine months of 1951 was slower, reflecting the continued export inflation which was only partially counteracted by the end of the fiscal inflation. At the end of September the money supply was about Rs. 5.7 billion, or nearly 14 times the level of 1938.

The situation in the field of credit is not as clear. The Java Bank's interest rates range from 3 to 6½ percent, depending on the type of loan or discount. Consumption loans are made by moneylenders at usurious rates running to over several hundred percent. Even some of the small urban cooperatives lend at rates up to 84 percent.

There is also a severe shortage of financing for entrepreneurs who wish to obtain loans not related to export or import financing. No real capital market exists, although the government has recently authorized the establishment of a capital market in Djakarta. Private banks have been reluctant to enter the field of financing new investments, and hence the government has set up the Bank Industri Negara (Industrial State Bank) and the Bank

\*Indonesia has three exchange rates in effect: the "official" rate of Rs. 3.80 to US\$1; the "export" rate of Rs. 7.60 to US\$1; and the "import" rate of Rs. 11.40 to US\$1. The "import" rate, though still below the black market rate, reflects most accurately the relative purchasing power of the rupiah.

Rakjat Indonesia (Small Business Bank) to promote activity in this field. In addition, the expansion of the activities of cooperatives in this field is being pushed.

The government has also established the Bank Negara (Foreign Trade Bank) to promote the entry of Indonesian nationals into the importing and exporting business, and has announced its intention to nationalize the central banking activities of the Java Bank under the new name of the Bank Indonesia before the end of the year.

##### 5. International Trade and Payments

Indonesia's foreign trade balance has become steadily more favorable in 1950 and up to the present time in 1951. In this period, favorable trade balances have increased and have led to a growth in foreign exchange and gold holdings, at the same time as outstanding import orders have grown rapidly with the liberalization of import controls.

Operations of petroleum companies are excluded from Indonesia's international accounts. In order to provide an incentive for the oil companies to restore production and refining facilities, the Netherlands Government in 1946 made agreements with the companies to exempt their foreign exchange transactions from normal exchange regulations. These agreements were subsequently taken over by the Indonesian Government upon the transfer of sovereignty in 1949. Exports by the oil companies were valued at \$141 million in 1950 and \$79 million for the first half of 1951. Imports on petroleum account totaled \$47 million in 1950. Oil company import figures for 1951 are not yet available.

Apart from the petroleum account, Indonesia's export value in 1950 totaled \$580 million in 1950 and \$527 million in the first half of 1951. Imports on the same basis amounted to \$355 million in 1950, and were running at considerably higher levels in the first months of 1951. The increase in exports reflects both the postwar rise in production and the general increase in demand for certain essential raw materials because of the Korean conflict. The increase in the level of imports stems from the relaxation of import controls begun in the spring of 1950, when exchange availabilities had increased. The large amount of unfilled orders and outstanding forward exchange contracts points toward an even higher level of imports.

The volume of rubber exports in 1951 will increase by an estimated 16½ percent over 1950, when total exports were 640 thousand metric tons gross weight (as compared to 483 thousand tons in 1937). The other increases since 1949-50 range from slight in the case of petroleum, petroleum products, and mining products to substantial for copra (209 thousand metric tons gross weight in the first half of 1951 compared with 139 thousand tons in the same period of 1950). Sugar, palm oil, and pepper exports in 1951 are below the same period for 1950. With the exception of rubber and tin, all the above mentioned products are well below the export tonnage for peak prewar years. The destination of exports in 1950 were chiefly Malaya and Singapore (36 percent), the Netherlands (24 percent), and the U.S.A. (16 percent).

The principal import commodities have been textiles, foodstuffs such as milk products and rice, and metals and machinery. The 1950 volume of imports is only about one-third of prewar levels. In the first half of 1951 the chief sources of imports were the U.S.A., Japan, and the Netherlands. This marked a rise in the importance of Japan over 1950, when that country stood in third place.

Indonesia's balance of payments on current account moved from a deficit position in 1946 through 1949 to a surplus equivalent to \$139 million in 1950. Of this surplus, 60 percent represented a surplus with the dollar area. Most of the remainder represented a sterling surplus; only a negligible surplus was earned with the guilder area. In explanation of the balance of payments with the Netherlands, it must be pointed out that large payments for dividends, interest and other invisibles offsets the large export surplus with that country. A negligible deficit was incurred on capital account, while the equivalent of \$43 million was received in the form of U.S. aid. Therefore, net gold and foreign exchange assets increased by the equivalent of \$172 million during the war.

The balance of payments in 1951 was originally estimated by the Indonesian Government to involve a deficit of about \$66 million, but the large export balance to date indicates that there may be a considerable surplus. In addition, Indonesia has drawn on new ECA grants and the Netherlands loan, and is expected to draw on the Export-Import Bank credit, which will increase its available exchange reserves even further.

The total ready foreign exchange position at the end of September 1951 was estimated at over Rs. 1,700 million at the official exchange rate of 3.8 rupiah to the dollar (equivalent to about \$450 million). Of this sum, well over \$100 million had been earned in the first nine months of 1951 because of the growing export surplus. The gold reserves of Indonesia stood at nearly \$230 million at the end of September 1951. The net ready position of the foreign exchange fund rose to a peak of over \$125 million in September 1951; it has since declined slightly. In addition, the commercial banks hold over \$100 million in ready foreign exchange. The sale of forward exchange contracts for imports has been unusually heavy in the last few months; this fact may be expected to accelerate the trend toward a drop in foreign exchange reserves which became apparent in September 1951.

As long as the balance of payments is generally favorable, the ready foreign exchange reserve of almost \$450 million in September 1951 is sufficient to meet any temporary drains. A quick shift in the terms of trade, particularly a drop in the demand and price for rubber, tin and copra, would soon draw down the present reserves to the danger point. ✓

Indonesia's external public indebtedness is by far the largest of any country in Southeast Asia, excepting Formosa. Excluding the \$100 million Export-Import credit line which has not yet been fully drawn down, and excluding the major share of the \$52 million credit extended to Indonesia by the Netherlands which has not yet been utilized, Indonesia's external public indebtedness amounts to nearly \$370 million. When these unutilized credits have been drawn down, Indonesia's public debt will be about \$500 million or nearly as much as total foreign exchange earnings in 1950. Of the already incurred debt, guilder obligations represent about 70 percent of the total. ✓

T H A I L A N D

FY 1953 BUDGET PRESENTATION

Contents

PART I. Thailand. FY 1953 Program

1. Introduction
2. The Proposed Program
3. Program Goals in Northern Thailand
4. Importance of Southern Thailand
5. Other Projects
6. Loans to Supplement Grant Aid

PART II. Program Tables

PART III. Project Descriptions

APPENDIX. Current Economic Situation

Part I

THAILAND. FY 1953 PROGRAM

1. Introduction

The basic purpose of ECA aid to Thailand is to support a friendly government in maintaining the stability of a critically situated country which is, furthermore, one of the few in Asia unreservedly committed to the cause of the free world. Its record in the United Nations is ample evidence of this fact, as was its recognition of the Bao Dai Government in Vietnam and the provision of Thai troops and naval units in Korea. All this has meant the abandonment of Thailand's centuries-old practice of playing off the great powers against each other.

This small country is potentially a show window in Asia, not only because of the potentialities for prosperity which it holds but also to display the practical results of cooperation with the United States, the United Nations and the free world. Our efforts, the success which they attain, and the degree to which we prove to the Thai people that it pays to cooperate with the free world will be closely observed by the numerous countries which have hitherto failed, and perhaps even feared, to commit themselves in the present cold war. Hence great damage would be done to our prestige both in Thailand and in neighboring fence-sitting countries if the relatively satisfactory economic condition of Thailand were to be used as reason for reducing or eliminating the modest economic aid we now are extending. Such a course might be held to prove that flirting with Communism pays off better than whole-hearted support of the free world.

Hundreds of miles of Indochina's border with Thailand are under Communist control or influence. Burma and Malaya, Thailand's other neighbors, have militant Communist minorities. Internally, Thailand's chief danger from the left is the Chinese minority, constituting about one-sixth of the population, much of which is responsive to the wishes of whatever government controls the China mainland and thus the ancestral homes and relatives of the overseas Chinese. Another disturbing element is the presence of 75,000 refugee Vietnamese, Laotians and Cambodians, with a large number of Vietminh Communists, in eastern Thailand - the portion of the country which has the lowest living standards and the greatest economic insecurity. The combination and interaction of internal and external Communist threats to Thai security and stability are sufficient to give the Government continuous, in fact increasing, cause for concern. This has been recognized by the United States through the provision of MAAG assistance.

2. The Proposed Program

The recommended size of grant aid to Thailand for FY'53 is \$7 million, the same as for FY'52 and nearly \$2 million less than for FY'51. In view of the very strong political considerations noted above, it may seem inconsistent that the recommended Thailand program is so much smaller than that of neighboring and less consistently cooperative countries. The reason is that Thailand's economic position is relatively good. The country's real per capita income, while deplorably low from the standpoint of Europe or the United States, has nevertheless been rising in recent years, in part as a result of U.S. and U.N. aid programs. Moreover, the balance-of-payments position is relatively satisfactory, and the budget deficit is caused only by the expenditure of substantial sums on development and nation-building projects.

The Thailand program, unlike most other ECA aid programs in the Far East, therefore has no Category 9 - salable commodities for the purpose of raising counterpart. The Thais themselves deposit counterpart against grant aid supplies and equipment, supplementing these sums by additional appropriations of baht from the national budget. In view of these favorable circumstances, more than the recommended amount does not seem necessary despite the belief in some Thai quarters that our aid does not compensate for the risk inherent in the present intimate alignment with American policies.

*Blackmail  
to meet  
name -*

*12*

There has been a considerable shift of emphasis in ECA aid since FY'51, when nearly \$4 million of the \$8.9 million total program ultimately authorized was devoted to transportation and communications equipment. That initial phase has been passed, and no less than 36.6 percent of the recommended FY'53 allotment is for technical assistance. Most of the remainder is for pilot plants and other projects closely or immediately related to technical assistance. By their very nature these projects are short-term and will have fulfilled their objectives within a fairly short period of time. The aid provided in earlier years has given Thailand the equipment with which ECA experts can demonstrate good methods, thus increasing the competence of Thai officials and technicians and the speed with which the country can tackle its problems of modernization and socio-economic development. This leverage for initiating action and quickening the pace of progress is a major advantage of aid in grant form.

### 3. Program Goals in Northern Thailand

As mentioned above, Thailand's standard of living is above that of most Asiatic countries, and it has shown a postwar increase. This situation does not prevail throughout the whole of Thailand, however. In particular, the Korat Plateau in the northeastern part of the country is an economic and political sore spot. Nearly six million people, or approximately 30 percent of Thailand's population, live in this region. It is far below the national average in income, and well above the national average in incidence of disease. It also suffers from the presence of 75,000 refugee nationals of the Associated States of Indochina, including both disaffected Issarak and Vietminh Communists. The ECA program in the Korat Plateau area, therefore, constitutes an excellent example of how economic aid can be used to improve a difficult political situation.

Emphasis upon the program in this region reflects not only STEM but Embassy judgment. The Department of State has particularly urged the use of health teams in the area because it would have a favorable political effect besides improving the health of the local population.

Two-thirds of the total recommended program for Thailand is to be spent in public health and agriculture. Public health teams will be stationed in the northeast, visiting many rural centers throughout the Korat Plateau, bringing them the proven results of western science in a mass attack on malaria, venereal disease, plague and other diseases which afflict that area. The rural areas which this "bamboo roots" appeal will reach have tended to turn, in their misery, to the alluring but specious remedies suggested by the Communist agitators who live among them. It is obvious that any substantial reduction in the three million cases of malaria which are estimated to afflict Thailand annually, particularly in the north and north-east, will bring about an increase in manpower available for production, thus contributing to an improved standard of living.

The agricultural part of the program is nearly as large as that proposed for public health. Relatively little of this money is for machinery and equipment, the greater part being earmarked for technical assistance. Here again the poverty-stricken Korat Plateau is to benefit to a marked extent. Scarcity of rainfall and lack of irrigation facilities have kept this region constantly at the mercy of the monsoon. Large numbers of small earth dams will be constructed, and cooperative societies will be set up to maintain them and to distribute the irrigation water which they impound. Ten Thai engineers are now with the Bureau of Reclamation learning the best methods. Proposed projects in agricultural extension, rural cooperative credit, plant breeding and entomology will further increase the productivity and hence the well-being of the Korat region.

Similarly, in the fields of transportation and communications and education, the Korat area will be benefited. A road building program will be accompanied by a progressive and vigorous new program of mass education. There is reason to expect that Thai efforts, supported by ECA supplies and expert advice, will persuade the disaffected inhabitants of the Korat Plateau that it is better to cooperate with their own government than to join the subversive movements imported from Indochina.

#### 4. Importance of Southern Thailand

The southern peninsula, bordering Malaya and Burma, in both of which there is armed Communist insurrection, is not as large or populous as the north-east area. On the other hand, it is subject to Communist subversion from Malaya, and it provides nearly all of the country's important exports of tin, tungsten and rubber -- all strategic elements in the defense program of the United States and Western Europe. Thai mining methods can be made much more efficient with modern facilities such as machinery, power and better harbor facilities in the south, as well as through technical guidance in installation and use. The FY'53 program calls for two pilot plants for the production of tin and tungsten. When such plants are established in greater numbers, financed either by loans or from Thailand's own resources, it should be possible in the comparatively near future to double Thailand's present exports of 10,000 tons of tin concentrates and 1,000 tons of wolfram concentrates. The preliminary exploration has been completed and ECA assistance is greatly desired.

Harbor facilities in the south are very inadequate. Hence technical assistance will be provided for the rehabilitation of the port of Phuket on the west coast and for Songkla on the east. A virtually complete lack of power is a major obstacle to increasing production of tin, tungsten and rubber in the peninsula. Fuel is very short; foreign coal is imported at great expense. The country's forests are dwindling alarmingly, as factories and the railroads rely on wood for fuel. Such reliance cannot continue much longer without serious consequences to the nation's economy, particularly in the south.

On the mainland below Krabi and not far from Phuket on the peninsula are extensive proven deposits of lignite, which ECA aid will assist in surveying and developing. This may lead to the erection of a power plant which will serve the peninsula area and which eventually will be linked by the Thai Government in a grid with the central and northern areas of the country. It is probable that ECA activities in the southern provinces will have the combined objectives of increasing exports to the United States of tin, tungsten and rubber, and of so strengthening the economy of the peninsula that the Thai Government will have no difficulty in retaining effective control in the face of Communist infiltration. The lesson will not be lost on neighbors in Burma and Malaya. It will also be noted in Indonesia, as most of the Thais in the four southern provinces are fellow-Moslems with close Indonesian contacts.

#### 5. Other Projects

It is planned to increase the irrigated area in Thailand from two million acres to 4.8 million in the next few years. This measure, combined with the other steps now being undertaken, should increase annual rice production by a million tons, worth \$150 million at present export prices. Most of the expense, efforts and planning will be contributed by the Thais, but ECA experts are playing a vital role.

Within the large share of the program allotted to agriculture, there is a small section devoted to fisheries. While salt fish exports are fairly important in Thailand, and while this project will no doubt result in a desirable increase in such exports, the chief purpose of introducing new methods and equipment into the fisheries industry is to increase the supply of fish for domestic consumption. The total estimated catch should be increased from 340,000 metric tons in 1948 to at least 600,000 tons. The energy-making protein content of the Thai diet is inadequate, and a substantial increase in consumption of fish is the best and most feasible means of meeting this need. A consequent increase in health and in the productivity of labor may be expected. Moreover, income and stability in Thailand's backward and impoverished southern provinces, adjoining Communist-infested Malaya, would be materially increased by new marine fisheries.

The lignite deposit near Krabi was described above. Another extensive lignite deposit near Lampang, a road-rail junction in the north, should likewise prove a satisfactory source of fuel and a center for the production of electric power.

The proposed ECA program for education will follow the lines already mapped out by UNESCO and by TCA before the recent transfer of responsibility to ECA. The literacy rate of Thailand may be above that of China, Indonesia and some other Asian countries, but it is woefully inadequate in the modern world and is moreover an inhibiting factor in production. Efforts will be made to introduce suitable types of textbooks, and to stimulate nationwide interest in an educational program.

Inflation has greatly reduced the real incomes of Thai civil servants, most of whom are forced to resort to part-time subsidiary occupations or to dishonest practices in order to make a living. The FY'53 program calls for the loan of public administration specialists, a budget specialist, a civil service specialist and a statistical expert, among others, and it is hoped that means may be found to increase the efficiency and honesty of the public service.

#### 6. Loans to Supplement Grant Aid

The FY'51 program called for considerable quantities of machinery in transportation and other fields, but it is now feasible to purchase most machinery with loans, or through supplementary government and private resources. Certain railway, irrigation, and harbor development projects are being financed by loans of the International Bank for Reconstruction and Development. These loans are coordinated with other development projects, and ECA experts will assist with technical advice on the spot. Projects proposed in the FY'53 grant presentation for the national power survey, for highway maintenance and for the Harbor Development Administration are designed to facilitate loans in each of these fields. A tentative new loan program suggested by STEM Bangkok calls for a total of \$10.5 million, of which \$2.5 million each would be devoted to power development and highway projects, \$500 thousand to rehabilitating the Phuket and Songkla ports and the remaining \$5 million to the establishment of an industrial bank.

Details on proposed loan projects have not yet been received from STEM but the generally sound state of the Thailand economy suggests that such loans would be repaid without much difficulty. In discussions between ECA and the Export-Import Bank Staff, the Bank has indicated its view that this figure represents a reasonable loan component for the U.S. economic aid program in Thailand in FY'53 and that upon application by the Thai Government supported by adequate details on these specific projects, it will be willing to give serious consideration to loans of this magnitude. Such loans are necessary if Thailand is to continue making the steady and rapid economic progress which it must make if it is to continue to be an outstanding example of the benefits of cooperation with the free world. Events in Southeast Asia are moving so rapidly that time is short, and the pace of Thai progress must be accelerated on that account.

The proposed grant aid of \$7 million and a probable loan program add up to much less than the Thai Government is already spending from its own resources on ECA-sponsored projects alone. In a sense this is a guarantee that American assistance will be put to good use by a nation which is sufficiently interested in economic progress to invest a large share of its national income in such projects. The ECA aid is nevertheless of vital importance. It may be compared to the strategic reserve which to a military commander may make all the difference between success or failure. It will enable a number of projects to be added to those which the Thais would be likely to finance themselves. Moreover, it provides training for 130 Thais in the United States and for sending to Thailand 120 American experts. It seems clearly apparent that not even this comparatively enterprising Asian country would appreciate the benefits of technical assistance to such an extent as to pay for more than a fraction of these numbers of trainees and experts unless subsidized in the initial stages by a foreign government.

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More detailed information will be found in Part II, Program Tables; Part III, Project Descriptions; and the Appendix, Current Economic Situation.

Part II

THAILAND. Program Tables

- Table 1. Estimated Cost of Program (Grant Aid Only).....  
by Major Project Category
- Table 2. Revised FY '52 and Estimated FY '53 Dollar Cost  
of Program (Grant Aid Only) .. by Major Project  
Category
- Table 3. Estimated Breakdown of FY '53 Program (Grant Aid  
Only) ... by Project Within Major Category
- Table 4. Estimated FY '53 Breakdown of Supplies and  
Equipment ... by Commodity Group

THAILAND

Table 1. Estimated Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Costs (in thousands)			Dollar Equiv. of Local Currency Cost <sup>b/</sup>
	Total	Dollar Cost	Services	
		Supplies & Equipment		
		<u>ESTIMATED FY '53</u>		
1. Emergency Relief	\$ -	\$ -	\$ -	\$ -
2. Public Health	2,375	1,855	520	Not Available
3. Agriculture, Forestry, Fisheries	2,130	1,202	928	-
4. Transportation, Power, Other Public Works	800	435	365	-
5. Handicraft and Manufactureing, Mining, Other Industry	590	446	144	-
6. General Engineering Advisory Services	-	-	-	-
7. Education	800	500	300	-
8. Public Administration	305	-	305	-
9. Maintenance of Essential Supply	-	-	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>7,000</u>	<u>4,438</u>	<u>2,562</u> <sup>c/</sup>	-
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>63.4</u>	<u>36.6</u>	
<u>REVISED FY '52</u>				
1. Emergency Relief	-	-	-	-
2. Public Health	2,450	1,761	689	5,825
3. Agriculture, Forestry, Fisheries	2,450	1,691	759	20,270
4. Transportation, Power, Other Public Works	623	410	213	18,740
5. Handicraft and Manufactureing, Mining, Other Industry	531	395	136	23,800
6. General Engineering Advisory Services	-	-	-	-
7. Education	816	576	240	11,410
8. Public Administration	130	-	130	- <sup>e/</sup>
9. Maintenance of Essential Supply	-	-	-	-
<u>TOTAL COST OF PROGRAM</u>	<u>7,000</u>	<u>4,833</u>	<u>2,167</u> <sup>d/</sup>	<u>80,045</u> <sup>f/</sup>
<u>Percent of Total Dollar Cost</u>	<u>100.0</u>	<u>69.0</u>	<u>31.0</u>	-

THAILAND

(Footnotes to Table I)

- a/ Exclusive of loans discussed with Export-Import Bank Staff, and referred to in Part I of the individual country studies.
- b/ Converted at the open market rate of 20 baht = US\$1.
- c/ \$1,912 for TA experts; number of persons distributed as follows: Public Health, 24; Agriculture, Forestry, Fisheries, 45; Transportation, Power, Other Public Works, 15; Handicraft and Manufacturing, Mining, Other Industry, 6; Education, 20; Public Administration, 10; Total, 120. Also \$650 for trainees, distributed as follows: Public Health, 25; Agriculture, Forestry, Fisheries, 50; Transportation, Power, Other Public Works, 22; Handicraft and Manufacturing, Mining, Other Industry, 6; Public Administration, 27; Total, 130.
- d/ \$1,557 for TA experts; number of persons distributed as follows: Public Health 28; Agriculture, Forestry, Fisheries, 50; Transportation, Power, Other Public Works, 11; Handicraft and Manufacturing, Mining, Other Industry, 4; Education, 20; Public Administration, 4; Total, 117. Also, \$610 for trainees, distributed as follows: Public Health, 57; Agriculture, Forestry, Fisheries, 30; Transportation, Power, Other Public Works, 9; Handicraft and Manufacturing, Mining, Other Industry, 15; Public Administration, 12; Total, 123.
- e/ Not available.
- f/ These figures relate to calendar 1952 and hence overlap U.S. FY'52 and FY'53.

ECA:FEPD  
November 30, 1951

THAILAND

Table 2. Revised FY'52 and Estimated FY'53 Dollar Cost of Program (Grant Aid Only<sup>a/</sup>)  
By Major Project Category

Major Project Category	Dollars (in thousands)					
	Total Dollar Cost		Percent of Total Program Cost (Categories 1-9)		Percent of Total Project Cost (Categories 1-8)	
	FY'52	FY'53	FY'52	FY'53	FY'52	FY'53
1. Emergency Relief	\$ -	\$ -	-	-	-	-
2. Public Health	2,450	2,375	35.0	33.9	35.0	33.9
3. Agriculture Forestry, Fisheries	2,450	2,130	35.0	30.4	35.0	30.4
4. Transportation, Power, Other Public Works	623	800	8.9	11.4	8.9	11.4
5. Handicraft and Manufacturing, Mining, Other Industry	531	590	7.6	8.5	7.6	8.5
6. General Engineering Advisory Services	-	-	-	-	-	-
7. Education	816	800	11.7	11.4	11.7	11.4
8. Public Administration	130	305	1.8	4.4	1.8	4.4
9. Maintenance of Essential Supply	-	-	-	-	-	-
<u>TOTAL DOLLAR COST OF PROGRAM</u>	<u>\$7,000</u>	<u>\$7,000</u>	<u>100.0</u>	<u>100.0</u>	-	-
<u>Total Dollar Cost of Projects (Categories 1 thru 8)</u>	<u>7,000</u>	<u>7,000</u>	-	-	<u>100.0</u>	<u>100.0</u>

<sup>a/</sup> Exclusive of loans discussed with the Export-Import Bank staff, and referred to in Part I of country study.

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Table 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
Major Category and Project	Total Dollar Cost	Dollar Equivalent of Local Currency Cost <sup>a</sup>
1. <u>Emergency Relief</u>	--	
2. <u>Public Health</u>	\$ <u>2,375</u>	
Transmissible Disease Control	<u>1,015</u>	Not Available
Malaria	585	
Trachoma, etc.	80	
Filariasis (Elephantiasis)	40	
Venereal Disease	250	
Plague	60	
Village Sanitation (Water purification, sewage, drainage, etc.)	<u>150</u>	
Hospitals and Health Centers (Modernization and expansion in rural areas)	<u>340</u>	
Nutrition	<u>150</u>	
Medical Research	<u>70</u>	
Training and Education	<u>650</u>	
3. <u>Agriculture, Forestry, Fisheries</u>	<u>2,130</u>	
<u>Agriculture</u>	<u>1,523</u>	
Agricultural Extension		
Service Center	740	
Cooperatives	360	
Irrigation and Reclamation	423	
<u>Forestry</u>	<u>307</u>	
Experimental Stations	40	
Regeneration Centers	96	
Forest Patrol	48	
Forest Inventory	22	
Training and Education	25	
Research	76	
<u>Fisheries</u>	<u>300</u>	
Marine Fisheries	100	
Fresh Water Fisheries	35	
Brackish Water Fisheries	20	
Processing and By-Products	25	
Marketing and Distribution	90	
Education and Expansion	30	
4. <u>Transportation, Power, Other Public Works</u>	<u>800</u>	
Railroad Rehabilitation	35	
Highway Maintenance	30	
Power Survey	200	
Rural Power Development	440	
Harbor Development Administration	75	
Telephone and Telegraph Training	20	
5. <u>Handicraft and Manufacturing, Mining, Other Industry</u>	<u>590</u>	
Mining	560	
Industrial Loan Corporation	30	
6. <u>General Engineering Advisory Services</u>	--	
7. <u>Education</u>	<u>800</u>	
Educational Pilot Project	300	
Vocational Education	500	

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Table 3. Estimated Breakdown of FY '53 Program (Grant Aid Only)  
By Project Within Major Category

Costs (in thousands)		
<u>Major Category and Project</u>	<u>Total Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost<sup>a/</sup></u>
8. <u>Public Administration</u>	<u>305</u>	Not Available
9. <u>Maintenance of Essential Supply</u>	--	
<u>TOTAL COST OF PROGRAM</u> (Categories 1-9)	<u>7,000</u>	
<u>Total Cost of Projects</u> (Categories 1-8)	\$ <u>7,000</u>	

a/ Converted at open market rate of 20 baht = US\$1.

~~CONFIDENTIAL - Security Information~~THAILANDTable 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C &amp; F Dollar Cost (in thousands)

Commodity Group	Total Cost	Cost of Salable Commodities
1. <u>Food</u>	\$ - \$	N O N E
2. <u>Feed and Fertilizer</u> Fertilizer	<u>10</u>	10
3. <u>Natural Fibers</u>	-	
4. <u>Tobacco</u>	-	
5. <u>Other Agricultural Products</u> Seeds - vegetable, field and grass	<u>6</u>	6
6. <u>Fuels</u>	-	
7. <u>Industrial Raw Materials</u>	<u>1,038</u>	
<u>Chemicals and Related Products</u>		<u>1,038</u>
DDT and other pesticides		303
Medicinal and pharmaceutical preparations - penicillin, aralen, aureomycine, streptomycin, etc.		717
Miscellaneous industrial chemicals		18
8. <u>Capital Equipment</u>	<u>2,532</u>	
<u>Agricultural Equipment</u>		<u>306</u>
Sprayers and parts		85
Tractors and parts		135
Misc. equipment - harvesters, plows, harrows, platform scales, grinders, wood testing machines		86
<u>Industrial Machinery and Equipment</u>		<u>2,226</u>
Generators and motors - electric, diesel and gasoline		378
Construction equipment - pumps, pipe, tanks, drill rigs, supports, etc.		424
Mining equipment - drills, hoists, dump cars, air compressors, etc.		197
Excavators, bulldozers, road rollers and other road building equipment		310
Misc. industrial equipment, n.e.c. - refrigerating equipment, food processing machinery, pilot plants, well equipment		479
Trucks, jeeps, station wagons and parts		211
Machine tools - lathes, drilling machines, planers, woodworking machines, etc.		13
Vessels and equipment		89
Electrical apparatus		125

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~~CONFIDENTIAL - Security Information~~THAILANDTable 4. Estimated FY '53 Breakdown of Supplies and Equipment  
By Commodity Group

C & F Dollar Cost (in thousands)			Cost of Salable Commodities
Commodity Group	Total Cost		
9. <u>Other Manufactures and Raw Materials</u>	\$ 852	\$	N O N E
Textiles		41	
Miscellaneous		<u>811</u>	
Misc. iron and steel manufactures - small hand tools, barbed wire, wire fencing, etc.		20	
Laboratory equipment - microscopes, ovens, burners, tanks, scales, dessicators, forceps, crucibles, glassware, etc.		251	
Hospital supplies and equipment - X-ray machines, beds, sterilizers, syringes, needles, operating tables, etc.		229	
Commodities, n.e.c. - technical books, meterological instruments, cameras, projectors, film, surveying equip- ment, bicycles, etc.		311	
<u>TOTAL DOLLAR COST</u>	<u>\$4,438<sup>a/</sup></u>		N O N E

a/ For distribution by major project category, see Table 1, column 2.

ECA:FEPD  
November 30, 1951

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Part III

THAILAND. ECA-FINANCED PROJECTS

1. Emergency Relief        None

2. Public Health

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost*</u>
FY'51:    \$ 2,008,000	FY'51:        -
FY'52:    2,450,000	FY'52:)        )
FY'53:    2,375,000	FY'53:)    \$ 5,825,000

An improvement in public health services is a major means of bringing the Thai Government closer to its people and thus strengthening the country's will to resist internal Communist aggression. As a key to a rapid increase of productivity, with a corresponding elevation of living standards and enhancement of political stability, better public health is vital to the Thai economy.

Through the impetus provided by ECA aid and by the United Nations, Thai government expenditures for public health have increased from 6 cents per capita prewar to 14.5 cents in 1950, and 20 cents for 1952. A principal objective for the immediate future is to increase this outlay to 30 cents, or 5 times the prewar rate.

Such easily preventable and treatable diseases as malaria, dysentery, yaws and trachoma are widely prevalent. ECA assistance is designed to help improve the health of millions of actual and potential sufferers from these diseases and to raise to a higher level the vigor and well-being of the people. This aid will take the form of grants of medical supplies and equipment, and the provision of technical assistance.

Transmissible Disease Control

<u>Dollar Cost</u>
FY'51:    \$ 792,000
FY'52:    1,045,000
FY'53:    1,015,000

(a) Malaria

FY'51:    \$ 598,000
FY'52:    700,000
FY'53:    585,000

Malaria is the leading cause of death and disability in Thailand, affecting an estimated one-sixth of the population at any given time. More than 50,000 deaths from malaria are reported annually.

In FY'51 ECA furnished DDT, spraying and transportation equipment, and technical assistance and participated in the training of 200 local personnel. As a result the homes of 200,000 people were sprayed with DDT prior to the monsoon season. This work is being extended in FY'52 so as to spray the homes of 1,400,000 persons and to treat approximately 200,000 for malaria

\*Converted at the open market rate of 20 baht = US \$1

through the distribution of aralen tablets. An additional 1,800 local personnel will be trained in anti-malarial work.

The FY'53 program envisages the training of 1,600 more local workers, making possible the spraying of homes of an additional 2,500,000 persons and the treatment of 250,000 more people through aralen distribution. It is anticipated that results should be so striking as to create forceful public demand for continuance of an adequate anti-malarial campaign, whether or not external assistance is available.

(b) Trachoma and Other Infectious Conjunctivitis

Dollar Cost

FY'51:	\$	74,000
FY'52:		60,000
FY'53:		80,000

Trachoma and other inflammatory diseases of the eye are common throughout the Thai population, particularly among school children. In 1951 a pilot program for the treatment of eye diseases was established in one province. In FY'52 it is planned to extend this program to other provinces and to treat about 6,000 children. The target for FY'53 has been set for the treatment of 100,000 children. Treatment consists largely in the use of aureomycin ointment and other new antibiotics.

(c) Filariasis (Elephantiasis)

Dollar Cost

FY'51:		-
FY'52:	\$	20,000
FY'53:		40,000

Filariasis is endemic in certain areas of Thailand, but there is little knowledge concerning either the parasite or the insect carrier. In FY'52 it is planned to establish a control area containing approximately 100,000 people. Field studies are being conducted and an attempt will be made to evaluate certain drugs used in the treatment of this disease. A consultant furnished by WHO to participate in the field studies and ECA will assist the Government in control and treatment measures.

(d) Venereal Disease

Dollar Cost

FY'51:	\$	120,000
FY'52:		215,000
FY'53:		250,000

In certain urban areas the incidence of venereal disease is reported to be as high as 25 percent. The related disease, yaws, affects another 100,000 persons. In FY'51 ECA assistance, through distribution of drugs to hospitals and district medical centers, enabled Thai health authorities to treat an additional 1,500 persons. In FY'52 the project is being extended to treat 4,500 more. By FY'53 it is planned to cover 8,000 cases, with an ultimate goal of finding and treating an additional 25,000.

(e) Plague

Dollar Cost

FY'51:		-
FY'52:	\$	50,000
FY'53:		60,000

Although the per annum deaths from plague are not high, an epidemic is always threatened. During FY'52 ECA is conducting a rodent control program and a survey in the worst area. It is proposed to extend this program in FY'53 on the basis of knowledge gained in FY'52. Rodent control is also of great value in conserving the rice crop.

Village Sanitation (antibiotics, etc.)

Dollar Cost

FY'51: \$ 206,000  
FY'52: 150,000  
FY'53: 150,000

Intestinal diseases rank second among causes of death in Thailand, (56.7 per 100,000 population in 1948). They also are responsible for enormous losses in working time and productivity. Typhoid, dysentery and cholera are particularly widespread and are responsible for a large part of the burden on hospitals.

Contaminated shallow wells, coupled with almost complete absence of sanitary methods of human waste disposal, are the chief causes of these conditions. Demonstration units have been set up, from which newly developed information and techniques will radiate. During FY'51 supplies and well and latrine boring equipment were procured and plans crystallized. In FY'52 an estimated 50,000 people will be aided by drilling wells and by installation of sanitary latrines. In FY'53 this goal will be raised to 250,000. Promotion of the striking benefits to be obtained from adequate village sanitation should cause a widely spreading adoption of these methods in subsequent years.

Hospitals and Health Centers (rural areas)

Dollar Cost

FY'51: \$ 727,000  
FY'52: 340,000  
FY'53: 340,000

Of great significance and appeal to rural populations is the fact that 90 percent of the medical service available outside the larger cities is provided by the 46 hospitals to receive assistance under this project. Supplies and equipment were procured in FY'51 and FY'52 to improve surgical and diagnostic units. For FY'53 it is proposed to continue these improvements by supplying X-ray units and surgical equipment. Facilities for maternal and child care will also be provided. Bringing these institutions more closely in touch with modern medical science will help attract and hold promising young physicians who have hitherto flocked to Bangkok.

Nutrition

Dollar Cost

FY'51: \$ 26,000  
FY'52: 150,000  
FY'53: 150,000

ECA-aided research in FY'51 showed a high rate of malnutrition, particularly in children. In FY'52 ECA will distribute multiple vitamin capsules to relieve the most critical areas. Vitamin A, critically short, can be supplied from presently discarded shark livers. A pilot study will be made utilizing a shark liver extraction machine provided by ECA. Supplies and equipment will be provided for a vitamin assay laboratory to determine the nutritional value of locally produced foods.

For FY'53 it is proposed to provide additional laboratory supplies and equipment for a rice par-boiling pilot plant. This plant will be used to determine the most acceptable method to prevent the depletion of vitamin B in rice, the main staple of the Thai diet. With this relatively small expenditure it is hoped to produce new methods of food preparation and utilization which will permanently raise Thai nutritional standards.

Medical Research

Dollar Cost

FY'51:	\$	21,000
FY'52:		100,000
FY'53:		70,000

In order to apply effective control methods, medical research is necessary to determine the precise role of mosquitoes, flies and other insects in transmitting diseases.

During FY'51 plans were made for the establishment of an Insect Control Center. In FY'52 supplies and equipment are being procured and operations begun. Field teams operate from the Center and make constant local investigations.

ECA proposes to continue the investigation and research in FY'53 by providing some additional supplies and equipment. Special efforts will be made to determine whether parasites cause a kidney stone ailment widely prevalent in the Northeast.

Training and Education

Dollar Cost

FY'51:	\$	236,000
FY'52:		665,000
FY'53:		650,000

Major stress is laid on the training of Thais to expand and carry forward future health activities. During FY'52, under supervision of health center staffs, practical workers were trained in vaccination techniques, in the installation of sanitary latrines, and in the construction of safe village wells. Six professors and four nursing instructors from Washington University Medical School of St. Louis taught new techniques to 600 Thai physicians and medical students in Siriraj and Chulalongkorn Medical Schools. It is planned to train 650 more in FY'52. Aid proposed for FY'53 will train 700. The American instructors are introducing new and effective methods which should shortly permeate general medical practice and greatly increase its effectiveness.

Plans were made in FY'51 for a Health Demonstration and Training Center in Cholburi to serve 160,000 persons. Operations will begin in FY'52 when patients will be treated and 950 professional and sub-professional health personnel will be trained. In FY'53 it is planned to train 1,100 more and to treat additional patients in Cholburi Center.

Thailand's serious shortage of trained leadership for public health programs was considerably relieved by 62 ECA training grants in FY'51 and FY'52. To continue to form a nucleus of outstanding leadership it is proposed to make 30 more grants in FY'53.

Mobile health teams were organized in FY'51 to show motion pictures and give lectures to villagers on sanitation and health. A continuation of this project is planned in FY'52 and FY'53.

3. Agriculture, Forestry, Fisheries

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 2,317,000	FY'51: -
FY'52: 2,450,000	FY'52:) \$ 20,270,000
FY'53: 2,130,000	FY'53:)

During the seven centuries since the Thais entered the valley of the Menam Chao Phya, their agricultural practices have changed very little. More than 16,000,000 of Thailand's 18,000,000 people are wholly engaged in agriculture. Future political stability will be in direct ratio to the amount of food, clothing and shelter available to a rapidly increasing population. Increased productivity in these fields will depend largely on imports of tools, capital equipment and technical assistance to be applied to rice production and irrigation, fish production, the teak industry, farmers' cooperatives, and the training of native manpower. ECA aid is designed to provide the impetus for increased export production to pay for future expansion of such imports.

Although the Thais are generally better fed than the people of most Asiatic countries, extreme poverty in areas close to Indochina provides fertile grounds for communist propaganda. As the population growth continues at its present rate of nearly 2 percent per annum, the problem area will expand unless better techniques and tools reach the farmers to enable them to increase food production. Traditionalism and conservatism constitute a serious obstacle to this. The solution lies in a vigorous research and extension program which ultimately will spread new methods and equipment to every village.

Thailand has a few well-trained technicians, and the government is greatly interested in bettering the lot of the farmer. Hence ECA aid is likely to be used to good advantage.

Agriculture

<u>Dollar Cost</u>
FY'51: \$ 2,208,000
FY'52: 1,707,000
FY'53: 1,523,000

(a) Agricultural and Extension Service Center

FY'51: \$ 1,211,000
FY'52: 781,000
FY'53: 740,000

The National Agricultural Center has been organized to coordinate all of the agricultural teaching, research and extension activities previously scattered through the Ministry of Agriculture. The University of Agriculture is an important part of the National Agricultural Center, with its School of Agriculture at Bangkhen, its Forestry School at Prae and its School of Cooperatives at Bangkok. These institutions are at present the only training centers for future agricultural leadership. They are now understaffed and poorly equipped, but provide an excellent foundation upon which to build the means to further the general program to expand agricultural production substantially. Many of the 45 experts included in the project for FY'53 will be attached to this Center as specialists in agricultural education, extension, management, administration, field crops, plant breeding, livestock production, entomology, plant pathology, agricultural production and biochemistry. Ten Thai agricultural officials will receive training grants in FY'52, and in FY'53 the number of such grants will be increased to 18.

During FY'51 ECA concentrated on procurement of equipment and personnel for the School of Agriculture at Bangkok. It is expected that 200 to 300 additional students will be trained at the Center, plus a larger number of staff members and others trained in short courses. There are no trained extension workers in Thailand at present. There should be 10 to 20 trained extension graduates by the end of FY'53.

Services and equipment are shared by the college, the experiment stations and the extension services. This makes for teamwork and cooperation among all the agencies. Equipment and supply needs are considerably greater than can be met from available ECA funds, and extensive contributions will be made from the Thai budget. Work already has started in modern training in extension service work, and there are short courses at Bangkok for farmers and in-service trainees. In addition, research work is now going on with respect to rice, fertilizers, plant diseases, pest control and soil utilization.

The FY'53 plan provides \$180,000 for supplies and equipment, including tractors and farm implements, pumps, generators, refrigeration and library supplies and teaching aids.

(b) Cooperatives

Dollar Cost

FY'51:	-
FY'52:	\$240,000
FY'53:	360,000

Cooperatives appear to furnish the best solution for the acute problems of usurious interest rates and administering the retail distribution of water from new irrigation projects.

A special law has set up a Department of Cooperatives, which assists in organizing and financing credit and land improvement farmers' cooperatives. This department lends money directly to local cooperatives. It also reclaims land and leases it to local cooperatives on a long-term basis. A recent survey revealed the existence of 8,046 societies, with a total membership of 277,000. Fifty-five of these are for colonization purposes, and 13 for land improvement.

Experiments in FY'51 showed that the use of power machinery could greatly speed up land reclamation and improvement. To demonstrate how rapidly such equipment can benefit the farmers, ECA will provide seven tractors with additional equipment and maintenance machinery, and the necessary technical experts. Several Thais will be trained in irrigation, cooperative methods and agricultural economies.

Two hundred small earth dams are being constructed in the relatively dry north-east region, 14 of them in FY'52 and the remainder in FY'53. Each will irrigate about 200 farms. Cooperatives will operate the dams and water courses. The equipment to be supplied also will help build barrages on the larger streams to provide water for 20,000 to 100,000 additional acres.

The expansion of the existing cooperative organization is held up because of lack of capitalization for loans to members and for the purchase of equipment. To supplement their capital which was nearly wiped out by war and postwar inflation, counterpart grants of \$180,000 will be made to agricultural and fisheries cooperatives. The 1951 capitalization of the Central Bank for Cooperatives, for instances, would equal only one-half of one percent of the value of the farm land of Thailand. Again, the average loan was equivalent only to the present value of two-fifths of an acre, or one water buffalo. Thus most borrowers are still forced to pay the fantastic interest rates of the money-lenders. The repayment record of members of the credit societies is excellent. Only three foreclosures have been necessary in the entire history of the movement in Thailand.

Savings bank deposits are small and the floating of government bond issues at usual rates of interest is difficult. The investment of some outside capital would stimulate the raising of large funds within Thailand for this purpose.

(c) Irrigation and Reclamation

Dollar Cost

FY'51: \$ 997,000  
FY'52: 686,000  
FY'53: 423,000

Thailand's able Department of Irrigation has embarked on a comprehensive series of projects aimed at increasing the area under irrigation from 2,000,000 acres to 4,800,000 acres by 1956. For this, it has obtained an \$18,000,000 loan from the International Bank for Reconstruction and Development. These projects, however, do not include the critical and poverty-stricken northeast area, which embraces nearly one-third of the population and borders communist-infested areas of Indochina. The reclamation of formerly cultivated land in this area is particularly important to the achievement of the goal of increasing rice production by 15 to 20 percent in the next five years.

Machinery and equipment for this program already has been provided by ECA from FY'51 and FY'52 funds. A large part of the money earmarked for FY'53 will be devoted to technical assistance. Several U.S. irrigation and reclamation experts will be sent to Thailand to help develop and strengthen the program, and 13 Thai trainees will be sent to the United States for study in advanced methods.

Forestry

Dollar Cost

FY'51: -  
FY'52: \$ 283,000  
FY'53: 307,000

Thailand is one of the three principal sources of teakwood and has other valuable forest resources, some of which have been wasted by reckless exploitation. The Government has evolved a long-term plan for orderly forest exploitation and regeneration, and has requested U.S. and FAO assistance in implementing it. It is proposed to concentrate U.S. assistance on the seven projects outlined below, in cooperation with FAO technical advisors.

The Forestry Department is entering into a critical transition period, as all foreign forest concessions will expire by 1954. The Government thinks it politically inexpedient to renew them, so that native personnel must assume management and operation before that time. The present staff is small, although some members are well trained. Five Thai forestry officials will receive training grants in FY'52 and six will receive such grants in FY'53. Planned research and training in forest products, conservation and reforestation are necessary immediately. The major bottleneck at present is lack of inventory and resources for a survey, coupled with the sudden large increase in the requirements for trained personnel. Our assistance at this time should give a constructive turn to the whole future program of forest development.

(a) Experimental Stations

Dollar Cost

FY'51: -  
FY'52: \$ 44,000  
FY'53: 40,000

Five experimental stations now carry out experiments and studies on the silvicultural characteristics of the main wood species. These centers, at present poorly equipped and understaffed, are charged under the forest plan with the responsibility for charting all phases of growth, cutting, management and protection of forests. ECA proposes to supply equipment for these stations and a forest products specialist to assist in their reorganization.

(b) Regeneration Centers (Nurseries)

Dollar Cost

FY'51: -  
FY'52: \$ 98,000  
FY'53: 96,000

There are now nine artificial regeneration centers working on development of nursery stock and transplantations. The Forestry Plan calls for concentration on artificial regeneration of teak, and of trees suitable for charcoal and firewood. It is planned to plant 1,200 acres of teak annually in order to assure Thailand of a mature stand of this most important export for the next century. The FY'52 target for forest trees planted by regeneration nurseries is 3,200 acres. In FY'53 this will be increased to 6,000 acres.

Equipment and forest experts will be provided by ECA to assist in the reorganization and modernization of these centers.

(c) Forest Patrol

FY'51: -  
FY'52: \$ 42,000  
FY'53: 48,000

Pirating and generally promiscuous cutting of valuable teak trees is extensive in Thailand. The number of forest officers is inadequate to patrol the twelve territorial divisions into which the forests are subdivided, particularly as they lack vehicles. This project calls for the supply of jeeps and light trucks, miscellaneous field equipment, and tentage to help enlarge the patrols and increase the number of forest divisions.

(d) Forest Inventory

FY'51: -  
FY'52: \$ 30,000  
FY'53: 22,000

Accurate and up-to-date inventories of growing stock are essential to the satisfactory development of a forestry program. It is planned to put at least twenty working parties into the field for this purpose. Planned ECA-financed equipment includes jeeps and light trucks, miscellaneous field equipment and tentage, to be supplied as crews are trained.

(e) Training and Education

Dollar Cost

FY'51: -  
FY'52: \$ 29,000  
FY'53: 25,000

A long-range forestry program can be made fully effective only by the training in modern techniques of a considerable number of Thai technicians. Accordingly, several members of the faculty of the Forestry College at Prae

will be given advanced training in the United States. Some assistance will also be given to the Forestry College by U.S. silviculture and forestry management specialists. ECA also will supply equipment, teaching aids, books, visual aids, generators and field equipment for the Forestry College.

(f) Research

FY'51: -  
FY'52: \$ 40,000  
FY'53: 76,000

Extensive research is called for to accomplish the aim of increasing the number and quality of products of Thai forests. The development of better plywoods and veneers, wood preservation, timber testing, seasoning and other practical projects will be stressed. ECA plans to supply a forest products specialist, a general forestry specialist and a forest management specialist, who will be active in several other phases of the program in addition to research.

Equipment includes timber testing and seasoning items, fertilizer, seed, tractors and farm machinery for regeneration and conservation, and jeeps and fields equipment for field work.

Fisheries

Dollar Cost

FY'51: \$ 109,000  
FY'52: 460,000  
FY'53: 300,000

As in other Far Eastern countries, fish constitutes a much larger source of protein than meats. Thailand has substantial fish resources in its coastal waters, but these need development for an increase in production to meet the demands of an increasing population. Lack of funds, equipment and experienced personnel have prevented the Government from taking effective action toward this end. To help forward the reconstruction of this industry, ECA proposes to provide assistance in the form of two fisheries experts and supplies and equipment. FAO specialists will cooperate in all projects. In addition, a total of five Thai officials will receive training grants in FY'53.

The Gulf of Thailand abounds in fish, but there is danger that this rich natural resource will be exploited chiefly or wholly by Japanese and Malayan fishermen. Likewise, complete domination of the industry by foreign, especially Chinese, interests may be expected unless improved production, marketing and financial methods are introduced.

(a) Marine Fisheries

Dollar Cost

FY'51: \$ 109,000  
FY'52: 250,000  
FY'53: 100,000

The research vessel Kashetrindhu is being equipped with ECA-purchased materials. It will carry on exploratory and experimental fishing, and oceanographic research under the leadership of FAO and ECA technicians operating with Thai personnel. Engines have been ordered by ECA for twenty fishing boats, thus permitting these boats to cover a very much larger area. As a result of research aboard the Kashetrindhu, it is expected that modern fishing gear and equipment will be introduced, thus greatly increasing the marine catch.

(b) Fresh Water Fisheries

FY'51: -  
FY'52: \$ 63,000  
FY'53: 35,000

Swamp land reclamation, fish breeding, fish-pond culture extension and fish-pond culture research are being carried on by FAO technicians with Thai personnel. Modest equipment needs are being met from ECA funds.

(c) Brackish Water Fisheries

Dollar Cost

FY'51: -  
FY'52: \$ 2,000  
FY'53: 20,000

FAO technicians with Thai personnel are investigating oyster culture and other brackish water fisheries to which ECA will contribute small items of equipment.

(d) Processing and By-Products

FY'51: -  
FY'52: \$ 25,000  
FY'53: 25,000

FAO and Thai technicians are investigating the possibilities for modern canning and other marine products industries. They also plan to start small-scale industries using waste materials to manufacture fish meal and fish oil, vitamin oils from fish livers and shark skins. These industries either have not existed previously, or have been conducted in a relatively primitive manner. At present there are no reliable data as to total fish production in Thailand.

(e) Marketing and Distribution

FY'51: -  
FY'52: \$ 90,000  
FY'53: 90,000

Central fish markets are being established, and marketing laws are being drafted. An FAO specialist, with Thai personnel, is engaged in this project to improve marketing methods and train personnel. It is expected that an application will be made for a loan of \$300,000 to finance a fish refrigeration plant in Bangkok. It is intended to send a Thai technician to the United States to learn modern techniques of refrigeration, fish handling and sanitation.

(f) Education and Expansion

FY'51: -  
FY'52: \$ 30,000  
FY'53: 30,000

The Agricultural College will take the lead in the educational aspects of fish culture, using ECA equipment and perhaps one or two FAO experts. ECA also will furnish some books and equipment aid to assist in the long-range educational program for fishermen's children -- in such subjects as fish marketing, processing, practical economics and management.

Abstracts will be provided, in translation, from publications of the Fish and Wild Life Service of the U.S. Department of Interior.

(g) Results Expected from Five-Year Fisheries Program

As a result of recent work in the field of fisheries research and development, a private company has just been formed to purchase two modern water trawlers and a large mechanized long-line boat for gulf fishing.

Charts will be printed and distributed to fishermen, showing the fishing grounds, seasonal migrations and quantities of fish to be expected in specified places at specified times. Presently idle swamp lands will be utilized for additional fish production. This should result in a doubled yearly fish catch, with increased income for fishermen and lower prices for consumers. Additional employment will be available in by-products industries.

4. Transportation, Power, Other Public Works

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51: \$ 3,932,000	FY'51: -
FY'52: 623,000	FY'52:) \$ 18,740,000
FY'53: 800,000	FY'53:)

Economic development depends to a large extent on the adequacy of roads, railways, electric power and harbors. Thailand has almost no road system, her railroads are inadequate, electric power is limited to a few cities, and harbor improvements are lacking at the important ports of Bangkok, Songkla and Puket. ECA aid is designed to help Thailand establish these basic public works and services needed for economic progress, particularly in agriculture and mining.

Railroad Rehabilitation

<u>Dollar Cost</u>
FY'51: \$ 965,000
FY'52: 50,000
FY'53: 35,000

ECA provided equipment in FY'51 to rehabilitate the Makassan shops for emergency repairs to locomotives and rolling stock pending the \$3,000,000 IBRD loan which has since been made. In FY'52 ECA is supplying a railroad shop supervisor and an accountant consultant, and is sending four Thai trainees to the U.S. It is proposed to continue this technical assistance in FY'53.

Highway Maintenance

<u>Dollar Cost</u>
FY'51: \$ 1,381,000
FY'52: 24,000
FY'53: 30,000

By the end of FY'51 ECA had provided a sufficient amount of highway equipment for immediate maintenance needs and demonstration purposes. In FY'52 this aid is being shifted to technical assistance. ECA is providing one highway construction and one highway equipment maintenance engineer to advise in equipment usage. These specialists are now setting up equipment maintenance schools in all eight of the highway divisions, and will also establish field maintenance and repair shops. It is proposed to continue this technical assistance in FY'53.

National Integrated Power System Survey

Dollar Cost

FY'51: -  
FY'52: \$ 50,000  
FY'53: 200,000

Important to the free world is the rapid development of Thailand's power resources, particularly in the south where all of its rubber, tin and wolfram production is concentrated.

Total installed electric power capacity of Thailand is estimated at only 45,000 KW. To this is being added 6,000 KW in Bangkok with the aid of ECA FY'51 funds, and 24,500 KW from a plant purchased in Japan and the U.K. by the Thai Government. It is believed that large thermal plants in connection with lignite deposits in thickly-populated areas, both north and south, are capable of increasing this capacity.

To insure that power development is properly integrated, ECA in FY'52 will provide funds for a preliminary over-all power survey by several contract engineers. In FY'53 it is proposed to increase this aid so that detailed plans can be made for a power system in the south. Five engineers and two supporting personnel will be included in this project, along with \$25,000 worth of equipment. To provide technically competent personnel in the future, 14 Thai trainees will be sent to the U.S. The power plans will provide the basis for an estimated \$8,000,000 loan to be sought to finance the construction of the system over a three-year period. The end result will be both a substantial increase in Thai national income and a very large increase in strategic materials production for Western defense. On November 5, 1951 two ECA generators were placed in operation by the Premier, with considerable favorable publicity.

Rural Power Development

Dollar Cost

FY'51: \$ 417,000  
FY'52: 424,000  
FY'53: 430,000

In FY'51 ECA provided five diesel electric power plants to serve as emergency boosters for Bangkok's inadequate electric system. Agreement with the Thai Government on a proposed two-year rural power demonstration program also was effected. This will demonstrate to rural areas, with emphasis on the poverty-stricken northeast, the importance of power in increasing productivity. It also will help provide power for a Thai handicraft and home industry program. This ECA participation is in the nature of a pilot project, which should stimulate steady progress in this field without additional ECA aid. In FY'52 ECA will supply two power engineers and will begin procurement of generators, motors and equipment. It is proposed to continue the aid in FY'53 so that the maximum number of farm people may be reached and in order to complete the planned two-year demonstration program.

Harbor Development and Administration

Dollar Cost

FY'51:	\$ 801,000
FY'52:	45,000
FY'53:	75,000

The delivery of the dredge "Manhattan" for clearing the bar blocking Bangkok harbor was the major ECA contribution to Thailand's harbor development in FY'51. In FY'52 an accountant consultant is being furnished to the Port of Bangkok Corporation to assist in meeting conditions for a harbor development loan. In addition, one harbor consultant will be furnished to do preliminary survey work on harbor improvement in the two southern ports of Songkla and Puket. For FY'53, ECA proposes to add two harbor consultants to complete detailed plans for a harbor development program looking toward the rapid improvement of these ports so as to expedite the movement of tin, wolfram and rubber production for Western defense.

Telephone and Telegraph Training

Dollar Cost

FY'51:	
FY'52:	\$ 20,000
FY'53:	20,000

Telecommunications changes recommended to the Thai Government by Sloan, Cook and Low; and conferences between this firm, the Thai Government and ECA emphasize the necessity for advanced training for Thai personnel. Four operating level trainees from the Telephone and Telegraph Division will be sent to the U.S. in FY'52. It is proposed to send a similar group in FY'53.

Improvement of Air Traffic (Control Facilities)

Dollar Cost

FY'51:	\$ 368,000
FY'52:	
FY'53:	

In FY'51 ECA provided equipment and technical assistance to make the important Bangkok airport safe and efficient in handling international air traffic. Because of the effectiveness of this aid, coupled with Thai Government initiative, the present large traffic load is adequately handled and no further assistance is contemplated.

5. Handicraft and Manufacturing, Mining, Other Industry

Dollar Cost

FY'51:	\$ 619,000
FY'52:	531,000
FY'53:	590,000

Dollar Equivalent of Local Currency Cost

FY'51:	-
FY'52:)	
FY'53:)	\$ 23,800,000

Like other Far Eastern countries, Thailand regards a substantial measure of industrialization as an element essential to modern economic progress. Available evidence suggests that several light industries would prosper in Thailand, which has numerous raw materials and manpower which learns mechanical routines quickly. One of the outstanding needs is for the development of minerals. Most of the funds budgeted in this project are for this purpose. The reason for this is that considerable exploratory work is necessary before new mines can begin production. Other sources may be tapped for funds necessary actually to start small industries, provided power, transport and raw materials are available.

A substantial part of ECA assistance will be in the form of technical assistance to help set up efficient mines and industrial financing institutions. In FY'52 a senior geological consultant and a mining consultant will be sent to Thailand and 15 Thai trainees will be sent to the United States and Australia for advanced study in the technical and financial aspects of mining. Further training is contemplated for FY'53.

Mining

Dollar Cost

FY'51: \$ 619,000  
FY'52: 501,000  
FY'53: 560,000

Substantially increased quantities of power will be necessary to expedite Thai industrial development. Part of this power will come from the new Chainat project in Central Thailand, and more may come in time from the development of the substantial hydroelectric potential of Kang Rien, also in Central Thailand. However, a major part of the power must necessarily come from thermal plants. Known lignite deposits, both in the north and in the south, appear to be logical sources of additional fuel.

ECA aid in FY'51 was devoted chiefly to the purchase of equipment and supplies necessary for survey, exploration and development of power and other mineral resources. FY'52 and FY'53 grant aid will supply (in addition to two pilot concentration plants, described below) only such small remaining amounts of capital equipment as are necessary for rapid continued exploration and development. In FY'52 exploratory work, particularly for lignite, is going ahead with chiefly Thai personnel and ECA equipment. In FY'53 three highly qualified and experienced lignite engineers will be required for a period of at least one year. Thai engineers will be sent to study lignite production methods in Australia -- world leader in this field.

ECA equipment is being used in FY'52 for development of the mining of strategic minerals (chiefly tin and tungsten). By FY'53 the program should be sufficiently advanced to justify the installation of two 50-ton pilot concentration plants. The present method of concentration by hand washing and hand panning yields approximately two tons of concentrate daily in the average tin-tungsten working area. Each of the pilot concentration plants should produce a 20-fold increase in the output of their demonstration areas. Each plant will cost about \$100,000.

Large areas of Thailand remain practically unexplored, despite available evidence that, from the geological point of view, they merit systematic exploration. The Thai Government intends to begin such a systematic survey, using four teams of Thai engineers, each team to be supervised and trained by a U.S. geologist. It is proposed that four similar new teams be added annually to the survey project.

Industrial Loan Corporation

Dollar Cost

FY'51: -  
FY'52: \$ 30,000  
FY'53: 30,000

Lack of venture capital handicaps industrial and agricultural development in Thailand. It is hoped that an Industrial Loan Corporation may be established to help fill this need. As a first step in this direction, ECA plans to furnish the services of an industrial loan expert for a two-year period. The capital for this venture will be provided patrially or wholly by the Thai Government. In addition, it is expected to bring one Thai trainee to this country each year for the study of industrial banking.

6. General Engineering Advisory Services      None

7. Education

<u>Dollar Cost</u>	<u>Dollar Equivalent of Local Currency Cost</u>
FY'51:            -	FY'51:
FY'52:    \$ 816,000	FY'52: )    \$ 11,410
FY'53:        800,000	FY'53: )

Thailand's potential productivity, standards of health, and living conditions are greatly retarded by the low literacy rate of 30 percent for those over the age of ten. A substantial increase in this rate is necessary to give the people the benefits of modern knowledge and techniques. A UNESCO mission to Thailand in 1949 developed a detailed plan for the reorganization and expansion of education. This plan has been accepted by the Thai Government and forms the basis for coordinated UN-ECA aid to education. During both FY'52 and FY'53 the UN will continue to supply specialists as its contribution to the educational program.

Educational Pilot Project

<u>Dollar Cost</u>
FY'51:            -
FY'52:    \$ 240,000
FY'53:        300,000

To experiment with and perfect teaching methods, a pilot project is being established in the area of Chachaengsao with a population of 242,900, including 40,000 school-age children, and 256 elementary schools. In the period beginning in late FY'51 and continuing through FY'52 several hundred Thai teachers will be trained by ECA education specialists. Methods and techniques in fundamental education developed in the pilot project will then be extended to other areas of Thailand. At the same time an adult education program will be instituted.

For both FY'52 and FY'53 ECA plans to provide 13 experts, ten of whom are now at work in Thailand. This project was established and the teacher-trainers were employed by TCA in 1951 before responsibility for the education program was assigned to ECA. These men and women are experts in training teachers, and in hygiene, administrative education, science teaching, text-book revision and crafts. To support them the Thai Government has provided office space, transportation, secretarial help and some equipment.

Vocational Education

<u>Dollar Cost</u>
FY'51:            -
FY'52:    \$ 576,000
FY'53:        500,000

Along with the necessity of providing fundamental general education there is an equally important problem of training technicians to operate and maintain equipment in factories, mines, power plants, and other areas of the economy. Thailand has 190 public and 80 private vocational schools, all on an elementary level. Though 13,000 students are enrolled, they are not being trained to meet the real needs of the country's industry.

To overcome these difficulties, ECA plans to help the Thai Government to establish a Technical and Industrial Institute as a training center, the buildings being provided by the Thai Government to accommodate 900 students and 80 to 90 teachers. ECA aid will include seven American vocational instructors and necessary supplies and equipment for instruction in automobile mechanics, building trades, industrial arts, commercial subjects, and printing and mechanical training for the blind and handicapped.

8. Public Administration

Dollar Cost

FY'51: -  
FY'52: \$ 130,000  
FY'53: 305,000

The Thai have had seven centuries of experience in public administration as an independent nation, broken only by very brief interludes of Burmese and Japanese invasion. However, they have never before faced such an intensive need for great numbers of efficient and honest public servants, able to cope with the problems of the modern world in general and of numerous plans for economic development in particular.

The success of all U.S. programs in Thailand is inextricably tied to the morale of public administrators, and to the effectiveness of governmental machinery. All is not well in these fields. Government salaries have not kept pace with the postwar inflation. There has been a consequent flight from the civil service, both by resignations and through the prevalent practice of working at official posts only part time in order that outside employment can be found to supplement civil service incomes. Despite the fact that about one third of Thailand's budget goes to civil servants for so-called cost-of-living allowances, governmental salaries continue far out of line. Morale and efficiency are low; and graft and corruption are the rule rather than the exception.

In recognition of these conditions, the Thai Planning Commission has assigned a high priority to its study of Public Administration. Moreover, the Thai Government has requested ECA expert assistance, which is being supplied in FY'52 in the form of specialists in civil service administration, governmental budgets, public finance and patents. Training in the U.S. of two Thai officials in audit and ten in other areas of public administration is being undertaken. In FY'53 it is proposed to supplement this program with two tax experts, two experts on public administration, a statistical adviser and a requirements advisor, while increasing the number of trainees to 27.

9. Maintenance of Essential Supply None

APPENDIX

THAILAND. CURRENT ECONOMIC SITUATION

1. National Income, Production and Consumption

During recent years Thailand's production has more than kept pace with the rapid population growth (nearly 2 percent per annum). Production gains have been concentrated in the agricultural sector of the economy, while mining output continues to lag behind prewar. However, Thailand is beset with the problems of maldistribution of its increased income and by serious structural imbalance in its economy, as typified by the almost complete lack of consumers goods and other light processing industry.

Thailand is overwhelmingly agricultural, and rice occupies approximately 90 percent of the cultivated area. Rice also accounts for 45 to 50 percent of the total value of exports. In 1950, production of unhusked rice (paddy) was 6.9 million metric tons, a figure 52 percent greater than the prewar normal. Production will reach an even higher level in 1951, stimulated by ECA assistance in the form of fertilizers, machinery and technical advice with respect to insect and pest control, plant breeding and irrigation. The output of several other crops has similarly increased faster than population. In 1938-39 only 4.5 thousand metric tons of cotton were produced, whereas in 1950 production was 15.3 thousand tons. Even this amount, however, is far less than Thailand's consumption of cotton, and the short staple produced in Thailand can provide only the most coarse garments. Hence, textiles (mostly cotton) continue to be the most important import, comprising nearly 20 percent of total import value in 1949. The great postwar increase has shown, however, that large-scale production of cotton is feasible, and has suggested the desirability of plant breeding and selection to raise the quality of the crop.

Thailand's rubber output declined from 47.3 thousand metric tons in 1938-39 to only 13.7 thousand tons in 1946. By 1950, however, production amounted to 77.1 thousand tons. It is doubtful, however, if further large increases are likely until additional plantations are set out and given time to mature. Other crops which have more than doubled as compared with prewar, are sugarcane, peanuts, coconuts, sesame and corn.

It is very difficult to estimate Thailand's total fish catch, as much of it is caught and consumed in thousands of villages. Official statistics, however, show an increase from 200 thousand metric tons in 1938-39 to 340 thousand tons in 1948, and with the introduction of new methods, including power vessels and a survey of fishery resources, it is likely that a further substantial increase in annual production will be achieved.

Thailand is one of the three principal sources of teak, one of the world's best woods for many purposes, including shipbuilding. Teak production fell from 171.3 thousand cubic meters in 1938-39 to 78 thousand in 1946, but recovered to 190 thousand by 1950.

Mining ranks next in importance after agriculture, fisheries and forests. Tin production dropped greatly, from 15,200 long tons of concentrates in 1938-39 to 1,100 tons in 1946, increasing to only 10,400 tons in 1950. Wolfram and lead ore production, though still of negligible importance, have begun to increase in the last two years.

Industry, aside from the milling of rice and sawing of timber, is much less important than agriculture and mining. The output of cement has increased slightly from 92,000 metric tons in 1938-39 to 109,000 in 1950. However, light consumers goods and processing industries, which involve a relatively small initial investment and could be established on an economic basis, are almost totally undeveloped. Lack of industrialization has restricted Thailand's production and consumption levels. Moreover, such industries as exist are concentrated in only a few cities and do not exist in the interior. It is, therefore, necessary to increase agricultural production and exports to enable Thailand to finance this needed industrialization and other forms of accelerated economic development. Increased agricultural production will make a favorable

contribution toward stability in the whole area of South and Southeast Asia, where rice production is far below consumption needs.

With rice production, in particular, showing a great and welcome increase, it is to be expected that national income figures also show substantial increases. National income was calculated at 921 million baht (\$350 million 1/) in 1938-39. Prices increased to fifteen or sixteen times prewar between 1946 and 1950, but the 1949 national income was 21.6 million baht (\$1,082 million 2/). When price adjustments are made, as well as an allowance for the population increase, there is still an increase in real income. However, this rise in incomes has not been evenly distributed. Northeast Thailand in particular is a depressed area, and has not benefitted from the improvement affecting other areas. Average per capita income in 1949 was below \$50 per capita, according to the national income estimates referred to above. There is every reason to believe that both the national income and the per capita income have continued to increase since 1950, at least in those areas of Thailand which have been affected by the export boom and by improved public services. In other areas, such as the Northeast plateau, per capita income remains unusually low.

Figures on consumption are not obtainable in Thailand, except as derived from production and foreign trade figures. While consumption has increased in the postwar period, the overall level remains low, especially in terms of consumer goods other than certain foods and textiles. In depressed areas of Thailand, which are not tapped by modern transportation and trade, consumption is at primitive levels. Consumption has been restricted on a national basis by the use of export earnings to build up exchange reserves rather than to buy imports.

Poor health and sanitation conditions are both causes and consequences of the low per capita production and consumption mentioned above. More than 50,000 deaths from malaria alone are reported annually while it is estimated that up to three million cases occur each year. Trachoma is another serious threat to better living standards; about half of all school children are infected with the disease at the present. Improvements in these conditions and in sanitation and health practises would measurably increase the per capita capacity to produce.

## 2. Prices and Wages

The trend of wholesale prices has been gradually upward in 1950 and 1951, reaching a level nearly 17 times prewar in recent months, although this is still slightly below the 1947 peak. Prices of agricultural products, leather, fuel, construction materials and the miscellaneous group of items covered by the wholesale index have reached, in 1951, the highest levels of the postwar period. The cost-of-living index generally rose in 1950 and 1951, although a slight decline has been in progress since April 1951. In the face of rising rice prices this would seem to be a paradox; however, rice is apparently underweighted in the index and the decline in other foodstuffs and in clothing (due to excessive inventories) caused the reduction.

Despite the postwar increases of monetary wages over prewar levels, the real wages of salaried employees (e.g., government workers, teachers, etc.) have decreased, while wage earners have fared better (in some cases actually enjoying increases). Government efforts to control prices, particularly that of rice, have prevented farm incomes from rising by as much as the increase in world prices of its agricultural exports. It should be pointed out, however, that real wages are in many cases enhanced by non-monetary remuneration such as board, lodging, clothing and cost-of-living bonuses.

## 3. Public Finance

In the postwar period the national budget has shown surpluses of revenue over ordinary expenditures. Indirect taxes continue to be the most important source of revenue as was the case in the prewar period. The most important of these are the customs duties and the differential price system maintained by the government in procuring rice for export from the farmers; this latter procedure acts as a significant indirect tax on farmers. Expenditures for defense continue to be the most important single item of ordinary expenditures.

1/ Prewar conversion rate: 1 baht = \$0.38  
2/ Postwar conversion rate: 1 baht = \$0.05

Normally, revenues have covered ordinary and extraordinary non-capital expenditures, with capital expenditures financed from loans and Treasury balances. In 1952, the budgeted revenues will cover a part (about 35 percent) of capital expenditures. Revenue in 1952 is estimated at baht 3,035 million (\$152 million). Ordinary and extraordinary non-capital expenditures are being trimmed to about baht 2,600 million (\$130 million), and the remainder of revenue is applied to the estimated baht 1,058 million (\$53 million) for capital expenditures. The deficit budgeted for 1952 is the largest in the country's history.

As compared with prewar, the postwar internal debt has increased substantially - - from baht 7 million (\$2.7 million) in 1938-39 to baht 1,725 million (\$86 million) as of June of this year. The outstanding feature of the internal debt is the fact that throughout the postwar period the floating debt has greatly exceeded the funded debt. The fact that the floating debt represents nearly 80 percent of total internal debt is a reflection of the government's inability to borrow internally and goes straight to the heart of Thailand's primary financial problem, namely the difficulty of mobilizing domestic financial resources. This problem in turn derives from the normal tendency to invest in land and precious metals rather than in securities or directly productive enterprise.

The external debt is composed of two items - - the conversion loan of 1936 (1,483 thousand pounds sterling equivalent to \$4 million <sup>1/</sup>), and the U.S. dollar credits of 1946 (\$4.8 million). External obligations represent only about 6 percent of the total national debt. As more and more of the IBRD \$25.4 million loan is utilized (about \$35,000 has been used at present) and as economic development requiring additional foreign loans get under way, both the absolute level and the relative importance of the external debt will increase. Thailand's capacity to service additional external debt, though heavily dependent on the export price of rice for sterling and rubber for dollars, appears to be strong.

#### 4. Money and Credit

The volume of money in circulation increased by 17 percent between December 1950 and June 1951. As compared with the prewar period, the increase has been nearly 2,600 percent and, as compared with the postwar lowest level (1947), it has been 80 percent. This increase reflects the budget deficits and the balance-of-payments surpluses which have occurred in the last few years, although the impact of the latter on the money supply was checked in part by the efforts of the government to sterilize the foreign exchange profits of the export of rice and, through an internal price control and government purchase policy, to prevent the higher world prices from being reflected in higher prices at home.

The inadequacy of the mechanisms for mobilizing domestic capital have been pointed out in the previous section, insofar as they apply to the budget. The propensity of the Thai people to invest in gold and other fixed assets has also restricted private investment. A market for securities is lacking. Commercial bank lending, at interest rates ranging from 25 to 30 percent per year, is chiefly in the field of trade, not long-term investment. The Savings Bank (a semi-government corporation) invests chiefly in government securities and also lends to the government Bank for Cooperatives and to other government enterprises. Interest rates demanded by private money lenders reportedly range from 30 percent to 60 percent and even higher for commodity loans. In contrast, interest paid on savings bank deposits is at the rate of 2 percent for call and 3 percent for fixed deposits. Hence it is clear that savings through institutions which could mobilize capital for investment is not effectively encouraged.

#### 5. International Trade and Payments

Since the end of the war, the volume and value of foreign trade has continually increased. The value of exports in 1950 was equivalent to \$270 million, and (in terms of baht) was 28 percent greater than in 1949. Imports

<sup>1/</sup> Converted at the rate of \$2.80 = 1 pound sterling.

in 1950 at about \$190 million had increased by 26 percent over 1949. In the first half of 1951, the value of both exports and imports are at levels higher, at an annual rate, than those of 1950. Up to the end of 1950, the greater post-war increases of exports, as compared with imports, were evidenced by the annually expanding trade balances. However, in the first six months of 1951 imports have increased relatively to exports and the trade balance will probably not exceed that of 1950, even though the value of both exports and imports is higher.

Rice, (49 percent of 1950 exports by value), rubber (20 percent), tin (8 percent) and teak (4 percent) continue to be the major exports, although exports of hides and skins, sticklac, wood other than teak, salt and wolfram have become increasingly important. The rice trade is, for the most part, intra-continental, with Japan and Malaya the principal purchasers. Rubber and tin go chiefly to the United States. The principal destinations of all exports are Malaya and Singapore, the United States, India and HongKong, in that order.

Foodstuffs, textiles, and yarn constitute imports of the first magnitude, with metal manufactures, machinery, petroleum products and vehicles running fairly close behind. The chief sources of imports have been HongKong, the United States, Singapore and Malaya, and the United Kingdom.

The overall balance of payments of Thailand has been strongly favorable in the last three years, with surpluses rising from the equivalent of \$65 million in 1948 to \$72 million in 1950. The growth in foreign exchange reserves has been significant. Foreign assets of the Bank of Thailand rose from the equivalent of \$151 million (\$89 million in gold and dollars) at the end of 1947 to \$288 million (\$159 million in gold and dollars) at the end of 1950. At the end of September 1951 these foreign assets had climbed to \$337 million (\$185 million in gold and dollars).

Less favorable balances of payments in the next year or two may occur as the result of the implementation of the forthcoming plan for economic development. Levels of capital and consumers goods imports will probably be relatively higher than production and export of additional raw and semi-processed materials until the new investment and modern techniques begin to take full effect.