Nº 60

PD-ACE-013

UNITED STATES OF AMERICA

MUTUAL SECURITY PROGRAM

Volume 2-Part I

•

Estimates

Fiscal Year 1956

Regional and Country Program Detail:

Europe

Near East and Africa

Asia

BEST AVAILABLE

EUROPE

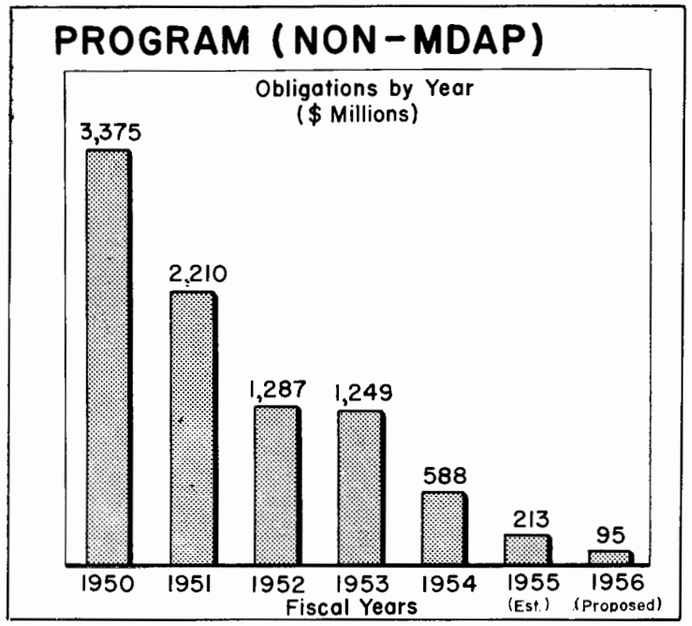
EXCERPT FROM PRESIDENT'S MESSAGE

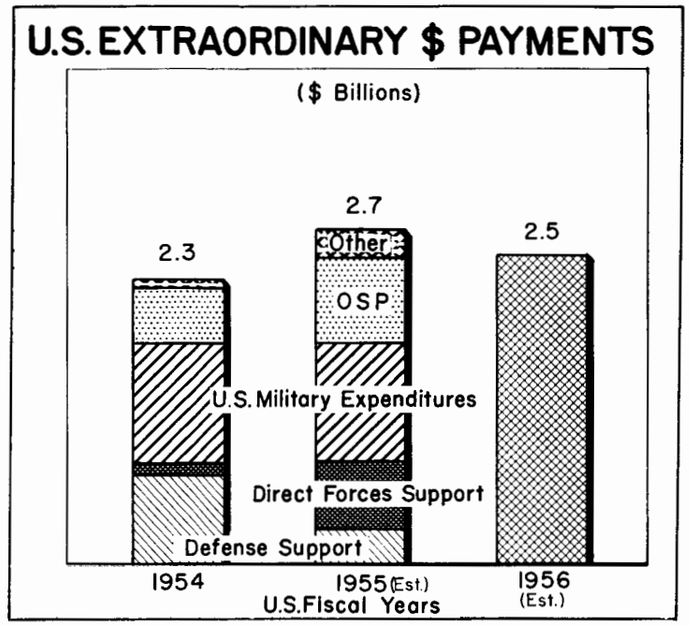
"....Its (The Mutual Security Program's) cumulative success is especially evident in Western Europe today. The free nations there have attained new levels of production, larger volumes of trade, expanded employment, and rising standards of living. They have established strong defense forces which, although deficient in some respects, now constitute a significant deterrent to aggression and add substantially to the free world's defensive power. Their own national efforts and their cooperation with each other are the prime reasons for their success. However, the United States Mutual Security Program and its predecessor, the European Recovery Program, deserve an important portion of the credit.

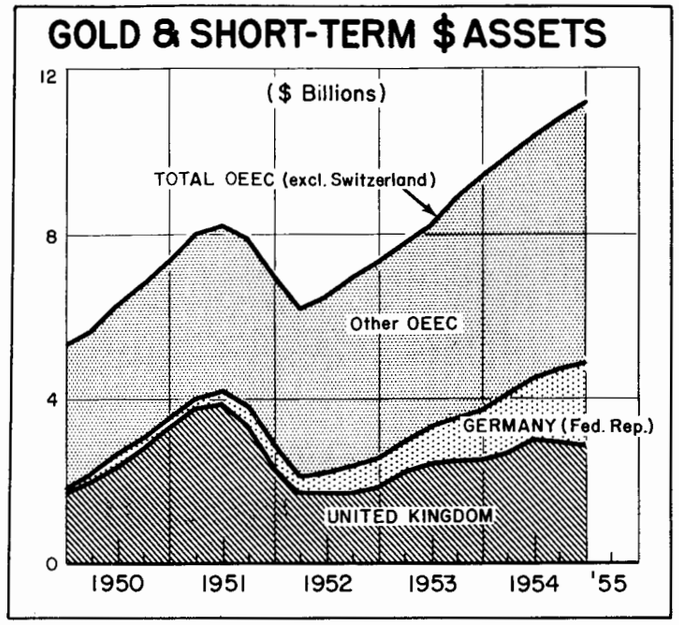
The program I now recommend to you for fiscal year 1956 proposes no economic aid for the original Marshall Plan countries in Western Europe. These nations are capable of meeting current defense goals without such support. Deliveries of arms from previous appropriations will continue under constant review to insure that the latest weapon developments and strategic thinking are taken into account. Our initial contribution toward the arming of German forces is already funded by previous Congressional action.

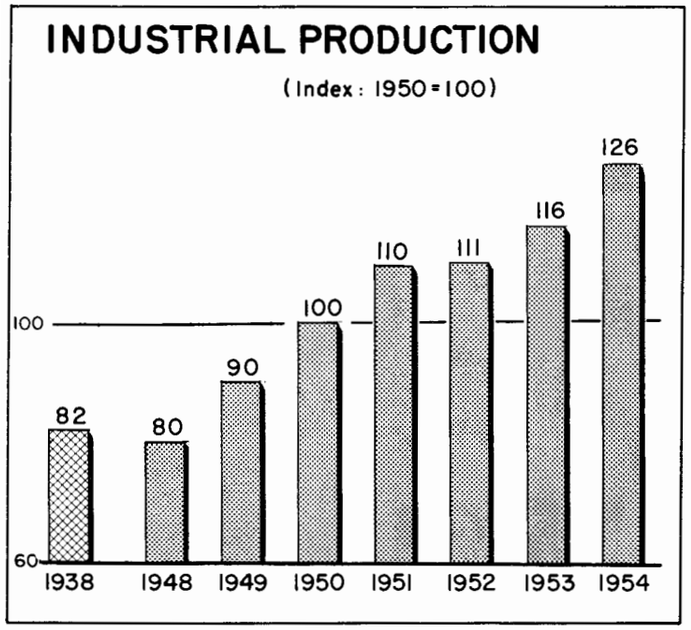
In Spain and Yugoslavia, which were not in the Marshall Plan, defense programs can be successful only with further strengthening of their economic base. New appropriations are needed to continue our cooperation with them. Likewise the special circumstances of the city of Berlin require continued support for that outpost of freedom...."

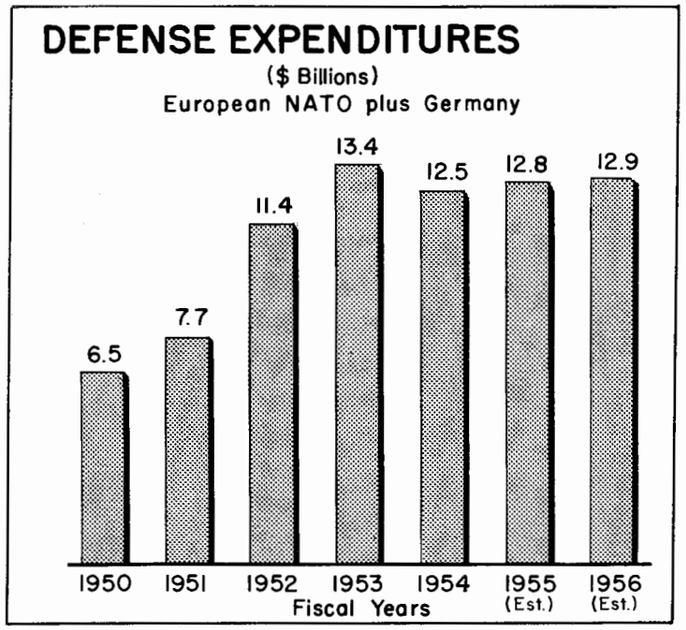
EUROPE - REGIONAL SUMMARY

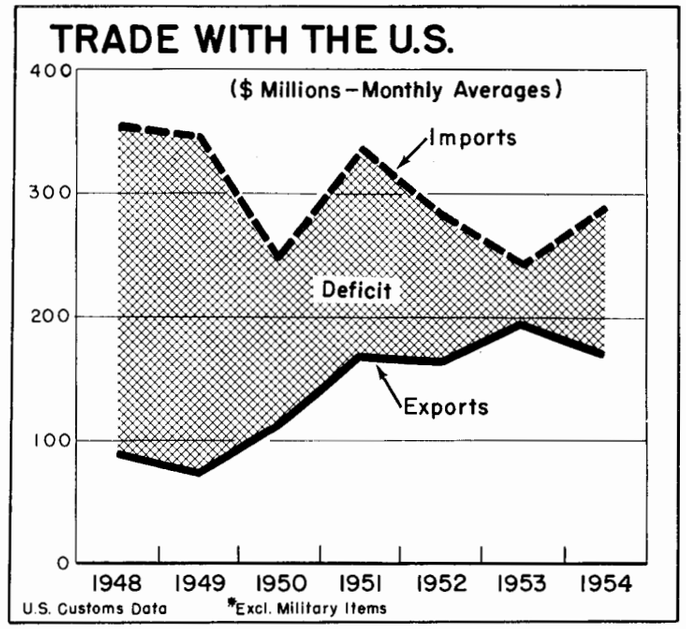












Revised May 18, 1955

EUROPE

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Program Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	234.0	44.3	4.0
Defense Support	221.1	142.8	70.0
Other Programs	133.1	26.1	21.0
Total Country Programs Other Than Military Assistance	588.2	213.2 b/	95.0
Of Which Financed By Loan (Defense Support)	-	20.0	-
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Area	182.7	241.0	45.0
2. Sales Proceeds Programmed in This Area (dollar equivalent) Total	164.2	191.0	45.0
Military Assistance	37.9	38.9	-
Direct Forces Support	64.0	35.0	-
Defense Support	45.5	93.4	25.0
Other Programs	16.8	23.7	20.0

a/ Data included in separate submission on Military Assistance.

b/ In addition, as of April 15, 1955, $12.1 million of coal financed by the coal procurement fund was extended to European countries in exchange for local currency credits to be used for other country programs.

EUROPE

DISTRIBUTION OF FY 1956 PROGRAM

By Function and Country

(In millions of dollars)

Country	Military Assistance	Direct Forces Support	Defense Support	Other	Total
Belgium-Luxembourg					
Denmark					
France					
Italy					
Netherlands					
Norway					
Portugal					
Spain			28.0		28.0
United Kingdom					
Yugoslavia		4.0	36.5		40.5
Joint Control Areas				21.0 a/	21.0
Western European Technical Exchange			5.5		5.5
Total	b/	4.0	70.0	21.0	95.0

a/ Includes $1.0 of Joint Control Areas funds to provide for German/Austria participation in Western European Technical Exchange Program.
b/ Data included in separate submission on military assistance.

EUROPE

TOTAL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Countries

(In millions of dollars)

Country	Program FY 1954	Program FY 1955	Proposed FY 1956
Belgium-Luxembourg	-0.1		
Denmark	-0.1		
France	84.9		
Iceland	-0.1		
Italy (including Trieste)	19.4	15.5	
Netherlands	3.7		
Norway	0.5		
Spain	84.7a/	85.0a/	28.0a/
United Kingdom	199.9	35.0	
Yugoslavia	61.5a/	43.1a/	40.5a/
Joint Control Areas	18.2a/	24.6a/	21.0a/
Western European Technical Exchange	8.5b/	2.5b/	5.5
Coal and Steel Community Loan	100.0		
Undistributed	7.2	7.5	
Total	588.2	213.2c/	95.0

a/ Includes Technical Exchange.
b/ For detail see page Section III-59.
c/ In addition, as of April 15, 1955, $12.1 million of coal financed by the Coal Procurement Fund was extended to European countries in exchange for local currency credits to be used for other country programs.

U.S. INTEREST AND OBJECTIVES IN EUROPE

The fundamental objectives of the United States in Western Europe and the North Atlantic area flow directly from the fact that the nations concerned are vital to U.S. security interests. In the simplest terms, these objectives are: (1) to keep free Europe free; (2) to maintain a basic unity of purpose and action between the nations of free Europe and the United States; (3) to help make these nations as strong as possible -- politically, economically, and militarily; (4) to seek a maximum contribution from free Europe to the global effort to achieve peace and security.

This last point has particular significance. U.S. security interests not only require that the nations of free Europe remain free of Soviet domination, but also demand that the sizable human and material resources of these nations be efficiently employed to complement those of the United States in deterring aggression and resisting Communist expansion, not only in Europe, but also elsewhere in the world.

In addition to our interest in military security -- which the strength of Europe enhances -- the U.S. regards the freedom and welfare of Europe, and areas under its control, as important to our own economic future and growth. The mutuality of interests -- military, economic, political -- between the U.S. and Europe is an important element in the quest for peace. This includes countries like Spain and Yugoslavia, which, although they are not part of the NATO alliance, are cooperating in safeguarding Western Europe's continued security and independence.

The necessity of keeping European resources out of Communist hands is readily apparent. Free Europe has more than 330 million people, many of them highly skilled. It has a huge scientific and technical potential, possession of which would multiply Soviet technological capabilities. It has a well-developed industrial establishment, second only to that of the United States in size and value. It has important obligations and responsibilities in other parts of the world -- so important that the loss of Europe to Communism would in turn probably mean loss of Asia and Africa as well. Communist control of all Europe would make the task of protecting the United States far more costly than it is at present, and might cause the task to become utterly impossible.

Not so immediately apparent -- but equally important -- is the ability of free Europe to add in a positive sense to the defensive capabilities of the United States. Our NATO allies are already providing the major portion of the military manpower required for the common defense of Europe against aggression. They supply 90 percent of NATO's integrated ground forces, 75 percent of NATO's joint air forces, and a good share of NATO's total naval strength. Since 1948, while receiving about $12.5 billion in aid from the United States (exclusive of Military Assistance), they have spent about $55 billion of their own money for defense purposes. In addition, these nations provide sea and air bases which are vital to effective defense and retaliation against aggression. For all these reasons, it is essential that Europe's actual and potential contribution to the common defense be fully recognized in the development of U.S. policies, including aid policies, and that these policies be geared to the objective of securing the most effective utilization of the combined American and allied resources.

During the early postwar years, the United States provided large amounts of economic aid to strengthen the European economy and to achieve a degree of recovery which would permit the European economy to operate on a self-sustaining basis. This program was carried out in recognition of the fact that European economic collapse would pave the way for Communist domination as surely as military conquest. On the whole, this aid program was highly successful. Production, trade, and living standards in free Europe have substantially improved. The NATO countries of Western Europe are now able to meet current high defense expenditures without further economic assistance from the U.S.

Regional Narrative Statement (Continued)

During recent years, virtually all U.S. assistance to Europe has been directly related to the development and maintenance of optimum military defenses. This aid has taken several forms, including end-item equipment, direct forces support and defense support assistance. Most of this security assistance has been employed to implement agreed NATO defense programs and to provide training and items of equipment which the recipient countries have been unable to obtain solely through their own resources.

It is important to recognize that the underlying principles of the mutual security assistance program in Europe are fundamentally different from those which were applicable to the original European recovery program. The purposes of the earlier economic aid programs were to avoid the political disaster which would probably have accompanied further economic deterioration and to provide a foundation for the achievement of a state of economic health which the European nations could sustain without continuing U.S. economic assistance. The levels of aid provided were determined primarily by the needs and deficiencies of particular countries.

In the case of mutual security assistance, however, the basic purpose has been to achieve maximum total defensive strength at minimum cost, taking account of allied resources and capabilities as well as those of the United States. From the U.S. viewpoint, the principal consideration is not the abstract "needs" of particular areas, but the opportunities that exist in those areas for the more efficient employment of U.S. money and resources to enhance the over-all security system. For example, if a given country is able to build and maintain one modern army division through its own resources, but can build and maintain three divisions, if a certain amount of U.S. assistance, either military or defense support, is used to supplement those resources, the U.S. Government must determine whether the total result obtainable through providing such assistance is worth the cost. Within this context, it is apparent that the idea of a self-sustaining European economy or defense system has no real meaning without reference to the levels of defensive strength mutually determined to be desirable.

Thus, while the improvement of European economic health should enable allied nations to assume a larger share of collective defense costs, U.S. policies with respect to military and defense supporting aid cannot effectively serve U.S. interests, if related solely to European economic capabilities. Instead, U.S. aid policies in any given year must reflect a judgment by the Congress and the Executive Branch on several factors, including what total defense levels are desirable and practical, how much the United States can afford to spend for this purpose, and whether more defensive power can be achieved by contributing to allied defense programs than by spending the money in another manner. The fundamental justification of all military and defense support assistance to allied nations is the fact that this assistance permits the development of a more effective and more balanced total defense posture than could be attained by spending an equivalent sum in this country.

The mutual security program request for FY 1956 includes special programs for Spain, Yugoslavia, and West Berlin, a continuation of Technical Exchange; but contemplates no economic aid to any NATO or OEEC country except Greece and Turkey which are now included in the Near East Africa Region. This reduction reflects both the progress already made in building NATO defenses, the substantial volume of military equipment now in the pipeline, and the general improvement in European economic capabilities. However, it must be noted that serious deficiencies in the NATO defense system still exist. Much remains to be done before the NATO defense forces can be considered capable of defending Europe and the Atlantic area under conditions of modern warfare, including the possibilities of use of atomic weapons. It is unknown at this time whether such requirements can be filled entirely through European resources, on the basis of the prospective rate of European economic progress and current uncertainties with respect to future weapon requirements.

MILITARY PROGRESS IN EUROPE

At the beginning of 1950, when the U.S. program of military assistance to European countries began, the armed

Regional Narrative Statement (Continued)

forces of these countries were still recuperating from the effects of World War II. With few exceptions, these armed forces were inadequate in numbers, were equipped with obsolete weapons and were not organized or trained to meet the requirements of modern warfare. After the signing of the North Atlantic Treaty and the development of NATO as a working partnership, the European members of NATO committed themselves to a substantial increase in their levels of military effort. This included increased defense budgets, greater military production, extended periods of military service, larger numbers of military personnel, better organization and training, etc. It was evident, however, that the European nations required many items of equipment and certain types of training which could only be supplied by the U.S., and that they could not obtain these things through their own resources without risking serious economic injury. The goal of the military assistance program was to help allied nations overcome these deficiencies and to permit them to develop defense forces significantly larger and more effective than they could hope to achieve solely through their own efforts.

Through FY 1955, the United States has programmed for NATO countries sufficient equipment that, when added to those materials produced in Europe, will generally fulfill the initial equipment requirements of major units and support forces committed to or earmarked for NATO defense in the early phase of combat. The introduction of modern equipment into most of the NATO countries has created many problems relating to utilization and maintenance. However, through the MDA training program, personnel of NATO countries have been sent to schools in the United States and Europe in order that they might acquire these necessary skills. As of December 1954, over $12 billion in military equipment has been programmed for the Western European countries and about $7.5 billion of this amount has been shipped. Over $251 million has been made available out of FY 1950-55 programs for training of foreign personnel. In addition, mobile training teams and technical representatives have been provided to assist the armed forces of the various countries in acquiring more effective utilization and better maintenance of MDAP equipment.

During the past four years, remarkable progress has been made in building larger and more effective NATO defense forces. This progress extends to land, sea and air forces alike, and includes substantial increases in numbers, superior training, more adequate equipment, better organization, the development of valuable supporting facilities, and the fruits of closer integration in planning and operations. Today, the NATO forces in being constitute a very effective defense shield which could not be overwhelmed without prior major preparations on the part of an attacking enemy land force. Such advance preparations by an enemy force should give the necessary warning to alert the entire retaliatory capabilities of NATO. As might be expected, the rate of progress in developing European defenses has varied considerably among different European countries.

Much of the progress achieved in building European defensive strength since 1950 has been reported to the Congress in previous years. It may be useful, however, to highlight some of the significant developments that have taken place during 1954:

1. There has been continued qualitative improvement in the effectiveness of European NATO forces during the past year, as a result of deliveries of equipment from the U.S., increasing European production of equipment, modernized organization and the dividends of training. However, this qualitative improvement has been offset to some degree by quantitative reductions in the active forces immediately available.

2. The construction and activation of common air bases and other supporting facilities in the NATO area have moved steadily forward. There are now approximately 130 joint air bases available for use in the NATO area. One development of special significance was the completion of arrangements for establishing a SHAPE air defense technical center in The Hague, at which scientists of all NATO countries will be able to cooperate in developing more effective air defenses.

Regional Narrative Statement (Continued)

3. The NATO governments made considerable progress in developing emergency plans in the civil field, to support and supplement military plans and programs. Particular attention is being given to the problem of civil defense under conditions of modern warfare.

4. Partly as a consequence of the decision of Congress to authorize the sharing of information on the utilization of atomic weapons with allied nations, NATO military experts began the development of new and improved defense plans which take into account modern developments in weapons and techniques of warfare.

5. The most significant advancement, of course, in the NATO defense program during 1954 was essentially political -- the series of agreements reached in London and Paris on the future status of Germany and its relation to Western defense. Under these agreements, sovereignty will be restored to the German Federal Republic and this nation will enter NATO as a fifteenth member. At the same time, Germany will join with six other European nations -- France, Italy, the United Kingdom and the Benelux countries -- in a Western European Union, which is designed to bring about more effective cooperation among the member nations in defense matters and to maintain certain controls over the types and levels of armaments. Under these agreements, Germany will contribute 12 army divisions to the NATO forces plus a significant number of aircraft and naval vessels. This German contribution, taken in conjunction with the revision of NATO defense plans through modernization of weapons and techniques, is expected to make possible the "forward strategy" which has long been a principal NATO objective.

Despite the foregoing indications of progress, which provide justifiable grounds for optimism, the NATO defense program still suffers serious deficiencies and faces difficult problems. Some of the most significant of these are outlined below:

1. The total NATO forces available in Europe are still greatly inferior, at least numerically, to the Soviet and satellite forces in Eastern Europe. While the NATO forces are probably superior in quality to many of the satellite forces, there is no evidence of such superiority with respect to the Soviet forces. Moreover, it is known that the qualitative effectiveness of both the Soviet and satellite forces is improving rapidly. It is also known that the Soviets are progressively developing their capability for atomic warfare. The over-all effectiveness of NATO forces is still hampered by inadequacies of the alert and warning measures, training and equipment, insufficient reserves, and various other factors. The task of developing additional capabilities to defend against atomic attack is still largely ahead of NATO forces.

2. The long-term maintenance of NATO forces, even at the present levels of effectiveness, presents a problem, the full dimensions of which have not yet been determined. In addition to the normal personnel and supply costs, the NATO governments must also find a way to replace major items of equipment and to procure spare parts for such equipment. These replacements often cannot be provided through European facilities, nor can they be purchased from the United States without an intolerable strain on dollar resources. The maintenance and replacement of military equipment represents one of the most inescapable costs of military preparedness under present-day military circumstances. Over the years obsolescence increasingly will become one of the most important factors limiting the effectiveness of NATO forces, and is one of the major difficulties involved in financing the future maintenance and desired increase in the effectiveness of these forces.

In view of the extraordinary capacity of an aggressor to damage and destroy primary centers of production, with the result that the initial phases of any all-out war might necessarily be fought almost totally from the stockpiles existing at the commencement of the war, it is impracticable for the Western nations to rely, as in the past, upon their capacity to produce the most advanced weapons after the fighting begins, and thereby to completely avoid the requirement for stockpiling weapons that may become obsolete. Despite the risk of obsolescence, minimum stockpiles must be maintained, and this presents a most serious problem to nations with limited economic resources.

Regional Narrative Statement (Continued)

3. Inadequate air defense is one of the major current deficiencies of NATO. A more integrated and more modern system of alerts and early warning is sorely needed, as are larger quantities of modern fighter planes and trained air personnel. General Gruenther has directed attention repeatedly to the weaknesses of NATO air defenses.

4. It must be recognized that the much-needed German military contribution to NATO, now in prospect, cannot be fully realized for a considerable period of time. After final ratification of the Paris Agreements, the German Federal Republic must enact implementing legislation, consisting of a large body of laws, and must then undertake the slow, laborious task of recruiting, training, organizing and equipping the forces agreed upon. It is estimated that this process cannot be wholly completed in less than three to four years.

Military Assistance programs are also being conducted in Spain and Yugoslavia. The programs include deliveries of end-items to the Spanish and Yugoslav forces and extensive personnel training schemes.

In summary it can be said that although the free nations of Europe have gathered defense strength in a remarkable fashion during the last five years, there is still a long way to go before adequate security is assured. The U.S., with its tremendous power and resources, must stand ready to continue its fair share of contribution to the collective task of defending Europe and by defending Europe to defend America.

Economic Progress

Economically Western Europe has made considerable progress in FY 1955. Industrial production in 1954 was generally higher than in 1953, itself a peak year. The GNP of the NATO countries plus Western Germany is growing in real terms at a rate of about 4 percent a year with every indication of further growth in sight.

In its 1954 annual review, the OEEC found that almost all the economic goals set out in 1948 had been achieved, and in some cases, exceeded. It pointed out that industrial production is up over 50 percent from 1938, agricultural production has risen by 20 percent above prewar, the volume of intra-European trade is one and two-thirds times that of the last prewar year; and the volume of exports to the rest of the world have grown by 70 percent.

One of the principal factors likely to make for long-term improvement in Europe is the continued high degree of cooperation and consultation on economic matters through the mechanism of the OEEC. The OEEC is currently helping to chart and facilitate orderly progress toward convertibility. In addition, the OEEC countries have agreed to make southern Italy an area of collective interest and are reviewing plans for its development which Italy has put forward.

One of the most important steps yet taken in the economic integration of Western Europe is the formation of the Coal-Steel Community under an independent supra-national institution. As a result of the creation of this common market in coal and steel comprising some 160 million people, competition among producers has been strengthened, prices have been lowered and intra-European trade in these two basic commodities has been increased.

This picture of current strength must, however, be qualified. As forces come into being and supplies of military equipment are being built up, the annual recurring cost of maintaining these forces in a modern and ready state rises steeply. This in turn places a heavy burden on national budgets and the foreign exchange resources of the member countries. In several of these countries, recently recurring losses of foreign exchange as well as domestic budget stringencies have reduced funds available to the defense establishments below desirable levels.

Western Europe also continues to suffer from certain economic weaknesses and uncertainties which could cause difficulties over the long term:

Regional Narrative Statement (Continued)

instill their people with a more competitive free enterprise philosophy of production, and to assist the free trade unions of Western Europe in their struggle against Communist-dominated labor organizations . . . . $5.5 million.

This brings the total request for defense, direct forces and joint control area support for Western Europe to $95 million. The illustrative breakdown is as follows: (in millions of dollars)

Country	Defense Support		Direct Forces Support	Joint Control Area Support		Total
	Commodity	T.E.		Commodity	T.E.	
Berlin	-	-	-	20.0	1.0	21.0
Spain	26.0	2.0	-	-	-	28.0
Yugoslavia	35.5	1.0	4.0	-	-	40.5
Multi-country	-	5.5	-	-	-	5.5
	61.5	8.5	4.0	20.0	1.0	95.0

Individual programs are described in greater detail below.

B. Other MSP Activities in FY 1956

The persistence of economic weaknesses described above must continue to influence U.S. foreign economic policy toward Europe, even though massive economic aid is not involved.

Economic integration in Western Europe remains a vital U.S. economic objective. By providing a single mass market and destroying intra-European barriers to trade and competition, economic integration would help to provide the impetus to efficient large-scale production and distribution which is now so difficult to achieve on a national scale. Specific policy objectives in FY 1956 include:

1. Continued support and encouragement of the OEEC, including specialized OEEC institutions such as the European Payments Union and European Productivity Agency, as the most effective single existing vehicle for intra-European economic cooperation.

2. Continued support and encouragement of the supranational High Authority of the Coal and Steel Community.

3. Continued support and encouragement of activities and efforts directed toward increasing liberalization of intra-European and dollar trade. Encouraging progress has been achieved in this area in recent months and further progress can reasonably be expected in the future.

4. Cooperation with the Western European nations in moves toward currency convertibility.

5. Support and encouragement of sound, new initiatives which the Europeans may themselves propose to increase intra-European economic cooperation and integration.

6. Support and encouragement of steps contributing to an improved climate for the expansion of U.S. private investment in Europe.

7. Support of efforts to strengthen free trade unions, particularly where Communist strength is significant.

8. Support the exchange of ideas and technical information designed to improve the efficiency of industry, agriculture and commerce, and to offer European management and free labor unions opportunitites to observe the expanding free enterprise system of the United States.

With the exception of the technical exchange program, no request for economic aid funds is involved in these activities.

Regional Narrative Statement (Continued)

Special Programs in FY 1955

A. Agricultural Surpluses

In accordance with Section 402 of the Mutual Security Act of 1954, which provided that at least $350 million of the funds available under this Act be used to finance the sale of surplus agricultural commodities for local currencies abroad, substantial sales of these commodities were programmed for Western Europe. As of March 30, funds obligated or in process of obligation for commodity sales in Western Europe amounted to $163.3 million. It is expected that the total of such sales to countries of Western Europe may run up to about $250 million by the end of this fiscal year.

Sales to Western Europe financed or still to be financed cover the following commodities: bread grains, coarse grains, raw cotton, cottonseed oil, corn, fruit, lard, and linseed oil.

In the case of Berlin, Spain, Yugoslavia, the United Kingdom, and Italy, countries which received defense, direct forces or joint control area support in FY 1955, the commodity sales are an integral part of these aid programs, with the local currency proceeds being used for purposes of financing programs in support of U.S. objectives for these countries.

In the two remaining countries and the United Kingdom where such sales took place, the proceeds are being applied to various purposes of the Mutual Security Act, although not necessarily within the country where the commodities were sold. Thus, in Denmark proceeds are planned to be used for purchases of goods for aid-receiving countries in other areas of the world; in the United Kingdom they will be applied to the procurement of military equipment for use of NATO forces, and in France proceeds are being used for support of military and economic programs in Vietnam and Cambodia.

B. United Kingdom Aircraft Program

Under Section 122 of Title I of the Mutual Security Act of 1954, a sum not to exceed $35 million was appropriated for the manufacture in the United Kingdom of planes required by United Kingdom forces for the defense of the North Atlantic area.

This was related to a similar program under which a total of $85 million was appropriated for FY 1954 for the same purpose. There are differences, however, in the manner in which the programs were carried out. While under the FY 1954 appropriation payment is being made in dollars, under the FY 1955 appropriation payment will be made in local currency resulting from shipment of U.S. surplus agricultural commodities under Section 402 of the Act.

As of March 1 a total of $42.3 million had been expended under the FY 1954 appropriations. Agreements are currently being negotiated for the programming of the FY 1955 funds. These agreements are characterized by a certain number of built-in safeguards.

The U.S. Air Force must evaluate the aircraft types to be financed by the U.S. as to general serviceability and reasonableness of the proposed unit price. The FY 1954 agreement further stipulated that the U.S. would pay only 75 percent of the estimated cost of each plane to the U.K. It was also agreed that payment for each plane would be made only after that plane had come off the line and had been certified as serviceable by the Ministry of Supply and the Royal Air Force. It is expected that the FY 1955 agreement, now being negotiated will follow the pattern of the earlier agreement in these respects.

Regional Narrative Statement (Continued)

C. European Coal and Steel Community Loan

The Coal and Steel Community represents a dramatic movement in the direction of European unity. It is the first supra-national institution to be established in Europe within which national sovereignties have been merged. As such it carries forward the fundamental "self-help" concept of the United States mutual security program.

The United States Government and the High Authority of the European Coal and Steel Community (CSC) completed arrangements on April 23, 1954 for a loan of $100 million by the United States to the High Authority for the purpose of assisting in modernizing and developing the natural resources of the Community and thereby fostering European integration in a tangible and useful way. The funds for this loan were made available at the time the commitment was made to the High Authority by the transfer from other planned purposes of funds contained in the FY 1954 Mutual Security Program.

The High Authority has an income from its levy on coal and steel production within the Community which, in currencies of the CSC member countries, is equivalent to approximately $50 million annually. Of this amount some $30 million is available annually to guarantee financial commitments assumed by the High Authority. On the basis of this borrowing capacity the High Authority obtained the loan with the U.S. to be repaid with interest over a period of 25 years.

The High Authority made the first allocation under the loan, at the end of December 1954, to firms proposing to modernize underground and surface installations in coal and iron mines, and to build thermal power stations. These totaled $59.1 million. A second allocation in March 1955 of $5.3 million was for modernization and mechanization of iron ore mines in Germany and Italy. Further industrial loans of about $10 million are expected to be made shortly. The remaining $25 million of the U.S. credit is tentatively earmarked by the High Authority for miners' housing projects.

Although no additional U.S. loans are contemplated in FY 1956, United States support of the CSC continues to encourage progress towards the goal of European unity.

D. Defense Support for Italy

In January of 1955 the U.S. concluded an agreement with the Italian Government under which $15.5 million in defense support funds was allotted to Italy to finance the import of U.S. cotton; the local currency proceeds to be used to build roads and other productive public works.

These projects, bolstering the development program for Southern Italy launched in 1950, are expected to create new employment in this area of chronic unemployment and underemployment. The construction of productive public works will also help to attract increased investment both from within and outside Italy to an area which has been characterized by inadequate production and substantially lower living standards than the rest of Italy.

Revitalization of this area -- comprising about one-third of Italy's area and population -- has been recognized by the Italian Government as one of the important requisites to a sound national economy. The Organization for European Economic Cooperation has also recognized Southern Italy as an area requiring extensive economic development. Italy's efforts have been channeled through the "Cassa per il Mezzogiorno" ("Fund for the South"), a public agency established to carry out a program of direct action in such fields as land reclamation, irrigation and conservation, and for development of roads, railways, aqueducts and sewers. The Cassa's annual budget is equivalent to $175 million.

The $15.5 million supplements an earlier program under which in FY 1954 the counterpart from $20 million in defense was earmarked for a revolving industrial loan fund for this area. The purpose of the loan fund is to stimulate small and medium-sized enterprises, particularly in industrial fields new to Southern Italy.

Regional Narrative Statement (Continued)

E. Miscellaneous

1. Emergency Relief. In accordance with a Presidential directive a total of $1.5 million was made available during FY 1955 from defense support funds for relief of flood victims in the Danube Basin. The floods had destroyed large quantities of corn and wheat and brought about critical shortages of grain for feeding livestock during the winter months. Accordingly, a total of $10.2 million* of surplus agricultural commodities was shipped to Austria, West Germany, East Germany, Hungary and Czechoslovakia under authority of Title II of Public Law 480 (Agricultural Trade Development and Assistance Act of 1954). With the exception of $200,000 for medical supplies, the FOA funds made available were used for defraying the cost of ocean freight for the surplus commodities. The actual relief operations were carried out through the Red Cross in all countries except Austria, where the relief was handled through government channels.

2. Special Food Programs. Under authority of Sections 401 and 409 of the Mutual Security Act of 1954 a total of $3.8 million was made available for a special program of Christmas parcel distribution. Under this program some 2-1/2 million parcels containing various combinations of butter, cooking and vegetable oils, shortening, milk, rice, canned beef and gravy were distributed to needy families in 13 European countries outside of the Soviet Bloc. With the exception of the beef, the contents were surplus commodities made available through Title II of P.L. 480. FOA funds were used to purchase the meat, to defray the packaging cost, and to pay for ocean transportation.

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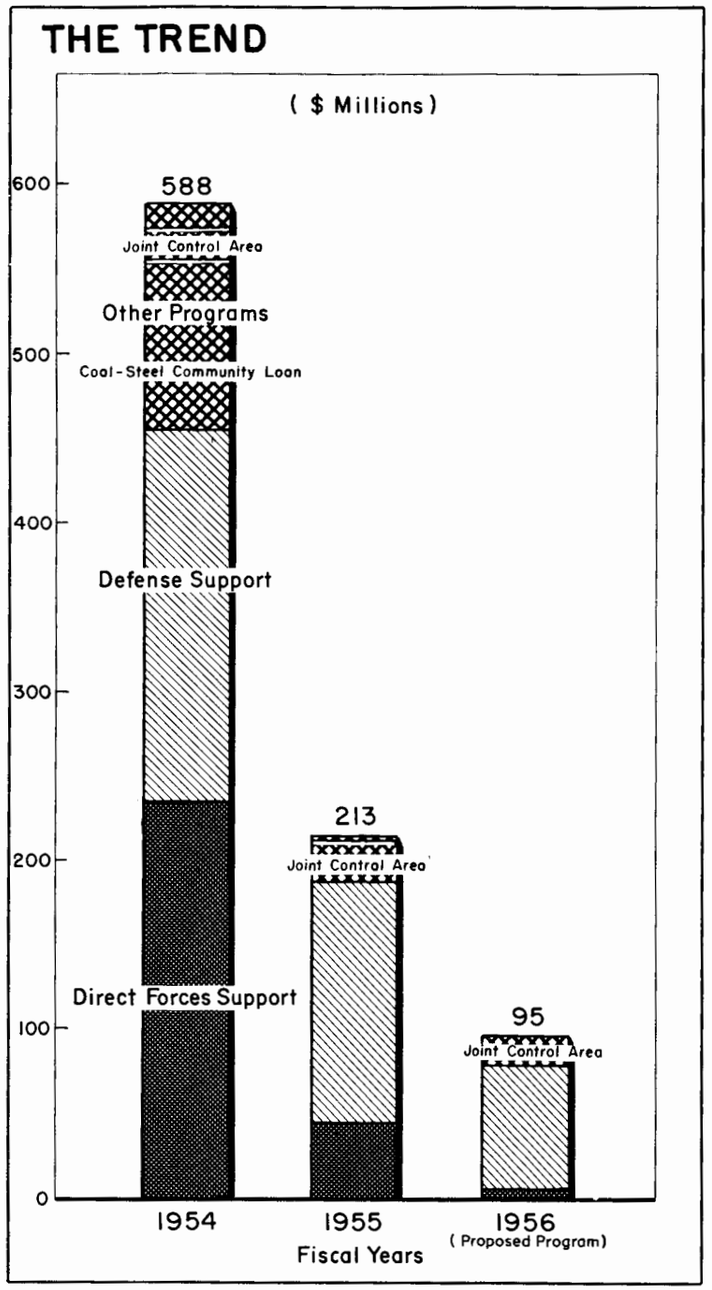
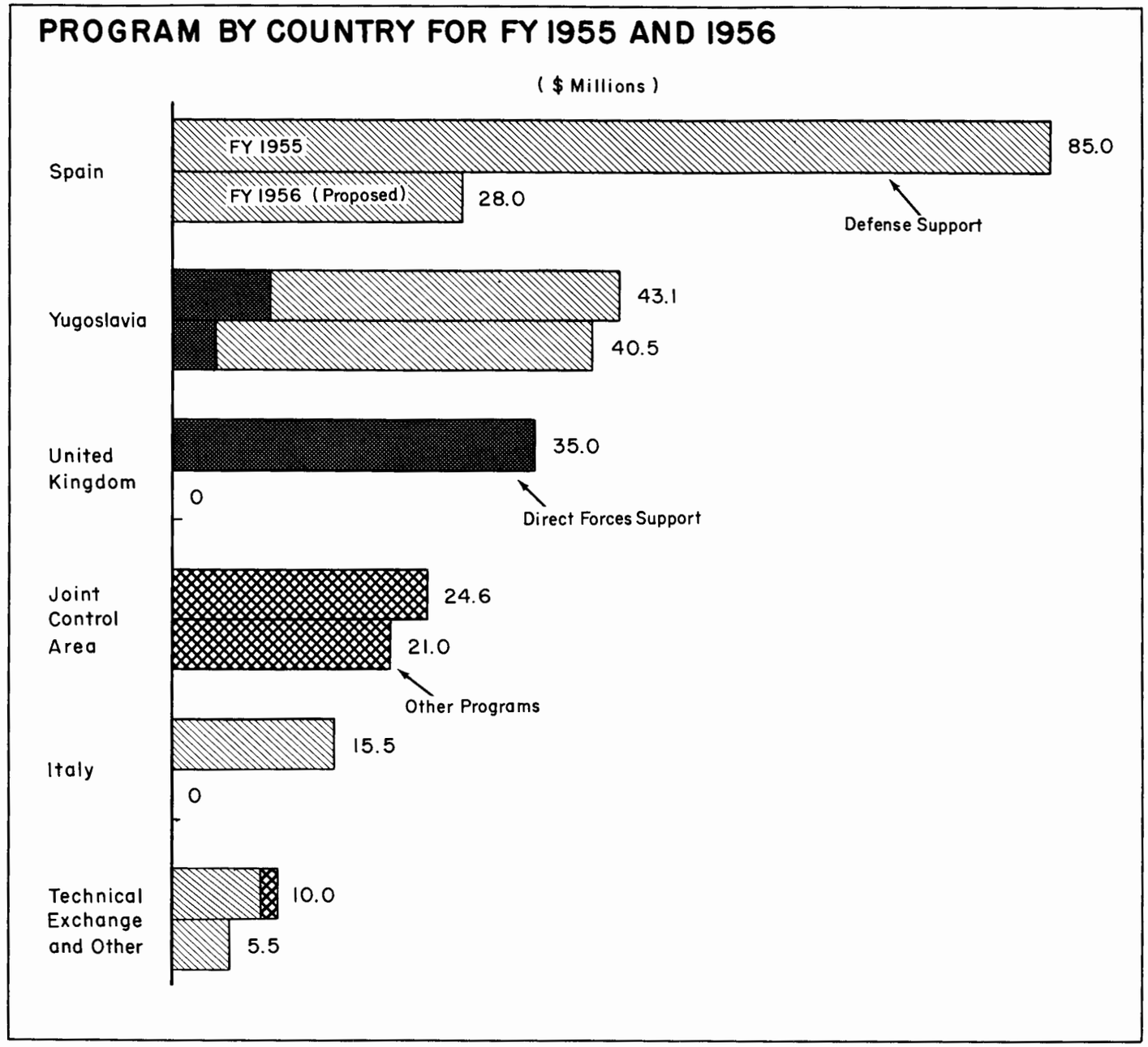
* The estimated CCC cost and investment.

EUROPE

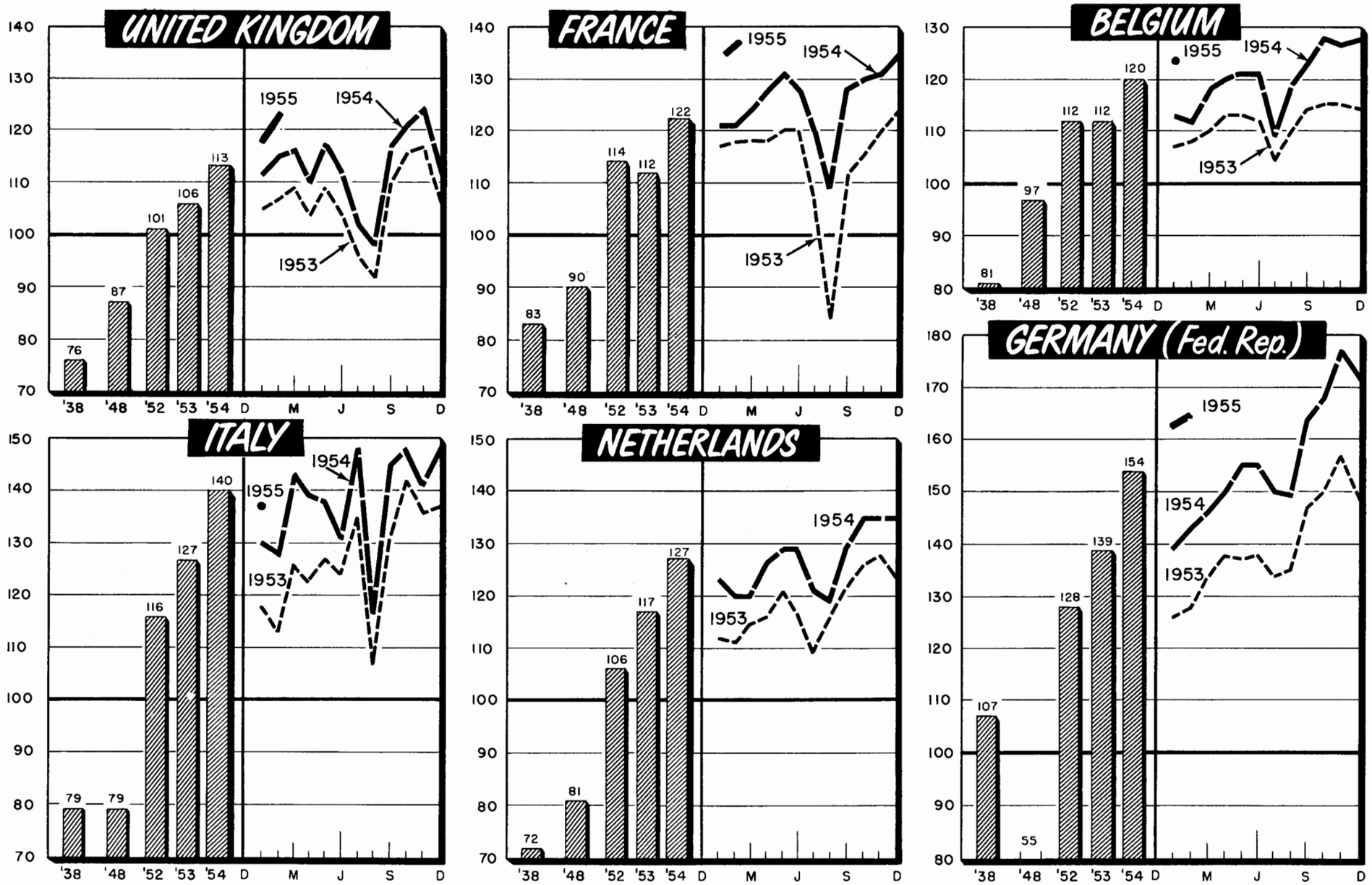

THE TREND
($ Millions)
600
500
400
300
200
100
0
588
Joint Control Area
Other Programs
Coal-Steel Community Loan
Defense Support
Direct Forces Support
213
Joint Control Area
95
Joint Control Area
1954
1955
1956
(Proposed Program)
Fiscal Years


PROGRAM BY COUNTRY FOR FY 1955 AND 1956
($ Millions)
Spain
FY 1955
85.0
FY 1956 (Proposed)
28.0
Defense Support
Yugoslavia
43.1
40.5
United Kingdom
35.0
0
Direct Forces Support
Joint Control Area
24.6
21.0
Other Programs
Italy
15.5
0
Technical Exchange and Other
10.0
5.5

EUROPEAN INDUSTRIAL PRODUCTION

SELECTED COUNTRIES

Not Seasonally Adjusted – Index: 1950–100



DEFENSE EXPENDITURES: TOTAL AND PERCENT OF GROSS NATIONAL PRODUCT AT MARKET PRICES

BY U.S. FISCAL YEARS - IN MILLIONS OF DOLLARS

COUNTRY	1938	ACTUAL										FOA ESTIMATE			
	DEFENSE EXPENDITURE AS A PERCENT OF GNP	1949/50		1950/51		1951/52		1952/53		1953/54		1954/55		1955/56	
		DEFENSE EXPENDITURES	PERCENT OF GNP	DEFENSE EXPENDITURES	PERCENT OF GNP	DEFENSE EXPENDITURES	PERCENT OF GNP	DEFENSE EXPENDITURES	PERCENT OF GNP	DEFENSE EXPENDITURES	PERCENT OF GNP	DEFENSE EXPENDITURES	PERCENT OF GNP	DEFENSE EXPENDITURES	PERCENT OF GNP
Belgium-Luxembourg	2.5	158	2.5	201	2.8	355	4.7	429	5.9	419	5.7	430	5.7	420	5.4
Denmark	0.9	53	1.8	56	1.7	88	2.5	109	2.9	130	3.3	139	3.5	135	3.4
France	6.6	1,458	5.6	2,041	6.8	3,209	9.0	4,092	10.7	3,734	9.5	3,500	8.5	3,400	8.0
Germany (Fed. Rep.) ...	15.8	1,290	6.6	1,388	5.7	2,028	7.0	2,060	6.7	1,526	4.6	1,857	5.2	2,100	5.5
Italy	6.0	520	4.0	613	4.1	806	4.9	792	4.5	846	4.5	850	4.3	840	4.0
Netherlands	2.3	231	4.6	228	4.2	310	5.3	328	5.2	387	6.0	440	6.6	437	6.4
Norway	0.9	50	2.4	67	2.8	96	3.5	137	4.7	157	5.1	159	5.1	155	4.8
Portugal	3.7	46	3.1	49	3.0	50	2.9	63	3.7	68	3.7	72	3.8	74	3.9
United Kingdom	6.5	2,449	6.9	2,752	7.1	4,086	9.8	4,954	10.9	4,821	10.1	4,825	9.8	4,840	9.7
Greece	5.5	62	6.8	86	8.2	90	7.9	89	7.2	112	6.6	115	6.4	115	6.2
Turkey[a]	6.9	230	6.9	239	6.1	268	5.3	297	5.5	342	5.9	386	6.7	432	7.0
EUROPEAN NATO	9.3	6,547	5.6	7,720	5.8	11,386	7.6	13,350	8.3	12,542	7.4	12,773	7.2	12,948	7.1
Spain	n.a.	216	4.9	236	3.7	266	3.4	284	3.4	332	4.0	414	4.8	465	5.3
Yugoslavia	n.a.	n.a.	n.a.	n.a.	n.a.	624	16.7	633	16.6	626	15.7	615	14.9	615	14.0
TOTAL	n.a.	6,763[b]	5.6[b]	7,956[b]	5.7[b]	12,276	7.6	14,267	8.3	13,500	7.4	13,802	7.3	14,028	7.1
Canada	0.7	441	2.6	763	3.8	1,643	7.4	1,965	8.2	1,848	7.5	2,067	8.4	n.a.	n.a.
United States	1.2	12,808	4.8	21,946	7.0	43,375	12.9	49,813	13.9	46,188	12.8	39,791	10.9	38,487	n.a.

NOTE: Precise comparisons of the levels of defense expenditure between the European countries and the United States are not possible. The conversion into dollars has been made on the basis of official foreign exchange rates, and the purchasing power of the dollar is appreciably higher in most European countries than in the United States. Intra-European comparisons of the converted dollar figures are subject to similar limitations. Adjustments to make figures truly comparable cannot now be made.

FRANCE: Includes Special Military Support and Special Defense Financing. Excludes subsidies to Associated States Forces after January 1, 1954. UNITED KINGDOM: 1954/55 and 1955/56 include Special Defense Financing. GERMANY: 1938 is for prewar Reich (boundaries as of 1936). Most of the German contribution is for occupation costs. SPAIN, TURKEY, and YUGOSLAVIA: FOA/W estimates. CANADA: 1954/55 is Canadian fiscal year ending in March.

[a] Projections subject to revision by U.S. inter-agency study. *[b] Excludes Yugoslavia.* *n.a. - Not available.*

Revised May 18, 1955

GROSS NATIONAL PRODUCT AT MARKET PRICES - TOTAL AND PER CAPITA

(In U.S. Fiscal Years)

COUNTRY	TOTALS - *(Millions of U.S. Dollars)*						PER CAPITA - *(U.S. Dollars)*					
	CURRENT PRICES				1953/54 PRICES		CURRENT PRICES				1953/54 PRICES	
	1950/51	1951/52	1952/53	1953/54	1954/55*	1955/56*	1950/51	1951/52	1952/53	1953/54	1954/55*	1955/56*
Belgium-Luxembourg ...	7,081	7,543	7,275	7,344	7,588	7,721	791	838	803	807	829	839
Denmark	3,297	3,587	3,709	3,888	3,971	4,017	769	831	852	885	900	905
France	29,884	35,756	38,376	39,475	41,210	42,475	694	825	878	900	930	952
Germany (Fed. Rep.)...	24,310	28,795	30,931	33,100	35,600	38,300	508	596	635	672	720	770
Iceland	105	125	135	148	153	158	729	850	906	974	994	1,006
Italy	14,840	16,420	17,540	18,870	19,785	20,775	315	347	369	395	413	431
Netherlands	5,475	5,824	6,263	6,502	6,688	6,876	537	564	600	616	629	641
Norway	2,410	2,755	2,900	3,070	3,146	3,209	735	832	867	910	924	934
Portugal	1,623	1,715	1,720	1,830	1,888	1,905	192	201	200	211	216	216
United Kingdom	38,760	41,684	45,329	47,950	49,050	50,030	764	823	892	941	957	972
EUR. NATO (Ex. Gr. & Tur.) ..	127,785	144,204	154,178	162,177	169,079	175,466	570	640	680	711	737	760
Greece	1,043	1,136	1,233	1,700	1,771	1,844	130	141	151	208	215	222
Turkey a/.....	3,914	4,649	5,404	5,766	5,800	6,150	184	214	243	254	253	262
TOTAL EUROPEAN NATO	132,742	149,989	160,815	169,643	176,650	183,460	524	588	625	655	678	699
Austria	2,223	2,730	2,956	3,185	3,358	3,498	321	393	425	458	482	501
Spain	6,300	7,800	8,450	8,370	8,582	8,741	225	277	298	293	298	301
Yugoslavia	n.a.	3,720	3,237	3,980	4,115	4,400	n.a.	225	192	232	236	249
TOTAL	n.a.	164,239	175,458	185,178	192,705	200,099	n.a.	535	567	594	614	633
Canada	20,021	22,119	23,926	24,489	24,625	n.a.	1,444	1,555	1,638	1,634	1,596	n.a.
United States	311,800	337,400	358,400	359,600	365,000	n.a.	2,037	2,166	2,262	2,232	2,229	n.a.

NOTE: Precise comparisons of the levels of gross national product between the European countries and the United States are not possible. The conversion into dollars has been made on the basis of official foreign exchange rates, and the purchasing power of the dollar is appreciably higher in most European countries than in the United States. Intra-European comparisons of the converted dollar figures are subject to similar limitations. Adjustments to make the figures truly comparable cannot now be made.

a/ Projections subject to revision by U.S. inter-agency study.

*FOA/W Projections. n.a. Not available

Revised May 18, 1955

GOLD AND SHORT-TERM DOLLARS

(Millions of Dollars-End of Period)

COUNTRY	DECEMBER			1949		1950		1951		1952		1953		1954		1955		
	1938	1947	1948	SEPT	DEC	JUNE	DEC	JUNE	DEC	JUNE	DEC	JUNE	DEC	JUNE	DEC	JAN	FEB	MAR
Belgium-Lux.-Congo	828	797	838	935	913	871	848	845	898	967	1,036	1,044	1,098	1,056	1,039	1,043	1,051	
Denmark	60	85	77	64	70	67	76	76	76	65	101	102	127	124	102	107	101	
France*.....	2,952	775	794	734	740	787	835	877	896	931	967	926	1,048	1,091	1,355	1,350	1,385	
Germany a/.....	219	90	179	148	149	228	222	357	434	545	691	893	1,225	1,503	1,998	2,019	2,106	
Iceland	1	5	2	4	4	3	3	3	5	6	5	5	9	9	10	10	10	
Italy	216	208	428	543	560	543	577	538	639	619	659	664	814	804	927[b]	940[b]	958[b]	
Netherlands	1,057	375	290	328	366	457	505	446	465	547	747	884	980	1,049	1,045	1,050	1,037	
Norway	99	128	130	112	120	117	94	110	150	145	160	164	171	178	148	134	111	
Portugal*	86	370	291	232	234	228	257	283	331	342	373	412	469	516	558	562	567	
United Kingdom (Gov't Reports) c/....	3,316	2,079	1,836	1,425	1,688	2,422	3,300	3,867	2,335	1,685	1,846	2,367	2,518	3,017	2,762	2,763	2,681[d]	
Greece	27	49	27	30	36	44	36	44	49	51	57	82	112	125	124	140	145	
Turkey	29	208	180	174	164	162	164	162	165	171	151	152	157	151	152	153	153	
Adjustments e/.....	--	24	32	28	37	94	165	220	77	59	52	71	87	164	173	168	193	
EUROPEAN NATO PLUS GERMANY	8,890	5,193	5,104	4,757	5,081	6,023	7,082	7,828	6,520	6,133	6,845	7,766	8,815	9,787	10,393	10,439	10,498	
Austria	46	10	62	92	92	85	92	94	107	102	143	166	238	289	333	333	337	
Ireland	10	38	29	32	32	32	26	26	33	33	30	30	31	31	31	31	31	
Spain	n.a.	124	125	121	127	120	132	129	128	129	130	134	150	142	188	195	201	
Sweden	420	164	130	132	160	184	205	228	224	281	275	280	335	342	406	396	395	
Switzerland	918	1,791	1,886	1,999	2,021	2,154	2,023	1,960	1,973	2,009	2,053	2,091	2,133	2,105	2,185	2,136	2,135	
TOTAL	10,284	7,320	7,336	7,133	7,513	8,598	9,560	10,265	8,985	8,687	9,476	10,467	11,702	12,696	13,536	13,530	13,597	

* Includes overseas territories.
a/Includes dollar holdings of Americans residing in Germany and other American accounts, except prewar period.
b/Includes figure for gold holdings as of October 1954.
c/ Exchange Equalization Account official holdings of gold, U.S. and Canadian dollars, as reported by British Government. Excludes private U.S. and Canadian dollar holdings.
d/ The March 31,figure is $2,667.
e/ Adjustments include unpublished official gold holdings for various countries.

EUROPE

Country: BELGIUM-LUXEMBOURG

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support			
Commodity Programs	-0.12	-	-
Technical Exchange	0.38	0.07	b/
Total Country Program Other Than Military Assistance	0.26	0.07	-

a/ Data included in separate submission on Military Assistance.
b/ Included in Program for Western European Technical Exchange.

General Narrative Statement

BELGIUM

Military Progress to Date

During the period 1950-54 the Belgian Army has grown from a relatively ineffective force of one active and one reserve infantry division to a present day force which is well equipped and trained for combat operations. The necessary material, training assistance and guidance to enable the Belgian Army to accomplish its rapid growth has been provided under the Military Assistance program (MDAP). This assistance has also influenced the country in increasing compulsory military training service from 12 to 18 months. Without MDAP support, Belgium would not have been able to furnish its contribution to the NATO defense effort. Belgium's progress in the training fields has been particularly noteworthy. Every opportunity has been accepted to train personnel in United States schools and, as a result, good progress has been made in the expansion and modernization of the Army school system.

The Belgian Navy came into being on March 1, 1949. In 1947 a frigate was purchased from the United States and used as a weather ship until June, 1950 when it became a training ship. In 1949-50 Belgium purchased some ocean minesweepers from the United Kingdom, and in addition the United Kingdom transferred a few inshore minesweepers to Belgium. Beginning in 1950, ships were constructed in the United States and delivered to the Belgian Navy through the MDA Program. In 1954, under MDAP sponsorship, construction of minesweeper type ships was commenced in Belgium. A naval training center has been

General Narrative Statement (Continued)

constructed which is capable of meeting most of the Belgian Navy's requirements for training enlisted personnel. The Navy performance with MDAP equipment has been particularly good and will be further improved as more ships become available.

In 1950 the Belgian Air Force personnel strength was less than half of what it is today. It was equipped with obsolescent aircraft and only a few of its airfields could be considered operational. Since that time, and due primarily to the arrival of new equipment under MDAP, Belgium has built a comparatively modern Air Force. The airfield complex has been modernized to conform with NATO standards. The capacity of the training system has been expanded by the establishment of a training center in the Belgian Congo and is now adequate to meet all requirements of the Air Force. The logistic support system has been expanded and modernized and the antiquated maintenance system has been replaced by more modern methods.

Belgium has been the recipient of, and has given assistance to other MDAP countries within her limited ability. This assistance has been primarily in the training field. Belgium has made available to other NATO countries training facilities for training personnel in the use of equipment provided under MDAP. Also, provisions have been made for the training of Luxembourg military personnel in training schools and centers including the Ecole Royal Militaire (Military Academy) and the Ecole de Guerre (War College). However, despite the favorable result of country efforts and NATO assistance, much more must be accomplished before the Armed Force can effectively fulfill its combat requirements.

NOTE: The country statement is confined to military progress since no aid other than Military Assistance is being requested.

LUXEMBOURG

Military Progress to Date

Prior to the end of World War II, Luxembourg had no army; its only uniformed personnel consisted of a small detachment of men organized as the Palace Guard. Following World War II and up to 1950, attempts were made to organize a military unit over and above the requirements of the Palace Guard. War surplus equipment from Great Britain and the United States was purchased, but lack of a trained cadre and an apathy on the part of the population failed to produce an effective force of even a small size. With the advent of the United States Military Assistance program (MDAP), the army received a new impetus and welcomed the opportunity to be part of the defense force of the North Atlantic Treaty Organization.

Since 1950, goals have been set for an armed force consistent with the size and the population of the country. Since then, training centers have been established; funds have been provided for the expansion of the army; the population has accepted its military obligations graciously; and, at the present time, Luxembourg has met all its NATO force commitments and will probably continue to do so.

Also, during this period, a command headquarters has been completed, a training center established, construction of modern barracks for the forces has been started and funds have been provided for other requirements. Luxembourg citizens appear to accept their military service obligations seriously and undoubtedly will continue to support the Government in meeting its force requirements.

NOTE: The country statement is confined to military progress since no aid other than Military Assistance is being requested.

BELGIUM-LUXEMBOURG

BASIC STATISTICS

Area	square miles	12,777
Population	thousands	9,150
Population Density	per square mile	716
Agricultural Land	% of total area	58.9
Agricultural Land per Capita	acres	0.5
Per Capita Caloric Intake 1953/54	calories	2,960
Per Capita GNP, 1953/54 current prices	U.S. $	807

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	81	Prewar	100
1948	97	1948/49	92
1949	98	1949/50	103
1950	100	1950/51	108
1951	115	1951/52	107
1952	112	1952/53	112
1953	112	1953/54	114
1954	120	1954/55	n.a.

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	158	2.5
1951	201	2.8
1952	355	4.7
1953	429	5.9
1954	419	5.7
1955 (est.)	430	5.7
1956 (est.)	420	5.4

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	7,344	7,588	7,721
Net Foreign Balance	-26	+25	+35
Total Availabilities	7,370	7,563	7,686
Consumption - Amount	5,056	5,208	5,258
Percent of GNP	68.8	68.6	68.1
Gross Investment (Private and Gov't) - Amount	1,136	1,170	1,238
Percent of GNP	15.5	15.4	16.0
Government Services, Total	1,178	1,185	1,190
Non-Military	759	755	770
Military - Amount	419	430	420
Percent of GNP	5.7	5.7	5.4

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	211	204	202	212
From OEEC Countries	101	106	114	121
From Rest of World	110	98	88	91
From U.S. and Canada	41	37	26	26
EXPORTS, TOTAL VALUE (f.o.b.)	219	203	188	192
To OEEC Countries	133	126	115	121
To Rest of World	86	77	73	71
To U.S. and Canada	21	19	22	17
BALANCE OF TRADE	+8	-1	-14	-20
With OEEC Countries	+32	+20	+1	0
With Rest of World	-24	-21	-15	-20
With U.S. and Canada	-20	-18	-4	-9

GOVERNMENT FINANCES (U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	1,756	1,604	1,635	1,677
Taxes and Other Revenues	1,750	1,602	1,633	1,675
Counterpart	6	2	2	2
TOTAL EXPENDITURES	1,990	1,898	1,915	1,900
Defense Expenditures	429	419	430	420
Other	1,561	1,479	1,485	1,480
DEFICIT OR SURPLUS	-234	-294	-280	-223
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of Dec. 31	4,792	5,000	4,918	n.a.
Percent of Gross Nat'l Product	69.4	73.2	68.5	n.a.
TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	1,570	1,520	1,554	n.a.
Social Insurance	515	533	535	n.a.
Regional and Local Governments	88	92	85	n.a.
TOTAL TAXES	2,173	2,145	2,174	2,150
TOTAL TAXES AS A PERCENT OF GNP	31.5	31.4	30.3	28.8

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	39.8	59.6	108.0
U.S. Military Expenditures	27.7	28.3	
Mutual Security Program Receipts, Total	12.1	31.3	
Offshore Procurement Payments	6.9	26.8	
Direct Forces Support	-	-	
Defense Support	5.2	4.5	
Section 550*	-	-	
Section 402*	-	-	
Coal Revolving Fund**	-	-	
Gold and Short-Term Dollar Reserves as of February 28	1,118	1,051	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

EUROPE

Country: DENMARK

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support			
Commodity Programs	-0.05	-	-
Technical Exchange	0.39	0.11	b/
Total Country Program Other Than Military Assistance	0.34	0.11c/	
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Country	-	3.4	-
2. Sales Proceeds Programmed in This Country	-	-	-

a/ Data included in separate submission on Military Assistance.
b/ Included in program of Western European Technical Exchange.
c/ In addition as of April 15, 1955 $3.8 million of coal financed by the Coal Procurement Fund was extended to Denmark in exchange for local currency credits to be used for other country programs.

General Narrative Statement

Military Progress to Date

The equipment of the Danish Army in 1950 was a conglomeration of types and models of questionable combat value. There were only some 10,000 individual weapons to arm approximately 100,000 mobilizable troops. Most of these 100,000 men were infantry trained with very little experience in armor, artillery or other support type units. This force was completely out of balance and small arms, all types of field artillery, anti-aircraft artillery, tanks, vehicles and communications equipment were necessary in order to organize a combatant force. The Danish Army is primarily a mobilization type army and at present consists of a small cadre of regular officers and men who train conscripts to fill their mobilization assignments in the event of war. In addition to providing equipment, the United States has provided under the Military Assistance Program (MDAP) training for a substantial number of personnel in the United States, who, upon return, have instructed other personnel in United States methods and doctrine. Special training orientation courses in the

General Narrative Statement (Continued)

United States and Europe have resulted in improving the personnel in command, staff and service school instruction. Despite the gains made by the Army, there are defects which continue to exist and in which the MDA Program can assist and correct.

The Danish Navy has improved considerably by the modernization of its existing craft through the use of MDAP furnished equipment, primarily electronics and ordnance materials. Improvements have also been made in the administration and training of the Danish Navy. Grant aid has provided not only materiel assistance, but also a boost in morale to those Danish nationals who are earnestly striving to improve the defensive posture of Denmark. The Danish Navy, within the limits of funds and experience, has made good progress toward building an adequate force.

The Royal Danish Air Force was created from the old Army Air Corps and augmented by elements of the Navy's fleet air arm. From 1950 to December 1954, the Air Force undertook a build-up objective involving substantial expansion. The lack of equipment, training and over-all knowledge of the requirements of a modern air force, would have made achievement of this objective impossible except for the assistance of MDAP. Since the United States aid program has provided the Air Force with the bulk of its equipment and nearly all of the pilot training, the Air Force has now reached a position from which it can reach out toward ultimate goals with marked hope of success.

NOTE: The country statement is confined to military progress since no aid other than Military Assistance is being requested.

DENMARK

BASIC STATISTICS

Area	square miles	16,578
Population	thousands	4,400
Population Density	per square mile	265
Agricultural Land	% of total area	73.3
Agricultural Land per Capita	acres	1.8
Per Capita Caloric Intake 1953/54	calories	3,250
Per Capita GNP, 1953/54 current prices	U.S. $	885

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	63	Prewar	100
1948	84	1948/49	94
1949	89	1949/50	108
1950	100	1950/51	116
1951	102	1951/52	112
1952	98	1952/53	118
1953	102	1953/54	122
1954	108	1954/55	n.a.

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	53	1.8
1951	56	1.7
1952	88	2.5
1953	109	2.9
1954	130	3.3
1955 (est.)	139	3.5
1956 (est.)	135	3.4

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	3,888	3,971	4,017
Net Foreign Balance	-44	+15	+20
Total Availabilities	3,932	3,956	3,997
Consumption - Amount	2,785	2,841	2,869
Percent of GNP	71.6	71.5	71.4
Gross Investment (Private and Gov't) - Amount	688	647	654
Percent of GNP	17.7	16.3	16.3
Government Services, Total	459	468	474
Non-Military	329	329	339
Military - Amount	130	139	135
Percent of GNP	3.3	3.5	3.4

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	84	80	83	97
From OEEC Countries	60	62	68	77
From Rest of World	24	18	15	20
From U.S. and Canada	9	7	4	5
EXPORTS, TOTAL VALUE (f.o.b.)	70	71	73	79
To OEEC Countries	54	54	56	57
To Rest of World	16	17	17	22
To U.S. and Canada	2	4	5	6
BALANCE OF TRADE	-14	-9	-10	-18
With OEEC Countries	-6	-8	-12	-20
With Rest of World	-8	-1	+2	+2
With U.S. and Canada	-7	-3	+1	+1

GOVERNMENT FINANCES (U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (*Incl. Counterpart*)	660	597	622	628
Taxes and Other Revenues	575	589	617	625
Counterpart	85	8	5	3
TOTAL EXPENDITURES	555	698	727	700
Defense Expenditures	109	130	139	135
Other	446	568	588	565
DEFICIT OR SURPLUS	+105	-101	-105	-72
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of March 31	1,287	1,310	1,308	1,247
Percent of Gross Nat'l Product	40.5	38.2	36.2	33.0
TAX RECEIPTS OF ALL LEVELS OF GOV'T *FY Ending* March 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	441	529	563	608
Social Insurance	40	44	46	49
Regional and Local Governments	161	240	263	269
TOTAL TAXES	642	813	872	926
TOTAL TAXES AS A PERCENT OF GNP	20.5	23.7	24.1	24.5

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	30.5	31.4	34.2
U.S. Military Expenditures	23.9	19.8	
Mutual Security Program Receipts, Total	6.6	11.6	
Offshore Procurement Payments	1.4	5.5	
Direct Forces Support	-	-	
Defense Support	5.2	0.3	
Section 550*	-	-	
Section 402*	-	2.0	
Coal Revolving Fund**	-	3.8	
Gold and Short-Term Dollar Reserves as of February 28	130	101	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

EUROPE

Country: FRANCE

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	85.0		
Defense Support			
Commodity Programs	- 0.07	-	-
Technical Exchange	1.38	0.69c/	b/
Total Country Program Other Than Military Assistance	86.31	0.69	
MSP Sales Surplus Agricultural Commodities			
1. Sales in this Country	15.85	50.0	-
2. Sales Proceeds Programmed in this Country	-	-	-

a/ Data included in seperate submission on Military Assistance.
b/ Included in Program of Western European Technical Exchange.
c/ In addition as of April 15, 1955 $0.5 million of coal financed by the coal procurement fund was extended to France in exchange for local currency credits to be used for other country programs.

General Narrative Statement

Military Progress to Date

In 1950, the French Army had five active divisions equipped with an assortment of French, German, British and United States equipment. All types of support units, combat and service, were inadequate. At that time, France did have sufficient trained personnel from their reserve manpower pool to organize a number of additional divisions and support units. However, because of equipment limitations, French planning did not provide for mobilization of additional divisions, except for units stationed in North Africa (Algeria and Morocco). The French logistical organization was inadequate to back up even five divisions in combat and, in addition, France in 1950 had practically no war reserves. In the years following 1950. France has progressively increased her forces.

General Narrative Statement (Continued)

Since the start of the Mutual Defense Assistance Programs, the French Navy has made very substantial pro-ress in rebuilding, both in materiel and in personnel. The morale of the fleet is today a vital force and manifests itself in a spirit of enthusiasm and optimism among officers and men. It is worthy of note that the French Navy acquired a very considerable amount of actual combat experience, not only in World War II, but also during the last eight years in Indochina. All of the junior officers and majority of the senior officers and enlisted men have served in the Indochina combat theater. Since MDAP aid to the French Navy commenced in 1950, the number of active ships and aircraft has greatly increased. So far this increase, in the case of the ships, has been brought about more by the assistance in improving the material condition of ships already on hand than by deliveries of new ships. However, two aircraft carriers, some minesweepers, and several destroyer escorts have been delivered under MDAP. The acquisition of new ships, both United States built and from off-shore procurement sources, has just begun to have a major effect, and ships currently being built or scheduled for construction during the next several years, will materially reduce, but not eliminate, the gap between naval assets on hand and NATO defense requirements. In the meantime, the active French fleet can be considered effective. It carries out all the types of operations perform-ed by the United States fleet, although on a reduced scale. It has taken part, with uniformly satisfactory results, in all NATO sea force exercises yet undertaken.

The naval air arm has been completely regenerated with the help of MDAP. The French Navy is now operating its flying school using basic trainers furnished by the United States. Carrier aircraft have been furnished under MDAP, as well as modern maritime aircraft for the anti-submarine service.

At the end of 1949, the French Air Force was deficient in both manpower and equipment. There were only 66,000 men in service and the equipment consisted of obsolete World War II types. During the period 1950 through 1954, the French Air Force has been comp-letely reorganized, its manpower increased to over 123,000, the training establishment reconstituted and re-equipped and sufficient modern equipment provided to greatly enhance their fighting ability.

NOTE: The country statement is confined to military progress, since no aid other than Mutual Defense Assistance is being requested.

FRANCE

BASIC STATISTICS

Area	square miles	213,697
Population	thousands	44,290
Population Density	per square mile	202
Agricultural Land	% of total area	61.0
Agricultural Land per Capita	acres	1.9
Per Capita Caloric Intake 1953/54	calories	2,975
Per Capita GNP, 1953/54 current prices	U.S. $	900

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	83	Prewar	100
1948	90	1948/49	100
1949	98	1949/50	101
1950	100	1950/51	109
1951	111	1951/52	104
1952	114	1952/53	110
1953	112	1953/54	119
1954	119	1954/55 (Est.)	122

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	1,458	5.6
1951	2,041	6.8
1952	3,209	9.0
1953	4,092	10.8
1954	3,734	9.5
1955 (est.)	3,500	8.5
1956 (est.)	3,400	8.0

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	39,475	41,210	42,475
Net Foreign Balance	+85	+130	+175
Total Availabilities	39,390	41,080	42,300
Consumption - Amount	27,525	28,950	30,000
Percent of GNP	69.7	70.3	70.6
Gross Investment (Private and Gov't) - Amount	4,530	4,900	5,100
Percent of GNP	11.5	11.9	12.0
Government Services, Total	7,335	7,230	7,200
Non-Military	3,601	3,730	3,800
Military - Amount	3,734	3,500	3,400
Percent of GNP	9.5	8.5	8.0

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	385	379	347	362
From OEEC Countries	103	104	95	101
From Rest of World	282	275	252	261
From U.S. and Canada	48	44	35	35
EXPORTS, TOTAL VALUE (f.o.b.)	353	337	335	360
To OEEC Countries	131	118	128	143
To Rest of World	222	219	207	217
To U.S. and Canada	23	15	17	15
BALANCE OF TRADE	-32	-42	-12	-2
With OEEC Countries	+28	+14	+33	+42
With Rest of World	-60	-56	-45	-44
With U.S. and Canada	-25	-29	-18	-20

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	8,625	9,350	9,670	9,510
Taxes and Other Revenues	8,110	8,980	9,135	9,360
Counterpart	515	370	535	150
TOTAL EXPENDITURES	10,840	11,020	11,070	11,200
Defense Expenditures	4,092	3,734	3,500	3,400
Other	6,748	7,286	7,570	7,800
DEFICIT OR SURPLUS	-2,215	-1,670	-1,400	-1,690
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of Dec. 31	11,620	13,301	14,591	n.a.
Percent of Gross Nat'l Product	35.2	35.1	38.2	n.a.
TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	6,200	7,394	8,129	n.a.
Social Insurance	2,743	3,500	3,657	n.a.
Regional and Local Governments	1,100	1,509	1,628	n.a.
TOTAL TAXES	10,043	12,403	13,414	13,423
TOTAL TAXES AS A PERCENT OF GNP	30.4	32.8	35.1	32.9

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	855.8	1,221.9	992.5
U.S. Military Expenditures	325.1	310.0	
Mutual Security Program Receipts, Total	530.7	911.9	
Offshore Procurement Payments	221.2	334.6	
Direct Forces Support	96.1	465.0	
Defense Support	206.7	77.6	
Section 550*	6.7	9.2	
Section 402*	-	25.0	
Coal Revolving Fund**	-	0.5	
Gold and Short-Term Dollar Reserves as of February 28	1,051	1,385	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

EUROPE

Country: ICELAND

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Defense Support			
Country Programs	-0.07	-	-
Technical Exchange	0.13	0.26	a/
Total Country Program	0.06	0.26	a/

a/ Included in program of Western European Technical Exchange.

EUROPE

Country: ITALY

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support b/			
Commodity Programs	19.41	15.52	-
Technical Exchange	1.83	1.00	c/
Total Country Program Other Than Military Assistance	21.24	16.52 d/	
MSP Sales Surplus Agricultural Commodities			
1. Sales in this Country	18.50	15.52	
2. Sales Proceeds Programmed in this Country Defense Support	-	15.52	

a/ Data included in separate submission on Military Assistance.
b/ Includes Trieste.
c/ Included in program of Western European Technical Exchange.
d/ In addition, as of April 15, $1.7 million of coal financed by the coal procurement fund was extended to Italy in exchange for local currency credits to be used for other country programs.

General Narrative Statement

Military Progress to Date

At the end of World War II, the Italian armed forces were in a condition of complete military ineffectiveness. Since that time and with assistance provided by the United States under the Military Assistance program (MDAP), these forces have been equipped with modern materiel and selected personnel have been trained in United States service schools. Substantial progress has been made over the last few years, and while a great deal remains to be accomplished, tangible results have been achieved which would have been impossible without the aid program. Many millions of dollars worth of military hardware and training skills have been placed in the hands of the Italians with the result of slow and steady improvement in the

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General Narrative Statement (Continued)

military establishment. As the Italians acquire more skill in technical and logistical matters, further improvement can be expected. Even now, modernization of weapons is extensive and many major equipment deficiencies have been overcome through their own economy.

All available Italian Naval appropriations have been channeled into the installation of MDAP equipment, construction of new vessels and the training of personnel for the operation of weapons and equipment. The Italian Navy has participated with great spirit in Mediterranean naval operations of the NATO forces and has exerted full and unqualified effort in developing its combat efficiency and capability.

Under MDAP, the Italian Air Force has been provided with modern aircraft and supporting equipment. While much progress has been made by the air force, much remains to be done. Equipment scheduled for the air force can be absorbed only if provisions are made for continuation of the training effort, consolidation and phasing out of obsolescent aircraft, and adequate provisions are forthcoming to supply fuel and other requirements.

NOTE: The country statement is confined to military progress since no aid other than Military Assistance is being requested.

ITALY

BASIC STATISTICS

Area	square miles	116,510
Population	thousands	47,900
Population Density	per square mile	407
Agricultural Land	% of total area	68.5
Agricultural Land per Capita	acres	1.1
Per Capita Caloric Intake 1953/54	calories	2,685
Per Capita GNP, 1953/54 current prices	U.S. $	395

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	79	Prewar	100
1948	79	1948/49	98
1949	87	1949/50	108
1950	100	1950/51	108
1951	113	1951/52	118
1952	116	1952/53	119
1953	127	1953/54	131
1954	139	1954/55 (Est.)	123

DEFENSE EXPENDITURES

($ Millions)

U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	520	4.0
1951	613	4.1
1952	806	4.9
1953	792	4.5
1954	846	4.5
1955 (est.)	850	4.3
1956 (est.)	840	4.0

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	18,870	19,785	20,775
Net Foreign Balance	-220	-30	-15
Total Availabilities	19,090	19,815	20,790
Consumption - Amount	13,230	13,650	14,300
Percent of GNP	70.1	69.0	68.8
Gross Investment (Private and Gov't) - Amount	3,650	3,900	4,190
Percent of GNP	19.3	19.7	20.2
Government Services, Total	2,210	2,265	2,300
Non-Military	1,364	1,415	1,460
Military - Amount	846	850	840
Percent of GNP	4.5	4.3	4.0

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	181	195	200	200
From OEEC Countries	56	71	89	92
From Rest of World	125	124	111	108
From U.S. and Canada	42	45	29	26
EXPORTS, TOTAL VALUE (f.o.b.)	137	116	124	136
To OEEC Countries	70	57	61	71
To Rest of World	67	59	63	65
To U.S. and Canada	10	18	13	12
BALANCE OF TRADE	-44	-79	-76	-64
With OEEC Countries	+14	-14	-28	-21
With Rest of World	-58	-65	-48	-43
With U.S. and Canada	-32	-27	-16	-14

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	3,015	3,185	3,410	3,745
Taxes and Other Revenues	2,820	3,125	3,350	3,685
Counterpart	195	60	60	60
TOTAL EXPENDITURES	3,850	3,725	3,970	4,325
Defense Expenditures	792	846	850	840
Other	3,058	2,879	3,120	3,485
DEFICIT OR SURPLUS	-835	-540	-560	-580
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of June 30	5,203	5,677	6,240	n.a.
Percent of Gross Nat'l Product	35.1	34.6	35.6	n.a.
TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending June 30	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	1,930	2,177	2,576	3,000
Social Insurance	800	902	999	1,098
Regional and Local Governments	500	528	544	576
TOTAL TAXES	3,230	3,607	4,119	4,674
TOTAL TAXES AS A PERCENT OF GNP	21.8	22.0	23.5	24.8

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	255.9	278.6	197.6
U.S. Military Expenditures	33.1	47.0	
Mutual Security Program Receipts, Total	222.8	231.6	
Offshore Procurement Payments	107.4	163.9	
Direct Forces Support	-	-	
Defense Support	111.9	45.0	
Section 550*	3.5	15.0	
Section 402*	-	6.0	
Coal Revolving Fund**	-	1.7	
Gold and Short-Term Dollar Reserves as of February 28	820	958	

*Sale of U.S. surplus agricultural commodities.

** Local currency expected to be used to finance exports to third countries.

EUROPE

Country: NETHERLANDS

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Program Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	4.0	-	-
Defense Support			
Commodity Programs	-0.27	-	-
Technical Exchange	0.30	0.07	b/
Total Country Program Other Than Military Assistance	4.03	0.07	-
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Country	4.0	-	-
2. Sales Proceeds Programmed in This Country Direct Forces Support	4.0	-	-

a/ Data included in separate submission on Military Assistance.
b/ Included in Program for Western European Technical Exchange.

General Narrative Statement

Military Progress to Date

At the beginning of the Military Assistance Program (MDAP) in 1950 the Netherlands Armed Forces were in the process of undergoing a period of readjustment following World War II. At that time the Army consisted of two (2) infantry divisions, one (1) regimental combat team and ten (10) infantry regiments. These units were organized along British lines. The equipment in general was of British origin and the heaviest equipment consisted of armored cars and 25-pounder artillery. During the ensuing years following 1950, the Army has increased its personnel strength and the period of conscript service. As a result, a third infantry division was organized and almost completely outfitted with American equipment received under MDAP.

The Royal Netherlands Navy, at the inception of MDAP, was also undergoing a period of readjustment and was rapidly approaching a low point in materiel and personnel. Obsolete and worn out ships and aircraft were being scrapped, sold or given to Indonesia. Personnel, who had been involved in the Indonesia fighting, were being demobilized. The only effective forces in existence were the minesweeping forces which had just completed

General Narrative Statement (Continued)

sweeping World War II mines from the North Sea area. On the brighter side, however, a large naval construction program was in existence involving construction of several major war vessels. The primary mission assigned to the Navy is to conduct anti-submarine warfare and minesweeping operations in assigned NATO area of responsibility. The Navy has the additional mission of supporting appropriate ground force operations. There is also the task of supporting and assisting in the protection of overseas bases. From the above it may be seen that it is necessary for the Navy Forces to be divided into three separate forces: NATO, Home Defense and Overseas non-NATO area forces. These forces have been greatly strengthened since 1950 by country self-help and the mutual assistance program.

In the case of the Royal Netherlands Air Force, it was decided that the MDA Program would supply NATO combat forces with United States types of equipment. This decision generated an immediate requirement for trained technicians to maintain and operate this equipment. Until this time, the Air Force had little or no experience with either United States types of equipment or maintenance and supply procedures for this equipment. The Netherlands economy was not on a sufficiently sound basis to expend required funds, equipment and training without serious political and economic repercussions; therefore, grant-aid in the form of materiel and technical training was necessary. The Royal Netherlands Air Force and the Belgium Air Force have consummated a cross-servicing agreement whereby exchange of parts and services has resulted in a high utilization rate for aircraft.

NOTE: The country statement is confined to military progress, since no aid other than Military Assistance is being requested.

NETHERLANDS

BASIC STATISTICS

Area	square miles	12,505
Population	thousands	10,630
Population Density	per square mile	850
Agricultural Land	% of total area	72.4
Agricultural Land per Capita	acres	0.6
Per Capita Caloric Intake 1953/54	calories	2,880
Per Capita GNP, 1953/54 current prices	U.S. $	616

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	72	Prewar	100
1948	81	1948/49	91
1949	91	1949/50	108
1950	100	1950/51	113
1951	104	1951/52	112
1952	106	1952/53	119
1953	117	1953/54	119
1954	127	1954/55	n.a.

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	231	4.6
1951	228	4.2
1952	310	5.3
1953	328	5.2
1954	387	6.0
1955 (est.)	440	6.6
1956 (est.)	437	6.4

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	6,502	6,688	6,876
Net Foreign Balance	+210	+200	+260
Total Availabilities	6,292	6,488	6,616
Consumption - Amount	3,866	4,021	4,098
Percent of GNP	59.5	60.1	59.6
Gross Investment (Private and Gov't) - Amount	1,392	1,406	1,434
Percent of GNP	21.4	21.0	20.9
Government Services, Total	1,034	1,061	1,084
Non-Military	647	621	647
Military - Amount	387	440	437
Percent of GNP	6.0	6.6	6.4

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	210	183	194	234
From OEEC Countries	111	95	108	128
From Rest of World	89	88	86	106
From U.S. and Canada	26	27	24	31
EXPORTS, TOTAL VALUE (f.o.b.)	161	174	177	199
To OEEC Countries	102	107	107	124
To Rest of World	59	67	70	75
To U.S. and Canada	10	12	16	14
BALANCE OF TRADE	-49	-9	-17	-35
With OEEC Countries	-9	+12	-1	-4
With Rest of World	-30	-21	-16	-31
With U.S. and Canada	-16	-15	-8	-17

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	1,639	1,867	1,850	1,900
Taxes and Other Revenues	1,634	1,745	1,800	1,850
Counterpart	5	122	50	50
TOTAL EXPENDITURES	1,636	1,796	1,900	1,900
Defense Expenditures	328	387	440	437
Other	1,308	1,409	1,460	1,463
DEFICIT OR SURPLUS	+3	+71	-50	0

GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of Dec. 31	6,476	6,183	5,781	n.a.
Percent of Gross Nat'l Product	111.8	102.4	89.1	n.a.

TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	1,395	1,488	1,605	n.a.
Social Insurance	232	263	316	n.a.
Regional and Local Governments	127	91	105	n.a.
TOTAL TAXES	1,754	1,842	2,026	2,098
TOTAL TAXES AS A PERCENT OF GNP	30.3	30.5	31.2	29.9

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	82.8	77.1	90.4
U.S. Military Expenditures	47.7	60.3	
Mutual Security Program Receipts, Total	35.1	16.8	
Offshore Procurement Payments	9.9	12.0	
Direct Forces Support	-	-	
Defense Support	25.2	.8	
Section 550*	-	4.0	
Section 402*	-	-	
Coal Revolving Fund**	-	-	
Gold and Short-Term Dollar Reserves as of February 28	988	1,037	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

EUROPE

Country: NORWAY

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support			
Country Programs	0.49	-	-
Technical Exchange	0.59	0.09	b/
Total Country Program Other Than Military Assistance	1.08	0.09	-
MSP Sales Surplus Agricultural Commodities			
1. Sales in this Country	2.34	-	-
2. Sales Proceeds Programmed in this Country Defense Support	0.50	-	-

a/ Data included in separate submission on Military Assistance.
b/ Included in program of Western European Technical Exchange.

General Narrative Statement

Military Progress to Date

When the Military Assistance program (MDAP) came into being, the Norwegians had made little progress towards reconstituting a military establishment along modern lines and in consonance with the existing threat to their security. This was due largely to the rapid demobilization of the Norwegian military forces in exile after the liberation, the resignations of career personnel, and the lack of experience of senior military officers in planning for the administration and operation of large forces. This lack of experience resulted from the fact that during World War II Norwegian forces fighting with the Allies were integrated into the British forces, and Norwegian officers did not have an opportunity to participate in the planning of operational or logistical matters in the higher command levels.

Through assistance and advice rendered by the United States Military Assistance Advisory Group, together with the United States equipment furnished under MDAP, Norway has

General Narrative Statement (Continued)

achieved a small but efficient Air Force, a limited Navy capable of expansion, and an Army capable of expanding into a force in keeping with its NATO commitments. As a result of NATO exercises and country maneuvers, the Norwegians have gained valuable experience in the maintenance and operation of MDAP equipment. They have demonstrated a capability for effective operation and performance with this equipment and show indications of continued improvements along these lines.

Through the operations of MDAP, senior Norwegian officers have visited military installations in the United States and large numbers of officer and enlisted technicians have attended American military service schools, both in the United States and Europe. There has been the fullest cooperation by the Norwegian Government and military authorities with the MAAG in carrying out the efforts to improve the effectiveness of the Norwegian Military Forces.

The importance of relatively small gains should not be misjudged in assessing the progress to date. Norway's small size and long history of neutrality required its force build-up to be started virtually without any background of tradition and experience in military organization and tactics.

NOTE: The country statement is confined to military progress, since no aid other than Military Assistance is being requested.

NORWAY

BASIC STATISTICS

Area	square miles	125,065
Population	thousands	3,405
Population Density	per square mile	27
Agricultural Land	% of total area	3.2
Agricultural Land per Capita	acres	0.8
Per Capita Caloric Intake 1953/54	calories	3,170
Per Capita GNP, 1953/54 current prices	U.S. $	910

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	66	Prewar	100
1948	81	1948/49	102
1949	89	1949/50	110
1950	100	1950/51	116
1951	107	1951/52	115
1952	108	1952/53	116
1953	115	1953/54	115
1954	122	1954/55	n.a.

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	50	2.4
1951	67	2.8
1952	96	3.5
1953	137	4.7
1954	157	5.1
1955 (est.)	159	5.1
1956 (est.)	155	4.8

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	3,070	3,146	3,209
Net Foreign Balance	-133	-142	-120
Total Availabilities	3,203	3,288	3,329
Consumption - Amount	1,870	1,904	1,931
Percent of GNP	60.9	60.5	60.2
Gross Investment (Private and Gov't) - Amount	926	967	979
Percent of GNP	30.2	30.7	30.5
Government Services, Total	407	417	419
Non-Military	250	258	264
Military - Amount	157	159	155
Percent of GNP	5.1	5.1	4.8

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	73	73	76	85
From OEEC Countries	46	48	53	61
From Rest of World	27	25	23	24
From U.S. and Canada	12	11	10	10
EXPORTS, TOTAL VALUE (f.o.b.)	52	47	42	49
To OEEC Countries	32	29	26	30
To Rest of World	20	18	16	19
To U.S. and Canada	4	4	5	4
BALANCE OF TRADE	-21	-26	-34	-36
With OEEC Countries	-14	-19	-27	-31
With Rest of World	-7	-7	-7	-5
With U.S. and Canada	-8	-7	-5	-6

GOVERNMENT FINANCES (U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	682	666	627	703
Taxes and Other Revenues	572	642	612	703
Counterpart	110	24	15	-
TOTAL EXPENDITURES	549	727	621	626
Defense Expenditures	137	157	159	155
Other	412	570	462	471
DEFICIT OR SURPLUS	+133	-61	+6	+77
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of June 30	1,593	1,592	1,566	1,584
Percent of Gross Nat'l Product	66.1	57.8	54.0	51.6
TAX RECEIPTS OF ALL LEVELS OF GOV'T yr Ending Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	500	554	530	519
Social Insurance	43	52	56	60
Regional and Local Governments	188	214	236	245
TOTAL TAXES	731	820	822	824
TOTAL TAXES AS A PERCENT OF GNP	25.2	28.7	28.4	26.5

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	31.3	29.4	31.4
U.S. Military Expenditures	9.5	14.0	
Mutual Security Program Receipts, Total	21.8	15.4	
Offshore Procurement Payments	3.4	5.7	
Direct Forces Support	-	-	
Defense Support	18.1	7.6	
Section 550*	0.3	2.1	
Section 402*	-	-	
Coal Revolving Fund**	-	-	
Gold and Short-Term Dollar Reserves as of February 28	166	111	

*Sale of U.S. surplus agricultural commodities.

** Local currency expected to be used to finance exports to third countries.

EUROPE

Country: PORTUGAL

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support			
Country Programs	-0.03	-	-
Technical Exchange	0.26	0.09	b/
Total Country Program Other Than Military Assistance	0.23	0.09	-

a/ Data included in separate submission on Military Assistance.
b/ Included in program of Western European Technical Exchange.

General Narrative Statement

Military Progress to Date

When Portugal became eligible to receive equipment under the Military Assistance Program (MDAP) in January 1951, approximately one year later than the other Western European NATO countries, she had no forces capable of being committed to the defense of the NATO Area. At that time, her Army forces consisted of small independent units at reduced strength, with obsolete equipment, and scattered in small garrisons throughout continental Portugal. The Navy consisted of about fifty small ships, all of which were in need of modernization. The Air Force, at that time part of the Army, consisted of a few pilots and a number of obsolete British aircraft. Training throughout all the military services was badly retarded when judged by United States standards.

The progress of the Portuguese Air Force to date has been generally satisfactory and intensification and modernization of training in all the armed services, including a large expansion of training facilities, has been accomplished. The Air Force has been reorganized and modernized. The recent annual defense budget was increased approximately 45 percent over 1951. The construction of a Division Training Camp maneuver area is approaching completion and a tank training center has been established. Permanent type barracks are being constructed throughout Portugal, airfields suitable for modern airplanes have either been constructed or are under construction, a joint school to teach electronic fundamentals to personnel of the Armed Services has been established and personnel strengths of the Armed Services has been substantially increased. Portugal is building naval craft with her own funds and under OSP has contracted to build more. The MDA Program has been influential in orienting the Portuguese Armed Forces toward the United States.

NOTE: The country statement is confined to military progress, since no aid other than Military Assistance is being requested.

PORTUGAL

BASIC STATISTICS

Area	square miles	35,579
Population	thousands	8,730
Population Density	per square mile	247
Agricultural Land	% of total area	52.7
Agricultural Land per Capita	acres	1.4
Per Capita Caloric Intake 1953/54	calories	2,405
Per Capita GNP, 1953/54 current prices	U.S. $	211

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	-	Prewar	100
1948	-	1948/49	103
1949	-	1949/50	107
1950	-	1950/51	114
1951	-	1951/52	128
1952	-	1952/53	113
1953	-	1953/54	135
1954	-	1954/55 (Est.)	129

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	46	3.1
1951	49	3.0
1952	50	2.9
1953	63	3.7
1954	68	3.7
1955 (est.)	72	3.8
1956 (est.)	74	3.9

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	1,830	1,888	1,905
Net Foreign Balance	-30	-20	-20
Total Availabilities	1,860	1,908	1,925
Consumption - Amount	1,446	1,483	1,494
Percent of GNP	79.0	78.5	78.4
Gross Investment (Private and Gov't) - Amount	234	245	251
Percent of GNP	12.8	13.0	13.2
Government Services, Total	180	180	180
Non-Military	112	108	106
Military - Amount	68	72	74
Percent of GNP	3.7	3.8	3.9

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	27	29	28	29
From OEEC Countries	13	15	15	17
From Rest of World	14	14	13	12
From U.S. and Canada	5	4	3	3
EXPORTS, TOTAL VALUE (f.o.b.)	22	20	18	21
To OEEC Countries	9	7	7	9
To Rest of World	13	13	11	12
To U.S. and Canada	3	3	3	2
BALANCE OF TRADE	-5	-9	-10	-8
With OEEC Countries	-4	-8	-8	-8
With Rest of World	-1	-1	-2	0
With U.S. and Canada	-2	-1	0	-1

GOVERNMENT FINANCES (U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	184	196	200	200
Taxes and Other Revenues	183	196	200	200
Counterpart	1	-	-	-
TOTAL EXPENDITURES	200	210	205	205
Defense Expenditures	63	68	72	74
Other	137	142	133	131
DEFICIT OR SURPLUS	-16	-14	-5	-5
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of Dec. 31	405	434	462	n.a.
Percent of Gross Nat'l Product	23.7	26.4	27.2	n.a.
TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	149	159	160	n.a.
Social Insurance	40	41	42	n.a.
Regional and Local Governments	24	25	25	n.a.
TOTAL TAXES	213	225	227	235
TOTAL TAXES AS A PERCENT OF GNP	12.5	13.7	13.4	12.6

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	15.8	15.3	23.0
U.S. Military Expenditures	13.8	9.5	
Mutual Security Program Receipts, Total	2.0	5.8	
Offshore Procurement Payments	0.5	3.4	
Direct Forces Support	-	-	
Defense Support	1.5	2.4	
Section 550*	-	-	
Section 402*	-	-	
Coal Revolving Fund**	-	-	
Gold and Short-Term Dollar Reserves as of February 28	489	567	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

SPAIN

BASIC STATISTICS

Area	square miles	194,232
Population	thousands	28,800
Population Density	per square mile	147
Agricultural Land	square miles	165,700
Arable Land	% of agricultural land	46.2
Agricultural Land per Capita	acres	3.7
Per Capita Caloric Intake 1953/54	calories	2,510
Per Capita GNP, 1953/54 (current prices)	U.S. $	294

INDUSTRIAL PRODUCTION - INDEX 1950 = 100

	TOTAL	COAL	LIGNITE	STEEL	ELECTRICITY
1938	--	51	13	71	40
1948	92	94	104	76	88
1949	87	96	98	88	81
1950	100	100	100	100	100
1951	106	103	111	100	120
1952	122	109	119	110	136
1953	136	110	133	109	126
1954 (Est.)	150	113	129	135	123

AGRICULTURAL PRODUCTION INDEX PREWAR = 100

CROP YEARS	
Prewar	100
1948/49	86
1949/50	88
1950/51	90
1951/52	113
1952/53	106
1953/54	102
1954/55 (Est.)	106

USE OF RESOURCES *(U.S. Fiscal Years)*

(Millions of $ Equivalents)	1954	1955 (EST.)	1956 (EST.)
		(FY 1954 Prices)	
Gross National Product	8,370	8,582	8,741
Net Foreign Balance	-53	-57	-84
Total Availabilities	8,423	8,639	8,825
Consumption - Amount	6,459	6,529	6,565
Percent of GNP	76.3	76.1	75.1
Gross Investment (Private and Gov't) - Amount	1,254	1,296	1,355
Percent of GNP	15.0	15.1	15.5
Government Services, Total	710	814	905
Non-Military	378	400	440
Military - Amount	332	414	465
Percent of GNP	4.0	4.8	5.3

FOREIGN TRADE *(Calendar Years, Millions of $ Equivalents)*

MONTHLY AVERAGE	1951	1952	1953	1954 (est.)
IMPORTS, TOTAL VALUE (c.i.f.)	32	43	50	51
From OEEC Countries	13	20	26	32
From Rest of World	19	23	24	19
From U.S. and Canada	5	7	7	12
EXPORTS, TOTAL VALUE (f.o.b.)	40	34	41	42
To OEEC Countries	20	19	23	29
To Rest of World	20	15	18	13
To U.S. and Canada	6	4	5	6
BALANCE OF TRADE	+8	-9	-9	-9
With OEEC Countries	+7	-1	-3	-3
With Rest of World	+1	-8	-6	-6
With U.S. and Canada	+1	-3	-2	-6

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES *(Incl. Counterpart)*	723	775	870	950
Taxes and Other Revenues	723	775	870	950
Counterpart	-	-	-	-
TOTAL EXPENDITURES	753	998	1,125	1,175
Defense Expenditures	284	332	414	465
Other	469	666	711	710
DEFICIT OR SURPLUS	-30	-223	-255	-225
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of Dec. 31	1,602	1,788	n.a.	n.a.
Percent of Gross Nat'l Product	22.7	22.0	-	-
TAX RECEIPTS OF ALL LEVELS OF GOV'T *FY Ending* Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	473	566	637	666
Social Insurance	79	95	100	108
Regional and Local Governments	125	150	162	167
TOTAL TAXES	677	811	899	941
TOTAL TAXES AS A PERCENT OF GNP	9.6	10.0	10.7	11.1

n.a.-Not available.

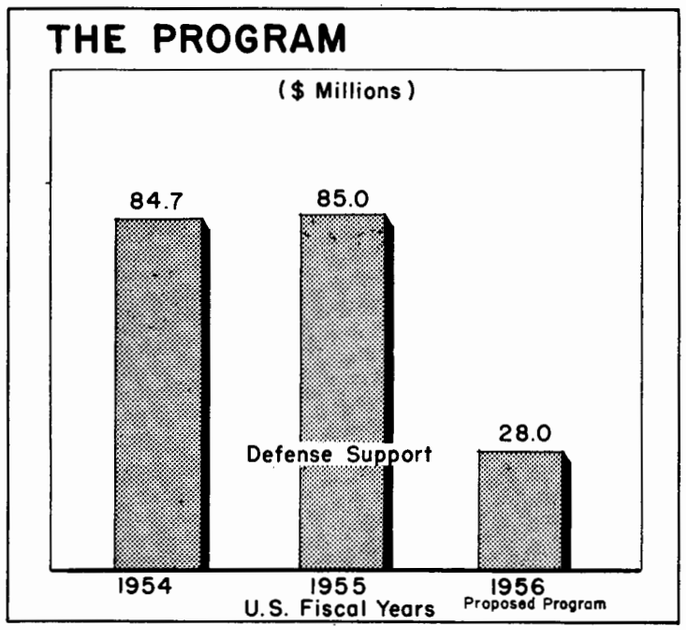
ESTIMATED NET BALANCE OF PAYMENTS

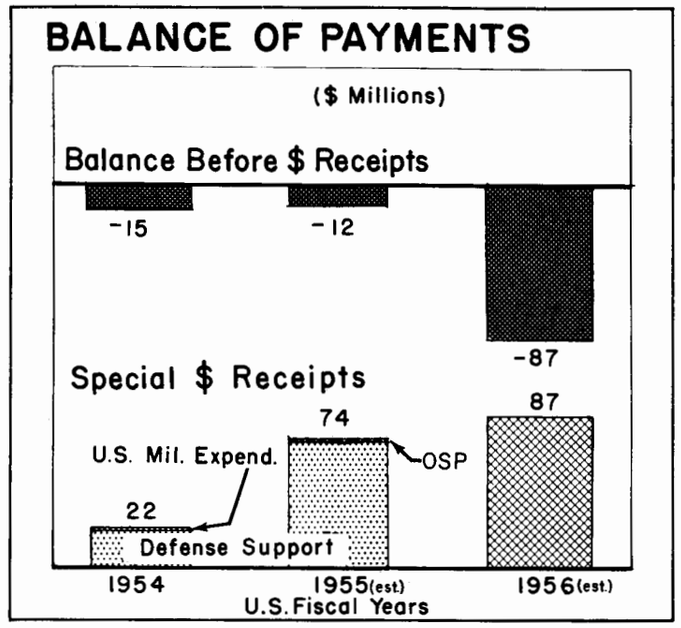
(Gold and Dollar Transactions - U.S. Fiscal Years - Millions of $ Equivalents)

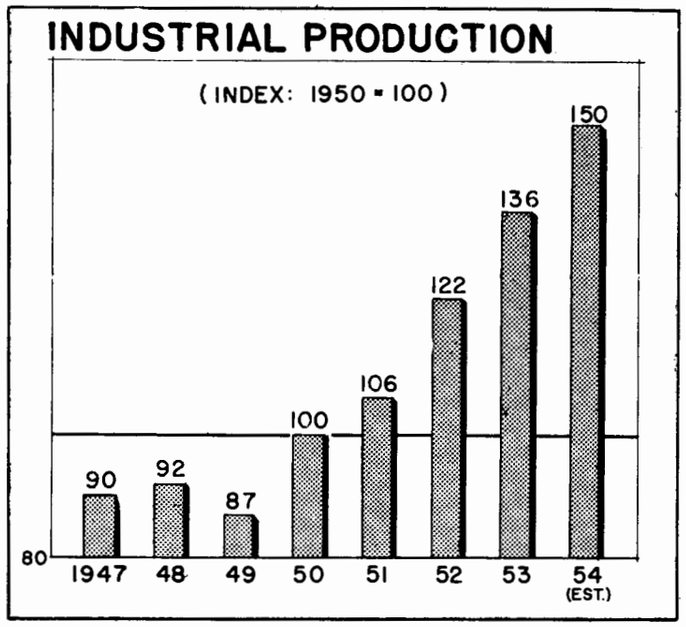
	1954	1955	1956
Imports (f.o.b.)	167.9	185.5	193.0
Exports (f.o.b.)	90.6	105.5	90.0
Payments for Services	30.0	26.0	36.0
Receipts for Services	59.0	68.0	57.1
Net Balance for Services	+29.0	+42.0	+21.1
Net Capital Operations	+33.5	+25.6	-5.1
BALANCE BEFORE SPECIAL DOLLAR RECEIPTS	-14.8	-12.4	-87.0
SPECIAL DOLLAR RECEIPTS			
TOTAL SPECIAL DOLLAR RECEIPTS	22.8	74.4	87.0
U.S. MILITARY EXPENDITURES	1.5	-	
MUTUAL SECURITY PROGRAM RECEIPTS TOTAL	21.3	74.4	
Offshore Procurement Payments	-	1.0	
Direct Forces Support	-	-	
Defense Support	21.3	73.4	
Of which: Section 550*	8.8	5.4	
Section 402*		35.0	
CHANGE IN RESERVES	+8.0	+62.0	0

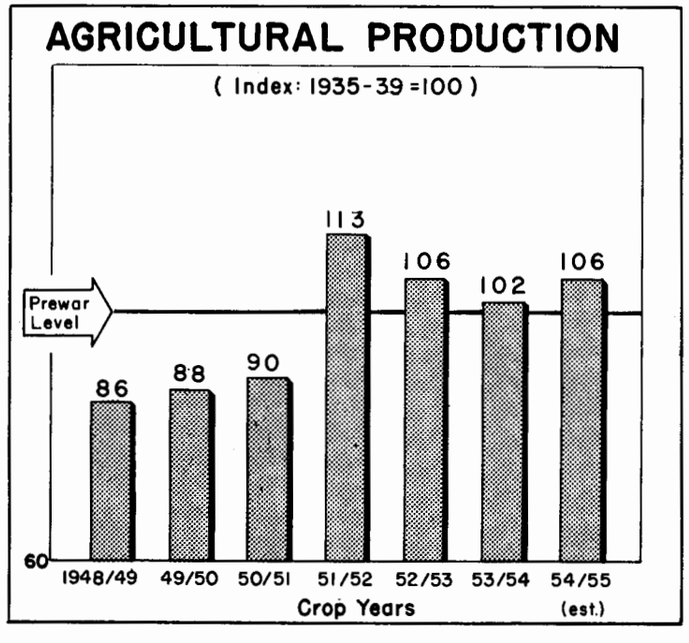
* Sale of U.S. surplus agricultural commodities.

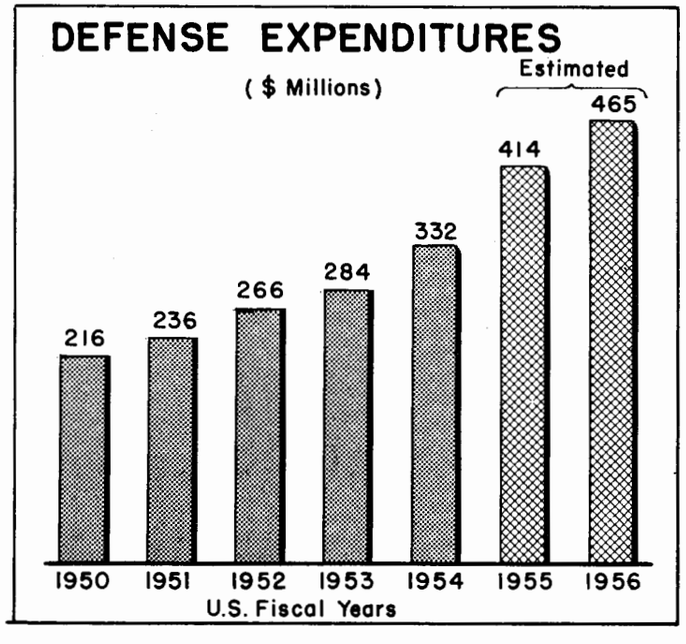
SPAIN

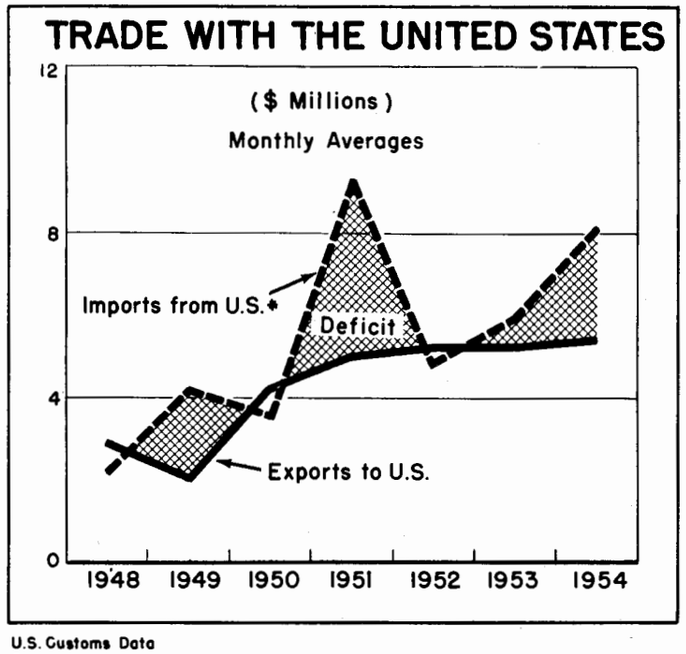












U.S. Customs Data
*Excludes Military Items

EUROPE

Country: SPAIN

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support			
Commodity Programs	84.1	84.5	26.0
Technical Exchange	0.62	0.5	2.0
Total Country Program Other Than Military Assistance	84.72	85.0	28.0
Of Which Financed by Loan:		20.0	
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Country	14.8	55.0	5.0
2. Sales Proceeds Programmed in This Country Defense Support	14.8	55.0	5.0

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Country Situation

Spain is just beginning to emerge from the ravages of the civil war which devastated large parts of the country, disrupted economic progress for years, and left Spain politically isolated. Beginning in 1950 Spain began a slow upward climb of recovery which was aided by a series of agreements with the United States in 1953, under which Spain permits the U.S. to construct a series of air and naval facilities and receives in return U.S. military and defense support assistance.

Program Objectives

The United States' relationship to Spain is one of military cooperation and of friendly association. Under the September, 1953 agreements, the U.S. is building important military facilities in Spain, the use of which will increase substantially the effectiveness of our forces in defense of the West. One important purpose of our economic assistance to Spain is to assist in the development of these facilities and to help the Spanish to build up the transportation services and other industries which support these military facilities.

Spain is one of the poorest countries in Western Europe. Its agriculture and hydro-electric power system suffer from deficient rainfall, which disrupts economic plans and discourages sound development. Its most acute economic needs are for rehabilitation of its badly deteriorated railroads, increased

General Narrative Statement (Continued)

thermal power capacity to supplement its drought-ridden hydro-electric installations, and a comprehensive agricultural program emphasizing irrigation and mechanization which will reduce the vulnerability of agriculture to drought. U.S. programs have been increasingly directed to these fields and in FY 1956 will be almost entirely used to help Spain progress toward solution of these primary problems. An expanded broad technical exchange program should both help strengthen the Spanish economy and contribute directly to mutual understanding and goodwill between the people of Spain and the U.S.

Progress to Date

Non-Military

In 1951 the U.S. Congress established a line of credit of $62.5 million for Spain which is being administered by the Export-Import Bank. In addition, as a result of FOA operations in FY 1954 and FY 1955, Spain is receiving through FY 1955 allotments totalling $98.8 million in Defense Support, $69.8 million in surplus agricultural commodity aid (under PL 778, Section 109, and PL 118, Section 550); and $1.1 million in Technical Exchange.

Allocations of the Export-Import credit and Defense Support funds through FY 1955 were as follows:

	Ex-Import Loan	Defense Support
	(million dollars)	
Industrial raw materials	19.4	26.5
U.S. cotton	5.0	-
Railroad rehabilitation	8.3	16.4
Electric power projects	6.8	17.9
Agriculture equipment	6.8	13.8
Other industrial equipment	16.2	24.2
	62.5	98.8

Though only a small quantity of material programmed as Defense Support in FY 1954 was shipped in that fiscal year, the ability to plan on the basis of future shipments from the U.S. helped to cushion the shock of the severe drought of 1953 and the crop-damaging freeze of early 1954.

Since then Spain's economy has experienced substantial improvement. The recession of FY 1954 brought on by the severe drop in incomes due to crop failures was ended early in FY 1955 by the government's return to an easier money policy and rising production. Despite the late fall drought which made electric power as scarce in 1954 as it was in 1953, industrial production increased, especially in the key sectors of steel and cement in which production increased by 24 percent and 19.5 percent respectively. These production increases were partly attributable to aid-financed raw materials which began to arrive in the summer and fall of 1954. Bumper grain crops obtained in FY 1955 were somewhat offset by the very poor citrus crop, a result of the 1954 freeze and of abnormal insect infestation. Recent warm weather and heavy rains have resulted in favorable crop and electric power prospects. Reservoirs have not been as full in March since 1947, and wheat prospects, if no further frost occurs, are for as large a crop as last year. Many of the projects financed by the $62.5 million loan are now completed and coming into production.

Military Program

Since Spain became eligible for MDAP assistance on 26 September 1953, the major effect of the MDA Programs on the Spanish Armed Forces has been to alert the staff and commanders to the inadequacies of their logistical, personnel and training systems.

The Spanish Army has incorporated all MDAP deliveries to date into existing units so that no activations have been necessary. Attempts to employ MDAP equipment without organizational changes have revealed a basic deficiency in specialists of all types and in equipment needed to support these specialists. The major deficiencies are in the logistical support of wheeled and tracked vehicles. MAAG training efforts have been directed towards school, instructors and pilot training units. The Spanish Army has placed some MDAP equipment into temporary storage pending completion of training, reorganization of army

General Narrative Statement (Continued)

units and adequate support facilities. This has been done in order that equipment will not be issued to a unit until operating and maintenance procedures are thoroughly understood. If this principle is followed, assignment of equipment will be first to corps, later to divisions and finally to regimental and battalion level. Some MDAP equipment is now being satisfactorily utilized, particularly tanks and recoilless rifles.

In the Spanish Navy, although mine sweepers have been delivered, the MDA Program has accomplished very little in the improvement of the over-all military posture since, for the most part, the program for the Spanish Navy is directed toward the modernization of existing vessels in Spanish shipyards. The shipyards have not been modernized and progress will necessarily be slow. Deliveries of MDAP equipment, including jet training aircraft, to the Spanish Air Force have generally been in accord with desired schedules and within the capability of the Spanish Air Force to receive and utilize the equipment. Increased emphasis is being placed on quality as opposed to quantity of units and personnel. Indoctrination visits to and training in United States installations have contributed greatly toward accelerating the trend toward modernization. Two schools were activated in Spain during 1954. The graduates from these schools will assist in speeding the build-up of the Spanish Air Force.

The 1956 Program

Non-Military

Of the $26 million proposed for Defense Support in FY 1956, $8.2 million is presently planned for projects relating to military activities, $12.8 million to strengthen the Spanish economy, and $5.0 million for the purchase of U.S.cotton.

The counterpart equivalent of the $26 million generated by the proposed Defense Support program will be distributed as follows: 10 percent for general U.S. purposes, 60 percent for the local currency costs of the U.S. base construction program, and 30 percent for agreed projects in the transportation and defense production fields.

Of the $8.2 million for military support projects, $6.9 million is for financing further improvements in the railway lines supplying the joint military bases and $0.7 million for making port facilities at Cadiz adequate to the provision of logistical support to the bases. Lesser allocations of $0.5 million and $0.1 million will go to provide safety equipment for civilian airfields continuing the program now in progress, and to provide equipment for a petroleum testing laboratory to improve the quality of fuels used in equipment provided under the MDA program.

The $12.8 million is to be used in the fields of agriculture and electric power. A program of $5 million has been developed to provide equipment for irrigation and reclamation of Spain's barren lands for resettlement of underemployed agricultural workers. A further allocation of $0.8 million will be used for machinery for construction of irrigation dams and main canals, and $1 million to provide equipment for expansion of Spain's nitrogenous fertilizer industry. In 1954 Spain lacked the foreign exchange necessary for purchasing sufficient quantities of these fertilizers abroad.

A $6 million program for transmission lines, substation and switch gear is planned for the power industry to enable it to make the most effective use of equipment financed in earlier FOA programs and to help to break this important bottleneck in the power industry. It is estimated that despite staggered hours and the use of high cost standby generators in industrial firms, the power restrictions of 1954 cut industrial production by five percent. Since line losses in recent years have run as high as 25 percent, the equipment provided in the proposed program should be of great value in increasing the efficiency and stability of the electric power industry.

A $2 million Technical Exchange program is also recommended. About half will go to industry and transportation and will include defense production projects, rail and highways projects, and projects for electric power and other industries. The balance will provide technicians, train engineers in the field of agriculture and train management for industry and operations costs of the program. It is believed that a cooperative

General Narrative Statement (Continued)

relationship between a Spanish and U.S. university may be worked out to help carry this on. Spain's long isolation from scientific and technical developments in the Western community has been a strong factor in its lack of economic viability. A successful technical exchange program in Spain could not only improve Spain's internal economy but also increase its competitive effectiveness in world markets.

EUROPE

Country: SPAIN

TECHNICAL EXCHANGE PROGRAM

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Exchange									
1954	616		5	39	19	174	160	403	-
1955	500		15	155	20	110	60	135	100
1956	2,000		14	190	52	460	505	800	550 a/

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Develop. Soc. Welf. & Housing	All Other
Technical Exchange										
1954	616	146	293	136						41
1955	500	100	110	75						215
1956	2,000	250	750	220				30	50	700 a/

a/ Includes $300,000 for University Contract.

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE)

Summary of Commodity Imports (including Transportation)

(In millions of dollars)

Illustrative Composition of Country Program	FY 1954 Actual	Fiscal Year 1955 Defense Support For Project Utilization	Fiscal Year 1955 Defense Support For Consumption and Generating Local Currency	Fiscal Year 1955 Direct Forces Support	Fiscal Year 1955 Total	Fiscal Year 1956 Defense Support For Project Utilization	Fiscal Year 1956 Defense Support For Consumption and Generating Local Currency	Fiscal Year 1956 Direct Forces Support	Fiscal Year 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains									
Coarse Grains									
Fats and Oils			6.0		6.0				
Fertilizer									
Cotton	14.8		49.0		49.0		5.0		5.0
Total Food & Agricultural Imports	14.8		55.0		55.0		5.0		5.0
Less: Sales Proceeds Programmed for Other Countries									
Net U.S. Financed Food & Agri. Imports	14.8		55.0		55.0		5.0		5.0
Industrial Imports									
Fuel	1.5		3.2		3.2				
Raw and Semi-Finished Products	13.0		4.5		4.5				
Machinery and Vehicles	53.1		17.6		17.6		19.0		19.0
Miscellaneous and Unclassified									
Total Industrial Imports	67.6		25.3		25.3				
Less: Sales Proceeds for Coal Programmed for Other Countries									
Net U.S. Financed Industrial Imports	67.6		25.3		25.3		19.0		19.0
Transportation	1.7		4.2		4.2		2.0		2.0
Total Commodity Program	84.1		84.5		84.5		26.0		26.0

EUROPE

Country: UNITED KINGDOM

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	145.0	35.0	-
Defense Support			
Commodity Programs	54.94	-	-
Technical Exchange	0.31	0.05	b/
Total Country Program Other Than Military Assistance	200.2	35.05 c/	-
MSP Sales Surplus Agriculture Commodities			
1. Sales in This Country	72.25	73.9	-
2. Sales Proceeds Programmed in This Country Direct Forces Support	60.0	35.0	-

a/ Data included in separate submission on Military Assistance.
b/ Included in program for Western European Technical Exchange.
c/ In addition, as of April 15, 1955, $4.0 million of coal financed by the coal procurement fund was extended to the United Kingdom in exchange for local currency credits to be used for other country programs.

General Narrative Statement

Military Progress to Date

The British Army is a well organized and trained force. Through the conscription program, the active reserve is being trained and maintained. The MDA Program has contributed materially to modernizing and filling equipment deficiencies existing in British Army forces committed to NATO, and have provided spare parts necessary to maintain and overhaul Lend-lease and MDAP equipment. Under the impetus of the North Atlantic Treaty, the Regular Army presently assigned to NATO now consists of better organized, combat-ready divisions with a modicum of adequately-equipped support units. The Navy built up during World War II is undergoing modernization and significant progress has been made. The chief contribution of MDAP to the progress of the Navy has been in the fields of ordnance, electronics and naval aviation. Since 1950, the Royal Air Force has continued to modernize its forces through conversion to modern aircraft and equipment. As in the Navy, the Air Force has made noteworthy progress in the installation and operation of modern electronics equipment.

The United Kingdom training program under MDAP is designed to provide the services with a nucleus of United States trained instructors on the types of equipment furnished through the MDA Program. Upon returning to the United Kingdom following completion of courses with United States agencies, the instructors organize courses within their home commands. Supporting this basic concept, assistance is further provided the armed forces by programming, when necessary, technical training in the form of U.S. Mobile Training Teams and engineering technical representatives.

The United Kingdom, to a high degree, possesses the capability of effectively utilizing and maintaining the MDAP equipment delivered to date. The storage, maintenance, and training facilities of the United Kingdom forces are considered completely adequate to achieve desired utilization and maintenance standards.

Note: The country statement is confined to military progress since no aid other than Mutual Defense Assistance is being requested.

UNITED KINGDOM

BASIC STATISTICS

Area	square miles	94,209
Population	thousands	51,260
Population Density	per square mile	541
Agricultural Land	% of total area	80.0
Agricultural Land per Capita	acres	0.9
Per Capita Caloric Intake 1953/54	calories	3,100
Per Capita GNP, 1953/54 current prices	U.S. $	941

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	76	Prewar	100
1948	87	1948/49	108
1949	93	1949/50	113
1950	100	1950/51	120
1951	104	1951/52	121
1952	101	1952/53	125
1953	106	1953/54	132
1954	113	1954/55 (Est.)	131

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	2,449	6.9
1951	2,752	7.1
1952	4,086	9.8
1953	4,954	10.9
1954	4,821	10.1
1955 (est.)	4,825	9.8
1956 (est.)	4,840	9.7

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	47,950	49,050	50,030
Net Foreign Balance	+730	+500	+600
Total Availabilities	47,220	48,550	49,430
Consumption - Amount	31,580	32,250	32,980
Percent of GNP	65.9	65.7	65.9
Gross Investment (Private and Gov't) - Amount	7,140	7,400	7,600
Percent of GNP	14.9	15.1	15.2
Government Services, Total	8,500	8,900	8,850
Non-Military	3,679	4,075	4,010
Military - Amount	4,821	4,825	4,840
Percent of GNP	10.1	9.8	9.7

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	911	812	780	788
From OEEC Countries	223	199	187	197
From Rest of World	688	613	593	591
From U.S. and Canada	149	149	130	130
EXPORTS, TOTAL VALUE (f.o.b.)	632	636	627	647
To OEEC Countries	174	174	188	195
To Rest of World	458	462	439	452
To U.S. and Canada	68	73	78	69
BALANCE OF TRADE	-279	-176	-153	-141
With OEEC Countries	-49	-25	+1	-2
With Rest of World	-230	-151	-154	-139
With U.S. and Canada	-81	-76	-52	-61

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	12,692	12,500	13,120	13,030
Taxes and Other Revenues	12,356	12,209	12,900	13,000
Counterpart	336	291	220	30
TOTAL EXPENDITURES	13,972	13,209	14,000	14,000
Defense Expenditures	4,954	4,821	4,825	4,840
Other	9,018	8,388	9,175	9,160
DEFICIT OR SURPLUS	-1,280	-709	-880	-970
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of March 31	71,300	70,596	71,073	73,452 a/
Percent of Gross Nat'l Product	194.4	173.6	162.0	157.0
TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending March 31	1951 b/	1952	1953	1954
Central Gov't (excl. Social Insurance)	11,209	11,743	12,032	11,844
Social Insurance	1,266	1,288	1,344	1,442
Regional and Local Governments	1,010	1,036	1,120	1,162
TOTAL TAXES	13,485	14,067	14,496	14,448
TOTAL TAXES AS A PERCENT OF GNP	33.2	34.6	33.0	30.9

a/ As of Dec. 31, 1953.
b/ Calendar year ending December 31.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	532.6	536.9	596.8
U.S. Military Expenditures	216.0	257.6	
Mutual Security Program Receipts, Total	316.6	279.3	
Offshore Procurement Payments	89.1	122.7	
Direct Forces Support	-	70.0	
Defense Support	193.8	63.0	
Section 550*	33.7	14.6	
Section 402*	-	5.0	
Coal Revolving Fund**	-	4.0	
Gold and Short-Term Dollar Reserves as of March 31	2,685	2,667	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

YUGOSLAVIA

BASIC STATISTICS

Area	square miles	99,182
Population	thousands	17,420
Population Density	per square mile	175
Agricultural Land	square miles	54,100
Arable Land	% of agricultural land	55.7
Agricultural Land per Capita	acres	2.0
Per Capita Caloric Intake 1953/54	calories	2,900
Per Capita GNP, 1953/54 (current prices)	U.S. $	228

INDEXES OF PRODUCTION

INDUSTRIAL *(1950 = 100)*		AGRICULTURAL *(Prewar = 100)* *(Gross Output)*	
1938	55	Prewar	100
1948	87	1948/49	n.a.
1949	98	1949/50	n.a.
1950	100	1950/51	86
1951	97	1951/52	110
1952	97	1952/53	91
1953	106	1953/54	112
1954	121	1954/55	99

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	n.a.	n.a.
1951	n.a.	n.a.
1952	624	16.7
1953	633	19.6
1954	626	15.7
1955 (est.)	615	14.9
1956 (est.)	615	14.0

USE OF RESOURCES *(U.S. Fiscal Years)*

(Millions of $ Equivalents)	1954	1955 (EST.)	1956 (EST.)
		(FY 1954 Prices)	
Gross National Product	3,980	4,115	4,400
Net Foreign Balance	-120	-65	-5
Total Availabilities	4,100	4,180	4,405
Consumption - Amount	1,890	1,950	2,165
Percent of GNP	47.5	47.4	49.2
Gross Investment (Private and Gov't) - Amount	1,175	1,220	1,180
Percent of GNP	29.5	29.6	26.8
Government Services, Total	1,035	1,010	1,060
Non-Military	409	395	445
Military - Amount	626	615	615
Percent of GNP	15.7	14.9	14.0

FOREIGN TRADE *(Calendar Years, Millions of $ Equivalents)*

MONTHLY AVERAGE	1951	1952	1953	1954 (est.)
IMPORTS, TOTAL VALUE (c.i.f.)	33	31	33	28
From OEEC Countries	15	21	18	16
From Rest of World	18	9	15	12
From U.S. and Canada	12	7	12	9
EXPORTS, TOTAL VALUE (f.o.b.)	15	21	15	20
To OEEC Countries	12	16	12	20
To Rest of World	3	5	3	5
To U.S. and Canada	2	3	2	2
BALANCE OF TRADE	-18	-10	-18	-8
With OEEC Countries	-3	-6	-7	-1
With Rest of World	-15	-4	-11	-7
With U.S. and Canada	-10	-4	-10	-7

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES *(Incl. Counterpart)*	675	633	773	733
Taxes and Other Revenues	614	620	625	650
Counterpart	61	13	148	83
TOTAL EXPENDITURES	754	750	765	775
Defense Expenditures	633	626	615	615
Other	121	124	150	160
DEFICIT OR SURPLUS	-79	-117	+8	-42

GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of				
Percent of Gross Nat'l Product		N.A.		

TAX RECEIPTS OF ALL LEVELS OF GOV'T *FY Ending*	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)				
Social Insurance				
Regional and Local Governments		N.A.		
TOTAL TAXES				
TOTAL TAXES AS A PERCENT OF GNP				

n.a. - Not available.

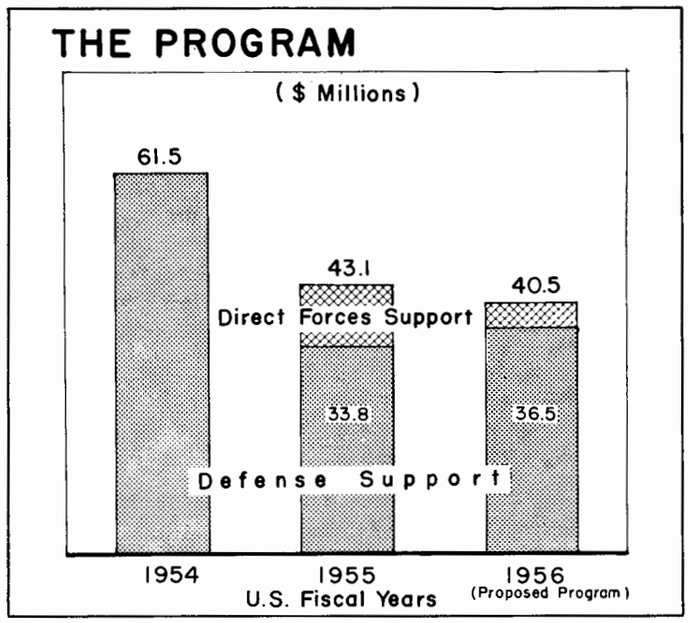
ESTIMATED NET BALANCE OF PAYMENTS

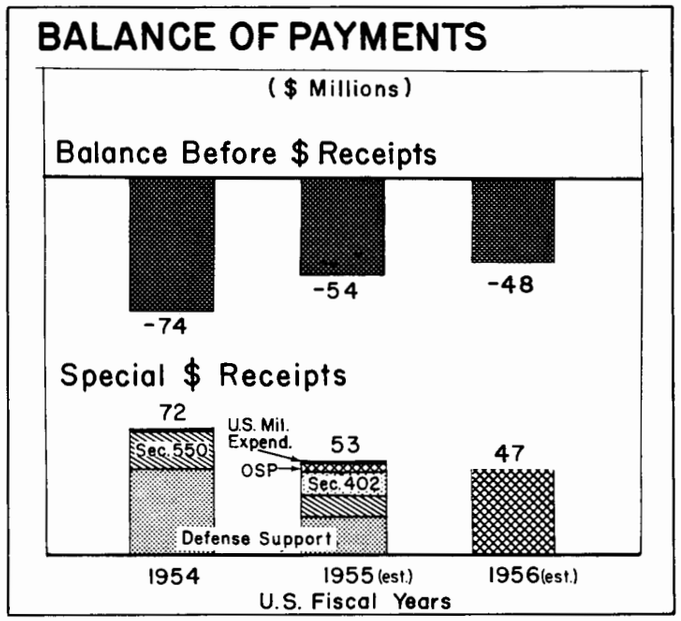
(Gold and Dollar Transactions - U.S. Fiscal Years - Millions of $ Equivalents)

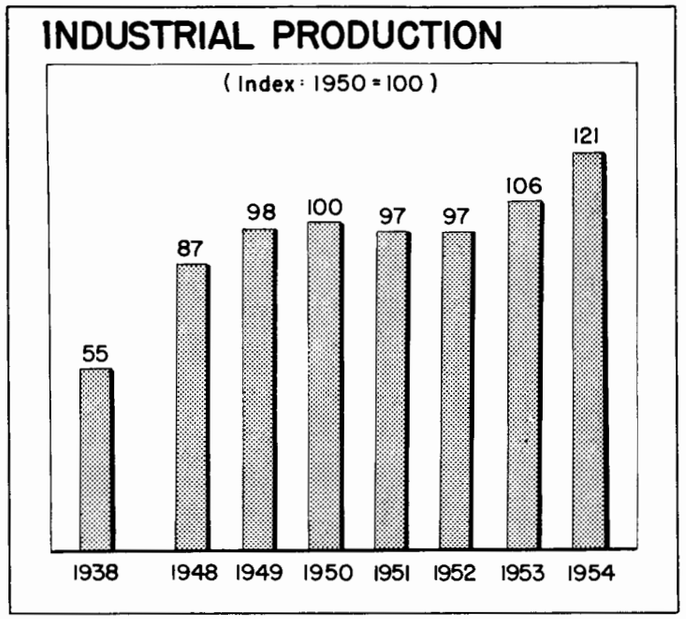
	1954	1955	1956
Imports (f.o.b.)	80.9	63.0	54.5
Exports (f.o.b.)	23.1	26.0	24.8
Payments for Services	n.a.	n.a.	n.a.
Receipts for Services	n.a.	n.a.	n.a.
Net Balance for Services	-10.4	-4.4	-3.9
Net Capital Operations	-6.1	-13.0	-14.3
BALANCE BEFORE SPECIAL DOLLAR RECEIPTS	-74.3	-54.4	-47.9
SPECIAL DOLLAR RECEIPTS			
TOTAL SPECIAL DOLLAR RECEIPTS	72.3	53.4	47.4
U.S. MILITARY EXPENDITURES	0.6	0.6	
MUTUAL SECURITY PROGRAM RECEIPTS TOTAL	71.7	52.8	
Offshore Procurement Payments	-	7.5	
Direct Forces Support	-	-	
Defense Support	47.0	21.4	
Section 550*	24.7	10.3	
Section 402*	-	13.6	
CHANGE IN RESERVES	-2.0	-1.0	-0.5

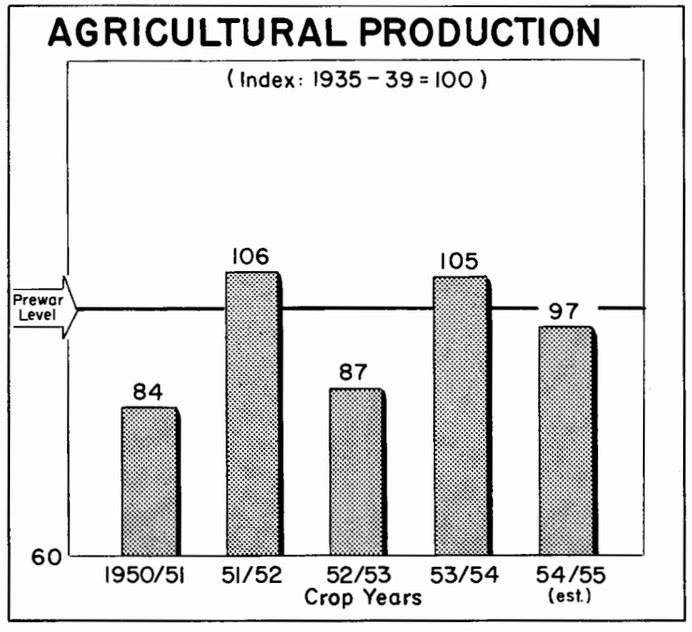
* Sale of U.S. surplus agricultural commodities.

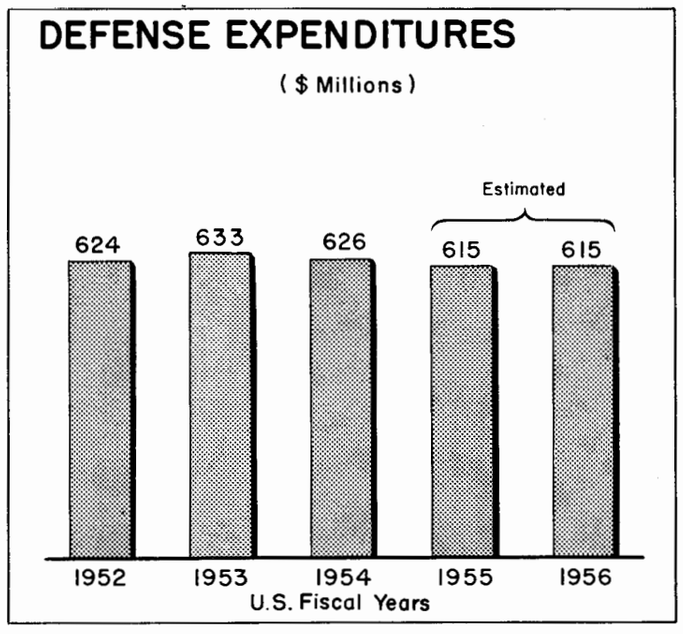
YUGOSLAVIA











U.S Customs Data
*Excludes Military Items

EUROPE

Country: YUGOSLAVIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1950/54	Program FY 1955	Program Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	-	9.3	4.0
Defense Support			
Commodity Programs	59.80	33.2	35.5
Technical Exchange	1.72	0.57	1.0
Total Country Program Other Than Military Assistance	61.52	43.07	40.5
MSP Sales Surplus Agricultural Commodities			
1. Sales in this Country	35.0	19.5	20.0
2. Sales Proceeds Programmed in This Country	30.0	19.5	20.0
Defense Support	30.0	19.5	20.0

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Country Situation

Yugoslavia was the first Communist nation to break with the Soviet Bloc, and to declare its complete political independence from Soviet Russia. Yugoslavia has successfully maintained this independence through extraordinary efforts to build up its armed forces and its productive capacity at the same time. In this effort it has been supported by economic and military assistance from the United States, France and the United Kingdom.

In building up sizeable military forces and strong defense industries, severe strains have been imposed on the Yugoslav economy at a time when the Yugoslavs are attempting to complete a huge industrial investment program. Given practically no gold and dollar reserves upon which to draw, the utilization of approximately 15 percent of the Gross National Product for defense and over 25 percent for investment has been achieved at the expense of the Yugoslav standard of living. Per capita consumption is the lowest in non-Soviet Europe while defense expenditures are relatively at the highest level.

Program Objectives

The United States objectives continue to be the strengthening of Yugoslavia's defensive capacity and support of

General Narrative Statement (Continued)

Yugoslav independence from the Soviet Bloc. The defection from the Bloc and United States support of the Yugoslav defense effort have made possible the strengthening of the Western defense posture in the Mediterranean area. The United States Government has been able also to point to Yugoslavia's position as a symbol of successful revolt against Soviet imperialism, possibly as a guide for other Soviet Bloc satellites who may see in the Yugoslav example the possibility of existence outside Soviet influence.

Following upon the conclusion of the Balkan Alliance in August 1954 and the settlement of the Trieste dispute with Italy in October, 1954, it is expected that Yugoslavia's relations with the West will be further strengthened this fiscal year. Improved relations with Italy, which have already resulted in a favorable reparations settlement and good trade prospects, have opened the way for closer association with Western European organizations. As a concrete result, Yugoslavia has recently requested and been granted observer status in OEEC.

Despite progress toward normalization of relations with the Soviet Bloc, which the Yugoslav Government interprets as Soviet acceptance of the success of its revolt from Soviet domination, Yugoslavia continues to maintain a high level of defense preparedness. The Yugoslav army and supporting air force are considered to be well trained, intensely nationalistic, and a factor of importance in this critical area bordering on the Soviet Bloc. Under the Balkan Alliance, coordination of Greek-Turkish-Yugoslav defense planning should improve the effectiveness of Western military efforts in southeastern Europe.

Progress to Date

Military Programs

Prior to the inception of MDAP, the Yugoslav Army was poorly equipped with obsolete materiel of heterogeneous origin and could not be considered an effective force. During the ensuing years, modern equipment such as tanks, trucks, artillery, radios, radar, and engineer items have been integrated into the Yugoslav Army, converting it from a large guerrilla force into a modern Army.

In 1950, the equipment of the Yugoslav Navy was obsolete and consisted of captured ships, ships which had been sunk and raised and numerous types of small craft. Since that time, Yugoslav coastal destroyers have been modernized, small minesweepers have been provided with sweep gear, and a number of patrol craft have been placed in good operational condition. The capability of the Yugoslav Navy to operate and employ all equipment programmed is improving rapidly.

The Yugoslav Air Force has also made rapid progress under the MDA Program. From an antiquated and poorly maintained force of old Russian, German and Yugoslav aircraft in 1950, they have now attained the qualities of a modern combatant service. In 1951, the Yugoslav Air Force became the recipient of military grant aid. This has resulted in the training of large numbers of Air Force personnel in the United States, and in the delivery of fighters, transports and jet aircraft.

U.S. and Tripartite Programs (Economic)

The cumulative total of economic assistance which will have been provided to Yugoslavia under United States economic aid programs from FY 1951 through FY 1955 is approximately $400.0 million. Of this total, almost 60 percent will have been provided in the form of agricultural commodities and roughly 30 percent in fuels and semi-processed goods. Most of the balance went for industrial raw materials, machinery, vehicles, etc.

U.S. assistance began with the provision of $65 million in agricultural commodities under the Emergency Food Relief Program and $29 million of raw materials under the first MDA Program in FY 1951 in addition to a $55 million Export-Import Bank loan. While this assistance succeeded in preventing the economic collapse threatened by the cessation of trade with the Soviet Bloc, it was apparent that it would be some time before the Yugoslav economy would achieve viability while strengthening its defense effort. Consequently, a Tripartite Agreement was signed in June, 1951 wherein the United States, the United Kingdom and France sought to provide sufficient aid to cover the minimum balance of payments deficit for FY 1952. Under this and subsequent Tripartite programs, the United States will have provided $307.1 million, while the United Kingdom and France will have provided roughly $80.0 million.

General Narrative Statement (Continued)

During 1954 and thus far in 1955, there has been gradual economic improvement. Industrial production and exports have been on the rise. Improvement has been possible as a consequence of external assistance, largely from the U.S., and the completion of many of the key projects of the industrialization program. External financial problems remain in the form of continuing although declining balance of payments deficits, largely due to inadequate indigenous wheat production in the face of increasing consumption, and a heavy debt servicing burden. The improvement in the balance of payments even with moderate external financial assistance will be largely dependent on continued pressure on consumption levels.

The FY 1956 Program

A total of $40.5 million is being requested for Yugoslavia. Of this amount, $35.5 million is for defense support, $4 million for direct forces support, and $1 million for technical exchange.

The defense support component of the proposed program would be utilized in part for the import of U.S. agricultural commodities, chiefly wheat and cotton. It is also expected that coal and coking coal would be supplied as would smaller amounts of other raw materials and semi-processed goods. It is planned that the agricultural commodities and raw material component of the program would require over 50 percent of the proposed FY 1956 Defense Support funds. Remaining Defense Support funds would be concentrated upon critical defense sectors. In transportation and communications present plans include $4 million for the purchase of U.S. earthmoving and highway construction equipment for strategic roads, and $1 million earmarked for port and terminal facilities. Additionally, $2 million would be earmarked for breaking bottlenecks by supplying spare parts, repairs and critical equipment to critical industrial sectors, neglected thus far as a consequence of the foreign exchange shortage. It may also be necessary to devote a portion of defense support funds for the correction of the power deficit, which is threatening to create a serious bottleneck in military and non-military production.

$4 million of Direct Forces Support funds are proposed for the provision of common-use items (such as aviation fuel) for consumption by military forces.

The Technical Exchange Program of $1 million will continue to emphasize areas of critical need. Of the total amount approximately $350,000 will be for agricultural projects intended to improve production and distribution methods in view of increased domestic consumption demands. Another $285,000 will be provided for industrial and industrial management projects in critical defense sectors. In addition, $50,000 would be earmarked for the fields of transportation and communication in conjunction with the Defense Support Program in these same areas. Of the remaining amount $15,000 will be for assistance in improving public administration, $24,000 for community development and housing, and $276,000 for other projects and technical support purposes.

TECHNICAL EXCHANGE PROGRAM

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other[1] Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Exchange									
1954	1,719		5	108	36	1,053[a]	289	349	209
1955	575		8	95	30	260	41	90	130
1956	1,000		9	230	25	210	131	400	160

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Develop. Soc.Welf. & Housing	All Other
Technical Exchange										
1954	1,719	770	699	23				111		116
1955	575	202	268					15		90
1956	1,000	350	285	50				15	24	276

1/ Includes costs of 3rd country trainees.
a/ Includes $700,000 for University of Kentucky contract.

EUROPE

Country: YUGOSLAVIA

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE)

Summary of Commodity Imports (including Transportation)

(In millions of dollars)

Illustrative Composition of Country Programs	FY 1954 Actual	Fiscal Year 1955 Defense Support For Project Utilization	Fiscal Year 1955 Defense Support For Consumption and Generating Local Currency	Fiscal Year 1955 Direct Forces Support	Fiscal Year 1955 Total	Fiscal Year 1956 Defense Support For Project Utilization	Fiscal Year 1956 Defense Support For Consumption and Generating Local Currency	Fiscal Year 1956 Direct Forces Support	Fiscal Year 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains	27.1		9.0		9.0		11.0		11.0
Wool			3.0		3.0				
Cotton	5.0		6.2		6.2		5.5		5.5
Fats and Oils	5.6						2.0		2.0
Fertilizer	0.7		1.0		1.0		1.0		1.0
Other	1.3		0.6	0.5	1.1		3.5		3.5
Total Food and Agricultural Imports	39.7		19.8	0.5	20.3		23.0		23.0
Less: Sales Proceeds Programmed for Other Countries	-5.0								
Net U.S. Financed Food and Agricultural Imports	34.7		19.8	0.5	20.3		23.0		23.0
Industrial Imports									
Fuel	5.5		2.2	4.6	6.8		1.0	0.5	1.5
Raw and Semi-Finished Products	7.7		3.6		3.6				
Machinery and Vehicles			0.1		0.1		7.0		7.0
Miscellaneous and Unclassified	4.0							2.5	2.5
Total Industrial Imports	17.2		5.9	4.6	10.5		8.0	3.0	11.0
Less: Sales Proceeds for Coal Programmed for Other Countries									
Net U. S. Financed Industrial Imports	17.2		5.9	4.6	10.5		8.0	3.0	11.0
Transportation	7.9		7.5	4.2	11.7		4.5	1.0	5.5
Total Commodity Programs	59.8		33.2	9.3	42.5		35.5	4.0	39.5

EUROPE

INDIVIDUAL COUNTRY DATA

Country: JOINT CONTROL AREAS

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Joint Control Area Fund			
Berlin Programs	19.8	23.7	20.0
Austria	-2.9	-	-
Technical Exchange	1.3	0.9	1.0
Austria	(0.65)	(0.36)	
Germany	(1.05)	(0.33)	
JCA share of Washington arrangements Costs and multi-country projects	(0.27)	(0.38)	
Reprogramming of Prior Year Funds	-(0.67)	-(0.17)	
Total Country Program	18.2	24.6	21.0
MSP Sales Surplus Agricultural Commodities			
1. Sales to Germany (Federal Republic)	15.0	23.7	20.0
2. Sales Proceeds Programmed in Berlin Other Programs	16.8	23.7	20.0

General Narrative Statement

Country Situation

West Berlin is a western democratic outpost located 100 miles behind the Iron Curtain. Because of its long and tenuous communication lines to the West, Berlin is expecially sensitive to Communist harrassment. There is reason to expect new difficulties now, as the Communists seek to carry out threats against the city, following ratification of the Paris Agreements.

Berlin is legally, as well as geographically, isolated. Because of a series of postwar actions, it lies under the special protection and control of the United States, Great Britain, and France, who have declared their determination to safeguard its welfare. Moreover, Berlin has a special significance as the most easterly point of resistance to Communist pressure and as the symbol of our stand for the reunification of East and West Germany.

The political stamina of the Berliners, which was so remarkably demonstrated during the blockade, has continued to manifest itself over the long and trying years of isolation and separation. In spite of Soviet threats and harassments and the difficult living conditions, the morale and confidence of the

General Narrative Statement (Continued)

Berliners has been sustained, and when called upon to register their opinion at the polls, they have steadfastly affirmed their devotion to democratic government. More than 90 percent of the electorate voted in municipal elections last December and administered a crushing defeat to extremists of the left and right.

While the West Germans were working toward rebuilding their economy in 1949, the West Berliners were blockaded by the Communists. When the siege was ended, more than 300,00 of its citizens were jobless and the index of industrial production was less than a third of the prewar figure. Thus, West Germany forged rapidly ahead toward recovery, while Berlin, handicapped in its isolation, the loss of its economic hinterland, and its long lines of communication with the West, lagged far behind. In order to achieve a minimum degree of economic and political stability, substantial external assistance was required. Through a carefully planned program of external aid from the United States and the Federal Republic, Berlin is now making progress. Although unemployment has dropped from 30 percent to 18 percent of the labor force and the production index has reached 85 percent of prewar, the job is not yet done and external assistance is a matter of critical concern.

Berlin has a special significance to Western policy. It is a show-case where a vital democratic life is visible to the oppressed peoples in East Germany. It is closely watched also from the satellite countries. Berlin is a thorn in the flanks of the Communists who have in the past ten years tried many forms of threat, intimidation, and harassment to subvert the Berliners and force the Western powers out. As recently as March 30, 1955, the Communists were reported to have instituted a new harassing measure to increase Berlin's isolation by levying excessive tolls on truck traffic into the city. We have agreed with the Germans that the door in the Iron Curtain must remain open. This is important not only for interzonal travelers, but for the refugees.

Program Objectives

It has been a cardinal objective of our postwar foreign policy to maintain our position in Berlin and to make sure that the Berlin outpost is strong and sound. We have demonstrated our concern by extending emergency relief during the tragic winters directly after the war, by mounting the airlift during the blockade, and by giving economic assistance for the Reconstruction and Counterpart Investment Programs since 1950. In concert with the United Kingdom and France, we have again in October 1954 informed the world that an attack on Berlin would be regarded as an attack on the Western powers, and have reaffirmed that the security and welfare of Berlin are essential to the peace of the free world.

Our support of Berlin takes cognizance of the fact that the city must be economically healthy and that the morale of its population, subject to the eroding effects of isolation and confinement, must be maintained. To meet the challenge of 300,000 jobless and a crippled economy in 1950, the United States extended economic assistance to programs aimed at reducing unemployment, creating new and permanent working places, and raising the levels of industrial production. In response to the needs created by an unprecedented flow of hundreds of thousands of refugees into West Berlin, the United States has given financial aid to support refugee housing developments.

Progress to Date

Since the end of the blockade, the United States has provided funds for programs to support the security and welfare of Berlin and to maintain morale and Western orientation in the city and in the East Zone of Germany. These programs include:

Investment Program: The counterpart Investment Program was established after the lifting of the blockade to reduce the

General Narrative Statement (Continued)

intolerable unemployment burden and increase production. Since funds from the regular capital market were completely non-existent, this program gave essential financing to private industry to restore damaged plants, expand capacity, and create new business. Counterpart loans were made available in the form of medium and long-term loans, liberalized loans and equity financing. The United States' supported investment program has played a significant role in reducing unemployment, building a diversified economy, and in providing since 1950 more than 100,000 new permanent jobs for workers in Berlin. During fiscal year 1955, the Deutschmark equivalent of $23,695,000 authorized under Section 403 of Public Law 665 is being made available for the Investment Program.

Reconstruction Program: The United States is cooperating with the Federal Republic and the Berlin city government in supporting the public program for reconconstructing the city. This program creates employment by clearing rubble, replacing sorely needed facilities and houses, and by various apprenticeship and retraining programs related to these and other undertakings. Under the Reconstruction Program, approximately 40,000 jobless in Berlin are provided with work at least for a portion of the year. During fiscal year 1955, the United States extended DM 50 million, derived from loan repayments on earlier loans, to support this program.

Refugee Programs: To help alleviate the strains imposed by the continuing influx of refugees into Berlin and West Germany, the United States made available the counterpart currency equivalent of $15 million derived from sales of surplus agricultural commodities (Section 550) for a refugee housing program. Approximately $5 million of this sum was earmarked for refugee housing construction in West Berlin. Construction is now in progress on three large projects totalling 1,300 dwelling units, and it is anticipated that an additional $1.8 million in local currency from Section 550 sales will soon be made available for a similar program in Berlin.

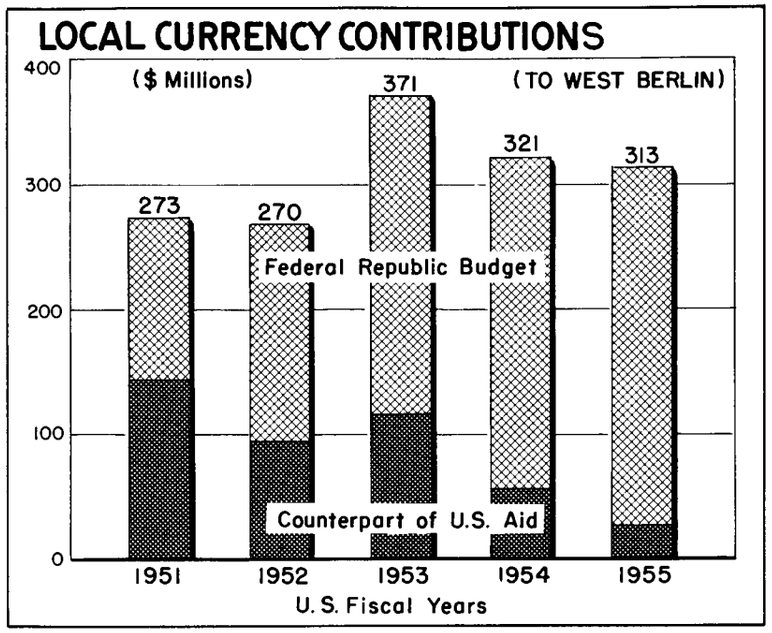
The FY 1956 Program

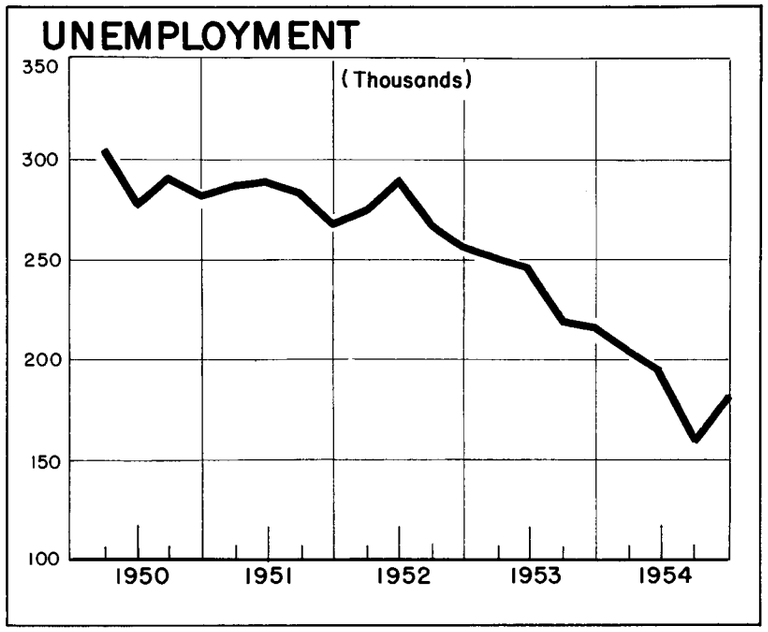
For fiscal year 1956 $21 million is requested for the Joint Control Areas of which $20 million is to maintain programs in West Berlin now in operation. (The remaining $1 million is planned to be used for technical exchange projects in Berlin, West Germany and Austria; see Technical Exchange.) Continued aid is essential to fortify the political steadfastness and pro-Western orientation of those groups of the population who are most hard pressed and whose morale is dependent on the expectation that their economic and social status will continue to improve. Now, more than previously, the Communists are claiming progress and inviting comparison with the East Zone of Germany. Further aid assures that the advantage is always decisively in favor of the West. Our aid is a sign of faith in the one place where our partnership with those behind the Iron Curtain can be most effectively manifested in deeds, as well as words.

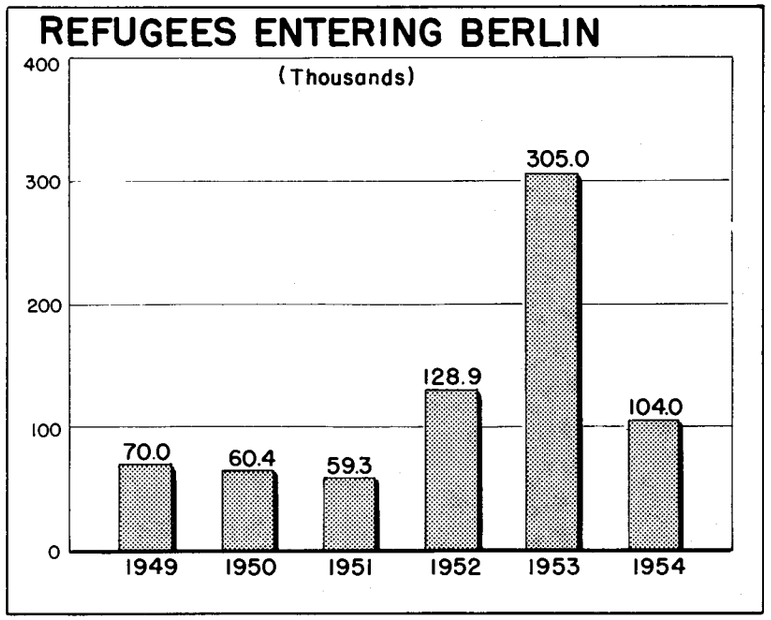
Although Berlin has progressed economically, the harsh facts of geographical isolation and vulnerability to Communist harassment remain. Unemployment was still more than 18 percent of the labor force in December 1954, the level of production was below prewar, and the gap between exports and imports in the last quarter of the year was estimated to be several hundred million dollars. The flow of refugees from the Soviet Zone, though greatly reduced, adds to the strain on the city's resources.

The U. S. contribution to Berlin programs during fiscal year 1956 will be less than 10 percent of the total contribution of the Federal Republic, which meets the major share of Berlin's external deficit. Our aid complements these funds and gives us a voice in councils where we still have special responsibilities and control.

WEST BERLIN


LOCAL CURRENCY CONTRIBUTIONS
($ Millions)
(TO WEST BERLIN)
400
300
200
100
0
273
270
371
321
313
Federal Republic Budget
Counterpart of U.S. Aid
1951
1952
1953
1954
1955
U.S. Fiscal Years


UNEMPLOYMENT
(Thousands)
350
300
250
200
150
100
1950
1951
1952
1953
1954


REFUGEES ENTERING BERLIN
(Thousands)
400
300
200
100
0
70.0
60.4
59.3
128.9
305.0
104.0
1949
1950
1951
1952
1953
1954

UNEMPLOYMENT AS % OF LABOR FORCE
(Percent)
40
30
20
10
0
West Berlin
Germany (Fed. Rep.)
1950
1951
1952
1953
1954

EUROPE

Country: JOINT CONTROL AREAS - WEST GERMANY (BERLIN)

INDIVIDUAL COUNTRY DATA, EXCLUDING MILITARY ASSISTANCE

Summary of Commodity Imports (including Transportation)

(In millions of dollars)

Illustrative Composition of Country Program	FY 1954 Actual	Fiscal Year 1955 Defense Support For Project Utilization	Fiscal Year 1955 Defense Support For Consumption and Generating Local Currency	Fiscal Year 1955 Direct Forces Support	Fiscal Year 1955 Total	Fiscal Year 1956 Defense Support For Project Utilization	Fiscal Year 1956 Defense Support For Consumption and Generating Local Currency	Fiscal Year 1956 Direct Forces Support	Fiscal Year 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains			21.2		21.2		17.0		17.0
Cotton	7.0								
Fats and Oils	1.6								
Fertilizer									
Tobacco	10.0								
Total Food and Agricultural Imports	18.0		21.2		21.2		17.0		17.0
Less: Sales Proceeds Programmed for Other Countries									
Net U.S. Financed Food and Agricultural Imports	18.0		21.2		21.2		17.0		17.0
Industrial Imports									
Fuel									
Raw and Semi-Finished Products									
Machinery and Vehicles									
Miscellaneous and Unclassified	1.8								
Total Industrial Imports	1.8								
Less: Sales Proceeds for Coal Programmed for Other Countries									
Net U.S. Financed Industrial Imports	1.8								
Transportation			2.5		2.5		3.0		3.0
Total Commodity Program	19.8		23.7		23.7		20.0		20.0

AUSTRIA

BASIC STATISTICS

Area	square miles	32,375
Population	thousands	6,790
Population Density	per square mile	2,162
Agricultural Land	% of total area	48.7
Agricultural Land per Capita	acres	1.4
Per Capita Caloric Intake 1953/54	calories	2,875
Per Capita GNP, 1953/54 current prices	U.S. $	458

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	74	Prewar	100
1948	64	1948/49	72
1949	84	1949/50	80
1950	100	1950/51	92
1951	114	1951/52	97
1952	115	1952/53	101
1953	117	1953/54	106
1954	133	1954/55 (Est.)	103

DEFENSE EXPENDITURES

($ Millions)

U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	-	-
1951	-	-
1952	-	-
1953	-	-
1954	-	-
1955 (est.)	-	-
1956 (est.)	-	-

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	3,185	3,358	3,498
Net Foreign Balance	+143	+69	+36
Total Availabilities	3,042	3,289	3,462
Consumption - Amount	2,097	2,246	2,369
Percent of GNP	65.8	66.9	66.0
Gross Investment (Private and Gov't) - Amount	501	590	640
Percent of GNP	15.7	17.6	18.3
Government Services, Total	444	453	453
Non-Military	444	453	453
Military - Amount	-	-	-
Percent of GNP	-	-	-

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	54	54	45	54
From OEEC Countries	32	32	27	37
From Rest of World	22	22	18	17
From U.S. and Canada	12	11	6	5
EXPORTS, TOTAL VALUE (f.o.b.)	38	42	45	51
To OEEC Countries	24	27	29	33
To Rest of World	14	15	16	18
To U.S. and Canada	2	2	3	3
BALANCE OF TRADE	-16	-12	0	-3
With OEEC Countries	-8	-5	+2	-4
With Rest of World	-8	-7	-2	+1
With U.S. and Canada	-10	-9	-3	-2

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	739	824	825	870
Taxes and Other Revenues	698	788	800	840
Counterpart	41	36	25	30
TOTAL EXPENDITURES	789	834	850	875
Defense Expenditures	-	-	-	-
Other	789	834	850	875
DEFICIT OR SURPLUS	-50	-10	-25	-5

GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of Dec. 31	398	411	473	n.a.
Percent of Gross Nat'l Product	15.7	14.0	15.9	n.a.

TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending Dec. 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	531	638	711	n.a.
Social Insurance	134	152	155	n.a.
Regional and Local Governments	93	114	117	n.a.
TOTAL TAXES	758	904	983	972
TOTAL TAXES AS A PERCENT OF GNP	29.8	30.7	32.8	29.7

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	46.8	31.6	17.5
U.S. Military Expenditures	30.1	24.5	
Mutual Security Program Receipts, Total	16.7	7.1	
Offshore Procurement Payments	-	-	
Joint Control Area Funds	16.7	7.1	
Section 550*	-	-	
Section 402*	-	-	
Coal Revolving Fund**	-	-	
Gold and Short-Term Dollar Reserves as of February 28	257	337.0	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

GERMANY (Fed. Rep.)

BASIC STATISTICS

Area	square miles	94,706
Population	thousands	49,450
Population Density	per square mile	518
Agricultural Land	% of total area	57.9
Agricultural Land per Capita	acres	0.7
Per Capita Caloric Intake 1953/54	calories	2,915
Per Capita GNP, 1953/54 current prices	U.S. $	672

INDEXES OF PRODUCTION

INDUSTRIAL (1950 = 100)		AGRICULTURAL (Prewar = 100) (Gross Output)	
1938	107	Prewar	100
1948	55	1948/49	83
1949	79	1949/50	96
1950	100	1950/51	107
1951	120	1951/52	111
1952	128	1952/53	116
1953	139	1953/54	122
1954	155	1954/55 (Est.)	122

DEFENSE EXPENDITURES

($ Millions) U.S. FY	TOTAL	TOTAL AS A % OF GNP
1950	1,290	6.6
1951	1,388	5.7
1952	2,028	7.0
1953	2,060	6.7
1954	1,526	4.6
1955 (est.)	1,857	5.2
1956 (est.)	2,100	5.5

USE OF RESOURCES (U.S. Fiscal Years)

(Millions of $ Equivalents)	1954	1955 (est.)	1956 (est.)
		(FY 1954 Prices)	
Gross National Product	33,100	35,600	38,300
Net Foreign Balance	+1,052	+955	+825
Total Availabilities	32,048	34,645	37,475
Consumption - Amount	18,902	20,500	21,600
Percent of GNP	57.1	57.6	56.4
Gross Investment (Private and Gov't) - Amount	8,071	8,458	9,495
Percent of GNP	24.4	23.8	24.8
Government Services, Total	5,075	5,687	6,380
Non-Military	3,549	3,830	4,280
Military - Amount	1,526	1,857	2,100
Percent of GNP	4.6	5.2	5.5

FOREIGN TRADE (Calendar Years, Millions of $ Equivalents)

MONTHLY AVERAGE	1951	1952	1953	1954
IMPORTS, TOTAL VALUE (c.i.f.)	292	321	317	383
From OEEC Countries	121	146	153	181
From Rest of World	171	175	164	202
From U.S. and Canada	58	60	42	52
EXPORTS, TOTAL VALUE (f.o.b.)	289	336	368	439
To OEEC Countries	180	211	226	269
To Rest of World	109	125	142	170
To U.S. and Canada	22	22	27	28
BALANCE OF TRADE	-3	+15	+51	+56
With OEEC Countries	+59	+65	+73	+88
With Rest of World	-62	-50	-22	-32
With U.S. and Canada	-36	-38	-15	-24

GOVERNMENT FINANCES

(U.S. Fiscal Years, Millions of $ Equivalents)

	1953	1954	1955 (est.)	1956 (est.)
TOTAL REVENUES (Incl. Counterpart)	8,808	6,561	6,490	6,530
Taxes and Other Revenues	8,708	6,500	6,460	6,500
Counterpart	100	61	30	30
TOTAL EXPENDITURES	8,599	5,770	6,337	7,030
Defense Expenditures	2,060	1,526	1,857	2,100
Other	6,539	4,244	4,480	4,930
DEFICIT OR SURPLUS	+209	+791	+153	-500
GROSS DEBT OF CENTRAL GOVERNMENT	1951	1952	1953	1954
Amount Outstanding as of March 31	4,869	5,581	9,578	n.a.
Percent of Gross Nat'l Product	22.8	20.6	31.9	n.a.
TAX RECEIPTS OF ALL LEVELS OF GOV'T FY Ending March 31	1951	1952	1953	1954
Central Gov't (excl. Social Insurance)	4,428	5,952	7,333	7,691
Social Insurance	1,738	2,214	2,500	2,905
Regional and Local Governments	690	929	1,024	1,214
TOTAL TAXES	6,856	9,095	10,857	11,810
TOTAL TAXES AS A PERCENT OF GNP	32.1	33.6	36.2	36.9

n.a.-Not available.

SPECIAL DOLLAR RECEIPTS AND RESERVES

(U.S. Fiscal Years - Millions of $ Equivalents)

	1954	1955 (EST.)	1956 (EST.)
TOTAL SPECIAL DOLLAR RECEIPTS	300.8	269.9	254.3
U.S. Military Expenditures	218.6	227.7	
Mutual Security Program Receipts, Total	82.2	42.2	
Offshore Procurement Payments	1.8	3.8	
Joint Control Area Funds	80.4	38.4	
Of which: Section 550*	9.6	5.4	
Section 402*	-	15.0	
Coal Revolving Fund**	-	-	
Gold and Short-Term Dollar Reserves as of February 28	1,342	2,106	

*Sale of U.S. surplus agricultural commodities.
** Local currency expected to be used to finance exports to third countries.

EUROPE

WESTERN EUROPEAN TECHNICAL EXCHANGE PROGRAM

Summary by Country

(In millions of dollars)

Country	Program FY 1954	Program FY 1955	Proposed FY 1956
Austria	0.65	0.36	
Belgium-Luxembourg	0.38	0.07	
Denmark	0.39	0.11	
France	1.38	0.69	
Germany	1.05	0.33	
Iceland	0.13	0.26	
Italy	1.83	1.00	
Netherlands	0.30	0.07	
Norway	0.59	0.09	
Portugal	0.26	0.09	
United Kingdom	0.31	0.05	
Multi-Country	4.88	1.74	5.45
Undistributed	1.98	1.65	1.05
Total	14.13	6.51	6.50
Less: Reprogrammed Prior Year Funds	-4.37	-3.08	
Joint Control Areas Funds	-1.30	-0.90	-1.00
TOTAL	8.46	2.53	5.50

EUROPE

WESTERN EUROPEAN TECHNICAL EXCHANGE

(Excluding Spain and Yugoslavia)

INTRODUCTION

A total of $5.5 million is requested for a Technical Exchange program in those Western European countries (other than Joint Control Areas) which will receive no other economic aid in FY 1956. It is also proposed to use $1 million from the $21 million Joint Control Area request to finance technical exchange projects in Germany and Austria.

The Technical Exchange program is basically a people-to-people program, but it is specifically designed to support mutual security objectives. Among those objectives are economic expansion through more competitive business practices, reduction of Communist strength through healthier labor relations, and greater economic integration through the process of tackling common problems on an increasingly multilateral basis.

As a result of past activities of this program, much of what had once been considered uniquely American ideas and methods of work, are beginning to enter the mainstream of European economic life. Productivity increases are taking place in a large number of individual plants, some production is being decentralized through contracting out of subassemblies, trade unions are tending to emphasize their economic aims rather than concentrating on political objectives, and universities for the first time are becoming conscious of the need to train management personnel. In several countries, notably in France and Italy, programs for improvement at the plant and local union level have been launched on a community-wide and regional basis.

Inevitably these activities are exerting a far-reaching and long-term influence on the economic and social development of Western Europe. U.S. participation in this development process on a modest and relatively inconspicuous scale is desirable on a number of points. The ideas which are gradually taking hold in Western Europe are American in origin. To ever increasing numbers of Europeans they point the way to a more satisfying and more secure way of life. They are proof that the association with the United States has value beyond the immediate concern of common defense. While intangible, these are nevertheless important factors in shaping the common mutual security effort.

One other point is worth noting. The U.S. contribution will represent only a small fraction of the amount which will be spent overall on productivity and related programs by the Western Europeans themselves next fiscal year. Through the U.S. contribution, however, it will be possible to reach Europeans, who in the ordinary course of events would have little opportunity to become exposed to the U.S. way of life, particularly as it applies to the free enterprise economy of the United States. This is especially true for trade union leaders, community leaders, younger business administrators and the generation of younger government functionaries whose influence in shaping the European economy is beginning to make itself felt. An important by-product of Technical Exchange activities is, of course, the fact that it results in a deeper understanding of the U.S. and its role in the world among leading European groups. As such, it supplements the exchange of persons activities of the Department of State.

The illustrative program described below has been developed to fit in with the larger programs being undertaken by the European countries. Of major importance has been the emergence of the European Productivity Agency of the OEEC as an international agency capable of giving service and leadership to a cooperative European effort in this field. Progress has been particularly significant during the past year. EPA-sponsored seminars and related projects have been enthusiastically received by a number of member countries; a capable staff has been assembled, and the full support of the OEEC Council for EPA's work has been won.

Western European Technical Exchange (Continued)

PROGRAM EMPHASIS

In accordance with these long-term aims, stress in the FY 1956 program has been laid on two characteristics of the program, i.e., multilateral action on the part of the Europeans, and emphasis on the development and strengthening of permanent institutions.

1. Permanent Institutions

Great emphasis will be placed on the development of permanent institutions from which knowledge about the modern economy can be spread to ever-increasing numbers of persons. Thus the program will provide for establishment and strengthening of business schools and institutes for training of European managers and industrialists, for training young trade union leaders in collective bargaining techniques and union organization, and for an increased strength and activity on the part of the European Productivity Agency of the OEEC as the spearhead of European programs. The illustrative program shown in the attached table also reflects the logical outgrowth next year of programs underway in the current fiscal year. FOA financing of strictly technical projects which has been virtually eliminated in this year, will have no place in the 1956 program except where related to specific defense bottlenecks. Instead the program will concentrate on 12 major fields of activity. (See "FIELDS OF ACTIVITY" below) All of these projects will have the same basic objective -- to stimulate Europeans by explanation and demonstration of U.S. practices and methods, to develop new European approaches to increasing consumption, expanded markets, increased wages, lower prices, increased production and all the other factors which make up an expanding dynamic economy.

2. The Multilateral Approach

During the two years since its establishment in 1953, the European Productivity Agency, an operating branch of the OEEC, has made great strides in its relation with the member countries.

Accordingly, the great bulk of this program will be coordinated through the OEEC-EPA in line with plans already accepted in principle by the council and staff of the OEEC and under detailed arrangements which are now under discussion. Under this plan, FOA will establish tentative allocation of funds for multi-country projects and for individual bilateral programs for those countries where some bilateral activities are expected to continue. FOA will also give EPA a statement of the guidelines and criteria for the Technical Exchange program and will request that the Agency develop a coordinated program for the expenditure of these funds in the OEEC area. The EPA will then obtain from the individual country productivity centers proposals for multi-country projects to be carried out by EPA and plans for bilateral programs within the allocation established by FOA. EPA's review of these programs will make possible not only joint operation of similar activities in the various countries, but also increased EPA staff knowledge and understanding of the country programs. Such increased knowledge and understanding is essential if EPA is to fulfill its function of servicing country centers and becoming a central clearing house for intra-European exchange of information and experts, and incidentally a force for greater European economic integration.

FIELDS OF ACTIVITY

Note: The $6.5 million which includes $5.5 for Western European countries other than Joint Control Areas and $1.0 million for Joint Control Areas is intended to cover the dollar costs of some 1,000 Europeans to visit the United States for short specialized studies of economic and marketing problems; the tuition and other dollar costs of about 500 Europeans taking specialized courses in the U.S., and to pay the dollar salaries of approximately 100 U.S. experts, some of whom will serve on the staff of the EPA and the country productivity centers. Others will spend shorter periods in Europe advising and assisting on specific problems. Also included in the request are funds to cover cost of U.S. operating personnel in Europe and Washington. The expenditure of these funds, under present plans,

Western European Technical Exchange (Continued)

will not be on a bulk grant basis. Rather, the U.S. will review individual projects which have been submitted under procedures outlined above. Only for projects that fall within the criteria established for this program will financing be made available. In general, such financing will cover only the dollar costs of the proposed project. It is estimated that on an overall basis the cost of projects to the U.S. is one-third to one-half of the cost to the Europeans.

	Amount (In thousand $)
1. Management Development	
Supplying U.S. experts in the major fields of effective management-industrial relations, production and quality controls; team visits to the U.S. and longer term study at U.S. business schools; university contracts for development of graduate and undergraduate training in European universities. Special industrial relations impact teams (labor leaders, management, government officials) from France and Italy to meet one of the key problems of these countries.	1,200
2. Marketing and Distribution	
Visits to the United States to study and observe methods of warehousing, wholesale and retail merchandising. Supplying U.S. experts to continue the successful demonstration and seminars on those subjects throughout Europe.	270
3. Community Self-Help	
The EPA is placing major emphasis on aiding country productivity centers in encouraging local level programs to mobilize and utilize resources and initiative to meet the problems of economically distressed European communities. U.S. assistance will aid in stimulating Europeans to analyze their own problems and mobilize resources; show Europeans how U.S. voluntary civic groups have acted on their own similar problems and provide experts to assist on such specific problems as industrial surveys. Part of the funds will also be used to finance study trips of groups of community leaders.	550
4. Development of Competitive Business Practices	
Study groups of representatives of European legislatures, trade associations and civic leaders to develop a broad understanding of the U.S. free enterprise system as it is regulated and nurtured at top business, governmental and civic levels.	50
5. Housing	
Housing activities will be directed toward stimulating adequate construction of homes for workers' families. Projects in improvement of financing methods, organization of the building industry, and modern construction methods. Team visits; U.S. experts.	150
6. Government Administration	
Projects to assist in the reform of fiscal, legal and administrative institutions necessary for economic expansion and the creation of a more adequate capital supply.	230
7. Collective Bargaining Techniques	
Helping European unions in key industries to improve their collective bargaining	365

Western European Technical Exchange (Continued)

	Amount (In thousand $)
techniques with special attention to training of shop stewards and local officials. Attention will be directed towards helping unions improve their competence in the economic sphere as contrasted with present emphasis on political concerns. U.S. experts, team visits, demonstration projects.	
8. Manpower Utilization	
Providing U.S. specialists to promote more efficient labor market operations through improved employment service operation, overcoming obstacles to movement of workers among countries and to develop manpower mobilization planning skills.	35
9. Agricultural Training and Extension	
Support the OEEC program for increasing agricultural extension, improving work methods and farm management and developing efficient use of agricultural equipment through supplying U.S. experts and bringing Europeans to the U.S. for training.	135
10. Strengthening Free Trade Unions	
Strengthening free trade unions to combat Communist control of labor organizations particularly in France and Italy by team visits, U.S. experts and training of young trade union leaders in the U.S.	600

	Amount (In thousand $)
11. Scientific Training Projects	
This will include continuation of four major activities for specialized training in the United States: intensive post doctoral research in U.S. laboratories by selected European scientists; similar training for selected European doctors; participation by Europeans in the AEC's courses for peaceful uses of atomic energy, and continuation of program of the Farm Federation for training of young European farmers.	865
12. Arranging and Supporting of Self-Financed Projects	
Europeans have been encouraged to finance both dollar and non-dollar costs of projects which, while desirable in themselves, cannot be financed by FOA because of limited funds. It is important that such projects receive the same careful advanced planning and management as regular projects if they are to be of maximum value. In FY 1956, therefore, it is proposed to earmark separate funds to cover the arrangements, management and interpreters' costs for such teams in which the participants will cover all their own direct costs. It should be noted, however, that self-financed projects must meet normal technical exchange criteria.	250
Operations Cost	
1. European Support and Arrangements	
One of the most important segments of a reduced Technical Exchange program is	1,000

Western European Technical Exchange (Continued)

	Amount (In thousand $)
represented by small U.S. technical exchange staffs abroad. Day-to-day contact with the national productivity centers and other country agencies concerned is one of the most effective ways in which the U.S. can influence EPA and country programs. Mission Technical Exchange staffs in FY 1956 will work with country centers in planning and implementing EPA and coordinated programs, in broadening the scope of these programs, in developing and carrying out projects approved and financed in FY 1955, in following up on results of earlier projects, and on the use of 115(k) counterpart funds, and in insuring that full use is made of experience gained in earlier activities under this program.	

	Amount (In thousand $)
2. Washington Support and Arrangements	
Each project requires certain services which can only be carried out by a backstopping staff in the U.S. Thus, team itineraries have to be arranged, technical experts selected, interpreters provided. Part of these backstopping arrangements are contracted out to other U.S. Government agencies and to private contractors.	800
Total	6,500
Less: Funds to be provided from Joint Control Area funds for Germany and Austria	-1,000
TOTAL, Western Europe Technical Exchange	5,500

WESTERN EUROPE TECHNICAL EXCHANGE PROGRAM

(Excluding Spain and Yugoslavia)

(In thousands of dollars)

Type of Activity	Program FY 1954	Program FY 1955	Program FY 1956
Participants			
Dollar Costs	$4,445	$1,773	$2,255
Number of Participants	(4,195)	(974)	(1,560)[a]
Technicians			
Dollar Costs	4,906	2,745	2,185
Number of Technicians	(279)	(238)	(173)
U. S. Employed	(140)	(102)	(75)
Contract	(139)	(136)	(98)
Supplies and Equipment	245		
University Contracts		50	800
Demonstrations	2,557	294	210
Washington Support and Arrangement Costs	1,975[c]	1,645[c]	1,050[b]
Total	14,128	6,507	6,500
Less: Reprogrammed Prior Year Funds	-4,366	-3,082	
TOTAL	9,762	3,425	6,500
Joint Control Areas Funds	1,302	900	1,000
Defense Support Funds	8,460	2,525	5,500

a/ Includes 500 self-financed.
b/ Includes $250,000 for support of self-financed projects.
c/ Includes Yugoslavian share.

WESTERN EUROPE TECHNICAL EXCHANGE PROGRAM

(Excluding Spain and Yugoslavia)

(In thousands of dollars)

Field of Activity	Program FY 1954	Program FY 1955
Technical Projects	625	234
Marketing and Business Practices	5,833	1,375
Agriculture	1,417	216
Labor	1,296	835
Public Services	312	293
European Support Costs	2,670	1,909
Washington Support and Arrangements Costs	1,975 a/	1,645 a/
Total	14,128	6,507
Less: Reprogrammed Prior Year Funds	-4,366	-3,082
TOTAL	9,762	3,425
Joint Control Areas Funds	1,302	900
Defense Support Funds	8,460	2,525

a/ Includes share for Yugoslavia program.

WESTERN EUROPE TECHNICAL EXCHANGE PROGRAM

(Excluding Spain and Yugoslavia)

Fiscal Year 1956

(In thousands of dollars)

Activity	Amount
OEEC Coordinated Projects	2,985
Management Development	1,200
Marketing and Distribution	270
Community Self-Help	550
Developing Competitive Business Practices	50
Housing	150
Government Administration	230
Collective Bargaining Techniques	365
Manpower Utilization	35
Agricultural Training and Extension	135
Strengthening Free Trade Unions	600
Special Projects with European Government Agencies	865
Arranging and Supporting Self-Financed Projects	250
Washington Support and Arrangements Costs	800
European Support Costs	1,000
Total	6,500 a/

a/ Consists of $5.5 million defense support funds and $1.0 million Joint Control Areas funds to provide for German/Austrian participation in Western European Technical Exchange Program.

EUROPE

Country: FINLAND

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In millions of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Country	5.0a/	-	-
2. Sales Proceeds Programmed in This Country	-	-	-

a/ In addition as of April 15, 1955 $2.2 of coal financed by the Coal Procurement Fund was extended to Finland in exchange for local currency credits to be used for other country programs.

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EUROPE

Undistributed Programs

(In millions of dollars)

Activity	Program FY 1954	Program FY 1955	Proposed FY 1956
Coal and Steel Community Loan	100.0	-	-
East German Food Relief	14.9	-	-
Danube Flood Relief	-	1.55	-
Other	-7.7	5.93	-
Total	107.2	7.48	-

NEAR EAST AND AFRICA

EXCERPT FROM PRESIDENT'S MESSAGE

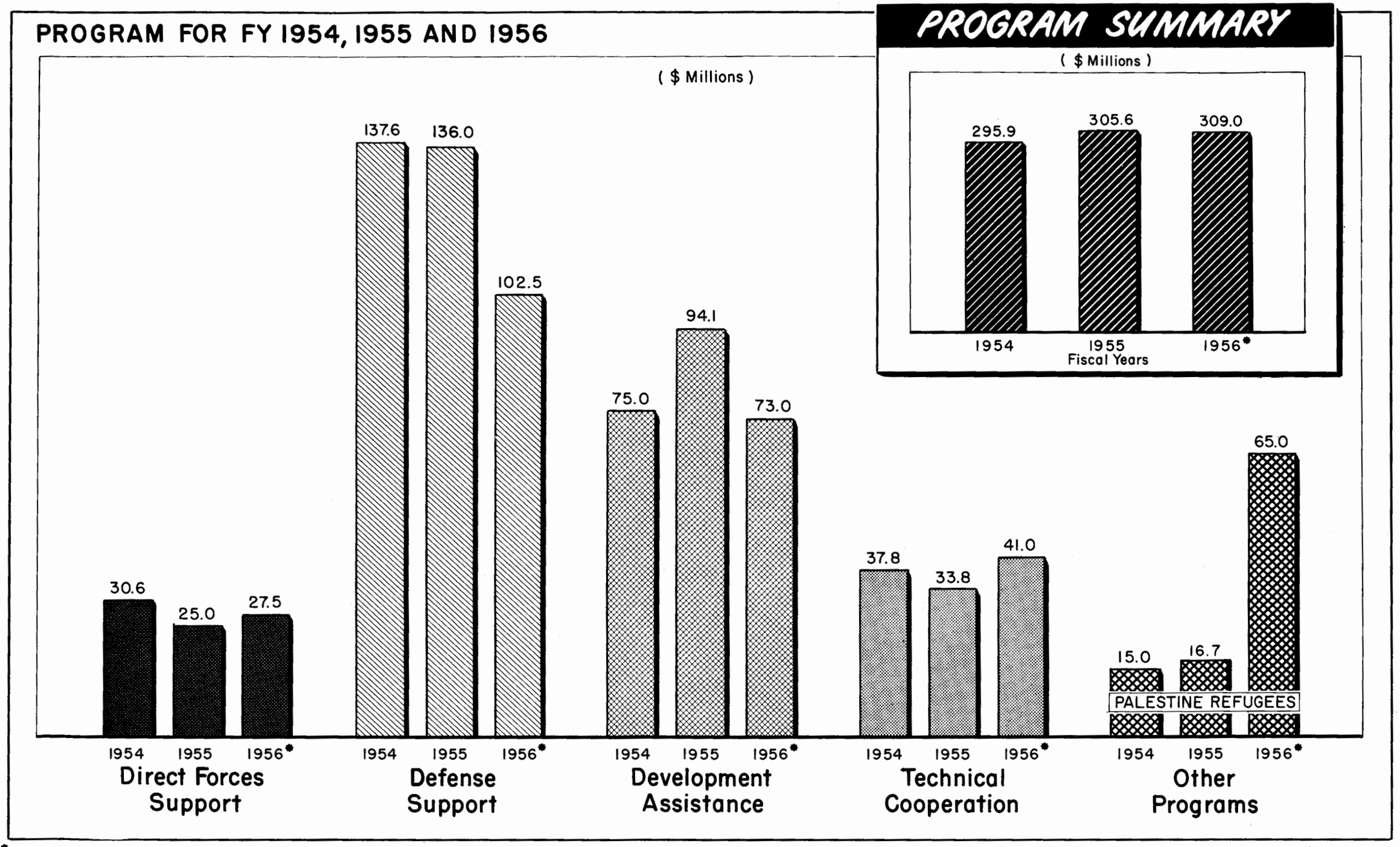
"....The newly achieved stability in Iran has decreased the Communist threat and has opened the way to the use of oil resources. These eventually will bring revenues to the nation for the further development of the land and the opening of new opportunities for its people. Pending resumption of sufficient revenues from oil, however, limited defense and economic support must be provided.

In the Near East, our stalwart North Atlantic Treaty Organization allies, Greece and Turkey, are both making significant progress. But neither of them can alone support the substantial armed forces which they maintain for their own defense and for the NATC force goals in that area. Their initiative in promoting security arrangements in the Balkans. and Turkey's vigorous efforts for Middle East defense, reinforce the need for continued support of their efforts. Iraq's action in joining with Turkey in a defensive security arrangement is another favorable development.

The continuing tension between the Arab States and Israel handicaps the peoples of all Near East nations. We should continue to work with the governments and peoples on both sides to improve their economic status and accelerate their progress toward lasting peace between them. Our cooperation is beginning to bring results, particularly in the development of water resources. Such developments in the Palestine area can go far to remove present causes of tension.

In the vast continent of Africa the long-range effect of our cooperation is extremely significant. This continent and its resources, the progress of its people and their relationship to the free world are of growing importance. Requested appropriations for this area are needed in the effort to promote welfare and growth for the peoples of Africa. ...."

NEAR EAST and AFRICA



*Proposed Program

NEAR EAST AND AFRICA

REGIONAL SCHEDULE

Comparative Summary of Programs by Functions

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	30,582	25,000	27,500
Defense Support	137,592	136,003 b/	02,500
Development Assistance	74,960	94,130	73,000
Technical Cooperation	37,752	33,826	41,000
Other Programs	15,000	16,700	65,000
Total Near East and Africa	295,886	305,659	309,000
Of Which Financed by Loans			
Defense Support		62,000	
Development Assistance		27,500	
Total Loans		89,500	
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Area	1,200	46,595	40,000
2. Sales Proceeds Programmed in This Area - Total (Dollar Equivalent)	12,500	46,595	40,000
Defense Support	1,000	27,555	15,000
Development Assistance	9,200	19,040	25,000
Technical Cooperation	2,300		

a/ Data included in separate submission on Military Assistance.
b/ Includes $10,000 thousand from savings in the prior year program for Support of Forces in Cambodia, Laos, and Vietnam.

NEAR EAST AND AFRICA

DISTRIBUTION OF FY 1956 PROGRAM

By Function and Country

(In thousands of dollars)

Country	Direct Forces Support	Defense Support	Development Assistance	Technical Cooperation	Other Programs	Total
Egypt				4,000		4,000
Ethiopia				3,400		3,400
Greece		15,000		1,500		16,500
Iran	7,500	37,500		10,000		55,000
Iraq				2,300		2,300
Israel				2,000		2,000
Jordan				2,800		2,800
Lebanon				2,500		2,500
Liberia				1,800		1,800
Libya				2,000		2,000
Syria						
Turkey	20,000	50,000		2,500		72,500
Overseas Territories				4,000		4,000
Regional Projects				2,200		2,200
Undistributed by Country			73,000			73,000
Palestine Refugee Program					65,000	65,000
Total	27,500	102,500	73,000	41,000	65,000	309,000

NEAR EAST AND AFRICA

Regional Narrative Statement

The Extent of the Region and the Program

The region includes Greece, Turkey, Iran, Israel, the Arab States, and Africa. In it are found great divergences in social, political, and economic development; throughout this entire area, in greater or lesser degree, United States interests require continuation of cooperative programs similar in nature to those conducted in past years. The proposed program for fiscal 1956 includes a proposal for authority to conduct military assistance and direct forces support programs for several of the countries of the area; defense support programs for Greece, Turkey and Iran totalling $102.5 million; programs of development assistance in the Arab States and Israel totalling $73 million, a program for assistance to Palestine refugees totalling $65 million which is expected to be administered in the form of contributions to the United Nations Relief and Works Agency; and a program of technical cooperation for the entire region including Africa, involving authorizations of $41.0 million.

Basic U.S. Objectives

The basic objectives of the United States in this area are to promote: the development or maintenance of stable governments; peaceful relationships within the region; cooperation with the rest of the free world in political, economic, and security matters; and the growth of economic, political, and military strength.

The Area's Significance

The area has strategic importance to all plans for a free world defense. It is important that its growth be fostered along lines which will increase its defensive strength and will encourage its governments, many of them newly established, to seek to raise the standards of living of its people. Successful efforts along these lines will help to establish the security and peace of the entire world.

Millitary Assistance

The specific objectives of the Military Assistance Program are to provide military equipment, supplies and training which will contribute to the strengthening of the defense of the area, bolster the internal security of the several states, promote stability and friendly cooperation among the northern tier states, and help these countries develop a defense capacity which can make an effective regional defense arrangement possible.

Greece and Turkey, both NATO members, are well on their way to achieving a significant degree of military strength. Other Middle Eastern Governments are becoming aware of their state of dangerous weakness in defensive capability and are taking steps to overcome this weakness in recognition of the real threat from the north to the area and to the security of the free world. An important step in this direction was taken last spring when Turkey signed an agreement with Pakistan providing for continuing consultation regarding mutual security problems. This winter Turkey and Iraq joined together in a Pact, defensive in nature, which provides a basis for a collective security system. More recently the accession of the United Kingdom, which has long had commitments and forces in the area, has strengthened the Pact. Pakistan has indicated her interest in participating in the Pact in the near future. With her accession a council, as provided for in the Pact, would be formed to pursue actively and continuously security problems in the area.

Along with the initiation of a defense capability in the Middle East, vigorous steps have been taken to strengthen Balkan defenses. In August, Greece, Turkey and Yugoslavia expanded the Ankara Pact with a military alliance which will contribute significantly to the defense of an important sector of Europe.

The United States has designed its Military Assistance Program with a view to assisting these Middle Eastern countries in developing a maximum utilization of their actual and potential military strength, since it is recognized that political efforts in organizing collective defenses must be supplemented with adequate materiel and training to be successful. The Middle Eastern states are unable to maintain or utilize a large increased volume of modern military materiel, and therefore no sudden increase in

Regional Narrative Statement (Continued)

the defense capability can be expected immediately. However, there is every reason to believe that carefully conceived and administered programs of military assistance in conjunction with direct force support and defense support programs where necessary, will produce a gradual and appreciable increase in their individual and collective capabilities to defend themselves.

During the past year, the United States Government concluded military assistance agreements with the Governments of Iraq and Pakistan. As a result of these agreements, Military Assistance Advisory Groups were established at Baghdad and Karachi. This period also saw the arrival in these two countries of the first United States shipments sent under these agreements.

Economic Problems

In much of the region both political and economic conditions are unsettled. Its people look abroad for guidance, and need help in development of their basic resources.

The Mutual Security Program proposes defense support and development assistance economic programs to meet the varying economic problems faced by the countries in the Middle East and Africa. In certain cases these programs directly support mutual defense efforts; in others, they are related to building up an economic base from which future political and economic stability and security can be achieved.

GREECE, TURKEY AND IRAN

In these countries the Mutual Security Program is directed toward the development and maintenance of military strength for all three; military materiel and training is required as well as programs of direct forces support and of defense support. Programs of technical cooperation are also proposed.

Both Greece and Turkey, allies in NATO, form an essential part of our defense perimeter. Maintenance of the Greek armed forces at approved levels is an important element in NATO planning, and Greece continues to look to the United States for defense support, although on a lesser scale than was necessary in past years. The history of the Greek aid program is a demonstration that United States assistance can be of most significant value; and it is also a demonstration of the fact that when major objectives have been reached, levels of aid can be drastically reduced to minimal levels without impairing the interests of the aided country on the one hand or the United States on the other.

Turkey has made important gains in its economic growth and its military strength. The rapid pace of this effort, however, has placed severe strains on the country's economy. Continuation of United States assistance to Turkey in many fields of activity remains a requirement of the highest priority. Aside from programs of military assistance and direct forces support, Turkey needs economic aid, in the form of defense support as well as technical cooperation.

The position in Iran, thanks to the settlement of the oil question, has been greatly improved during the past year. Iran, however, remains in a state of transition and the future stability and orientation of the country will be influenced in large measure by its government's activities in the field of social and economic development. At the present time, the cost of long delayed economic improvements, and the rise in essential operating costs of the government, in both the civilian and military sectors, are placing an undue strain on the budgetary resources of the country. It is therefore in our interest to continue to assist Iran's earnest efforts by programs of military assistance and direct forces support, as well as defense support and technical cooperation. A significant portion of the defense support program can take the form of loans.

ARAB STATES AND ISRAEL

The weakness which characterizes this part of the region is a matter of continuing concern. The area is a focus of essential transportation routes and contains vast resources of petroleum. The concept of "Northern Tier Defense" calls for

cooperation of nations on the southern periphery of Russia. An important development has been the recent successful negotiation of a security arrangement between Iraq and Turkey. The combined efforts of Near Eastern nations can be the foundation on which security for the future can rest. It is proposed, therefore, that the authority to continue programs of military assistance be included in the present program, in addition to the proposed economic programs.

The areas of the Arab States and Israel are characterized by underdeveloped resources. Economic and political stability of the area has been complicated by the Arab-Israeli conflict and the resultant unsettled population, with 880,000 Arab refugees still on relief.

Progress has been made in many countries of the area in recent years through the program for technical cooperation. In Iraq, for example, a country with adequate resources of its own to finance major programs of land reclamation and improvement, assistance by American technicians has been eagerly sought to make best use of its capital. In Lebanon the technical cooperation program has been conspicuously valuable in furnishing the Lebanese with the engineering blueprint needed for the development of the resources of the Litani River. Throughout the area, U.S. agricultural technicians are training local extension agents; livestock improvement projects are demonstrating better breeding and increased production methods; health technicians are being trained; and education facilities expanded.

U.S. objectives in the Arab States and Israel, however, cannot be served with technical cooperation programs alone. The achievement of these objectives require economic development at a pace which cannot be accomplished without external assistance. Development assistance has been given in past years to Jordan, Lebanon, Egypt, and Israel. In Egypt the U.S. development assistance program is principally directed towards improvement in road and rail transportation facilities and increasing the supply of potable water; this aid is in support of Egypt's ten-year economic development program. In Jordan, U.S. aid is used to help forward development projects in irrigation, afforestation, road building, and community development. U.S. aid to Israel has helped that government assimilate its refugees while helping to improve its foreign exchange position. Increases have resulted in industrial and agricultural production; land area under cultivation has been tripled since the creation of the State.

Of special interest to the United States is the yet unsettled conflict over Palestine and the resettlement of Arab refugees. A key to the solution of the problem is the effective exploitation of the waters of the Jordan River. Four states lay claim to the waters of the Jordan River; Lebanon, Syria, Jordan, and Israel. It is a natural resource of great significance to people with few other resources, particularly those in Israel and in the Kingdom of Jordan. Special efforts have been made by the United States during the past year to obtain an understanding for the division of the waters of the Jordan by the countries concerned on an agreed basis, for its storage and control along economic lines, and for arrangements to assure that deliveries of the water continue to be made pursuant to agreement. Such an arrangement would enable the government of Israel to proceed with ambitious plans for the use of a share of the water and thus enable the Israelis to become more self-sufficient. It holds out the best prospect for economic development, important to the Kingdom of Jordan as a whole, and for substantial improvement in the lot of the Arab refugees. Similarly, nearly 70,000 of the Gaza refugees may be rehabilitated by developing the agricultural potential of an area of land east of the Suez Canal through supplies of water drawn from the River Nile.

The special problems of the Arab refugees can be solved only in the context of expanding economies in their host countries. No local government could long survive if its program were limited to benefits for the Palestine refugees alone, without regard to the needs of its established population. Thus the United States interest is linked to the accelerated economic development of the area and it is proposed to make funds available to promote such economic development.

In the Arab States and Israel, the results envisaged from the proposed program of development assistance can help

Regional Narrative Statement (Continued)

help remove the basic causes of tensions that persist between the Governments in Israel and the Arab States, and the unrest among the Arab refugees and peasant populations in the Arab world. Success in this undertaking should strengthen the moderate forces in all the governments of the Near East. The development of the wealth represented by increased agricultural potential will make it possible to improve the climate for private capital investment which now, for both political and economic reasons, is unfavorable.

AFRICA

For FY 1956, there is proposed a Technical Cooperation program of $11.2 million for the independent African countries of Ethiopia, Libya and Liberia, and for the Overseas Territories of France, Belgium, Italy, Portugal and the United Kingdom. As the Sudan is soon to determine its future through the free choice of its people, it may be in our interest to extend Technical Assistance to that country in the coming fiscal year.

In past years, in addition to Technical Cooperation programs, the U.S. has financed the development of basic and strategic materials in Africa and has made grant aid available to the Overseas Territories of the United Kingdom and of France, and more recently to Libya for economic development programs carried out as an extension of Technical Assistance.

Africa, of growing importance to the United States, will assume an increasing role in world affairs, and has reached that stage in its development at which it can no longer be thought of solely as an appendage to Europe. It must be considered increasingly in the light of the growing aspirations of its peoples and their needs for political and economic development.

Though there are in Africa both independent countries and territories of European powers, they face common problems to the solution of which the United States has much to offer. The problem raised by the territories presents us with the need to work through and in cooperation with the European countries for their orderly development.

Africa is of strategic importance to the U.S. and the free world. North Africa is an essential buttress to Western defense positions in Europe, the Mediterranean and the Near East. The U.S., France, and the U.K. have located major air and naval bases in French North Africa and Libya. The area south of the Sahara is important as it provides an essential line of communication across Africa in the event of war.

Africa is important economically. It is one of the largest producers of certain raw materials in the free world today; the total resources of Africa, however, are still relatively undeveloped. Their development is essential not only for Africa but for the economies of the U.S. and Western Europe.

The continued supply of raw materials, the maintenance of air and naval bases, and the investment in new production in Africa require a high degree of political stability and friendly ties with the West. Libya, Ethiopia, and Liberia as well as the territories are now in the process of developing new political and social institutions. The territories are in various stages of development, with the Gold Coast and Nigeria approaching independence within the Commonwealth. Several territories are now in the process of developing multi-racial societies as an essential step toward increased self-government.

The people of Africa are largely engaged in and dependent on subsistence agriculture carried on with relatively primitive techniques. Africa lacks a skilled labor force; they are hindered in their development because of pests, disease, malnutrition, lack of education and training. U.S. assistance to Africa is to assist the people to acquire the technical skills and develop the institutions requisite to the maintenance of stable political societies in association with the West.

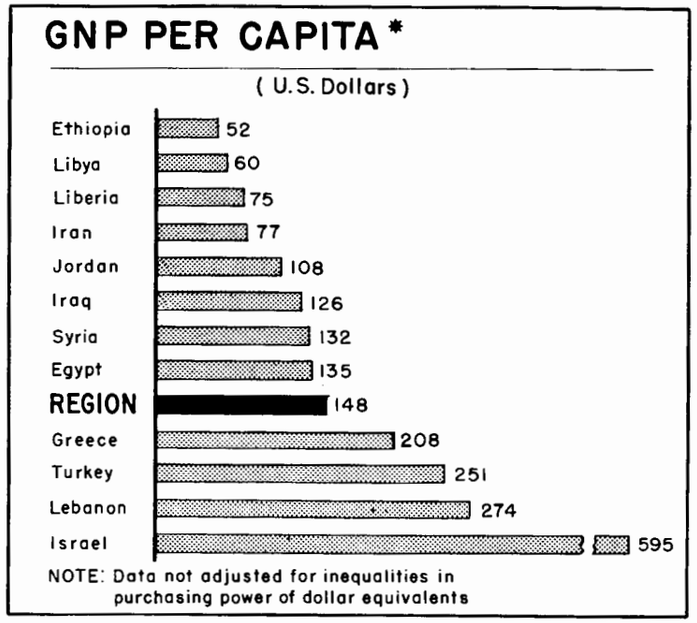
The U.S. programs in Africa are designed to improve the standards of living through technical assistance in agriculture, health and vocational training. In the independent countries, assistance is also made available in the field of public administration. The programs are also designed to promote private investment in the development of natural resources through

Regional Narrative Statement (Continued)

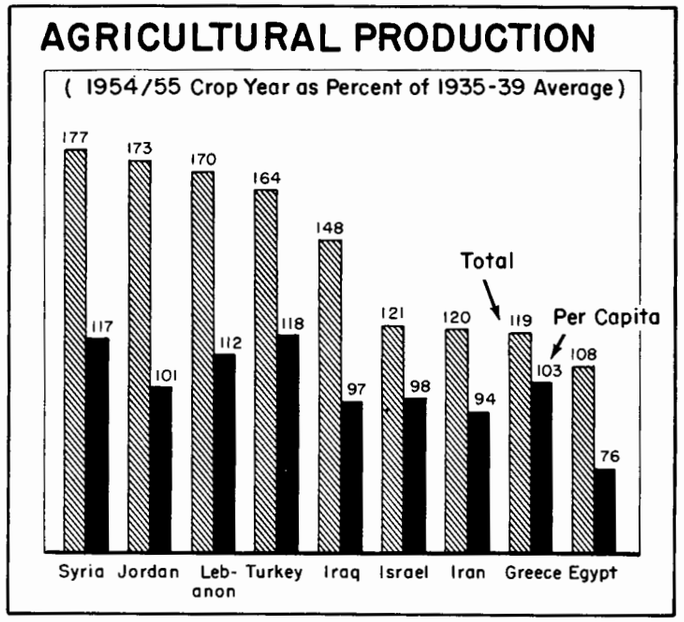
assistance to governments for the improvement of ancillary facilities such as roads and ports and undertaking the basic surveys necessary to prepare the climate for and promote such investment.

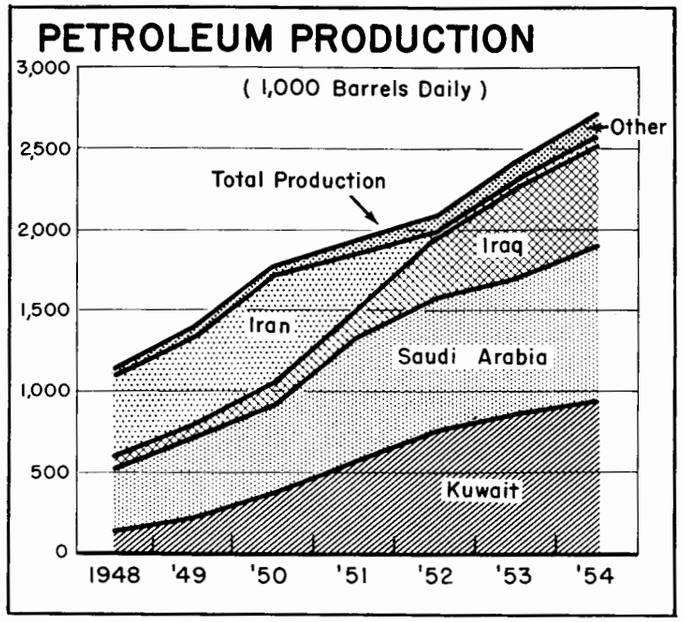
The Western European powers are now contributing to the development of Africa with both Technical Assistance and public funds for development purposes. Private European and American capital is developing sources of raw materials and the IBRD is providing additional development funds. U.S. aid is directed to those sectors where highly specialized skills, uniquely present in the U.S., are required to develop resources and raise living standards.

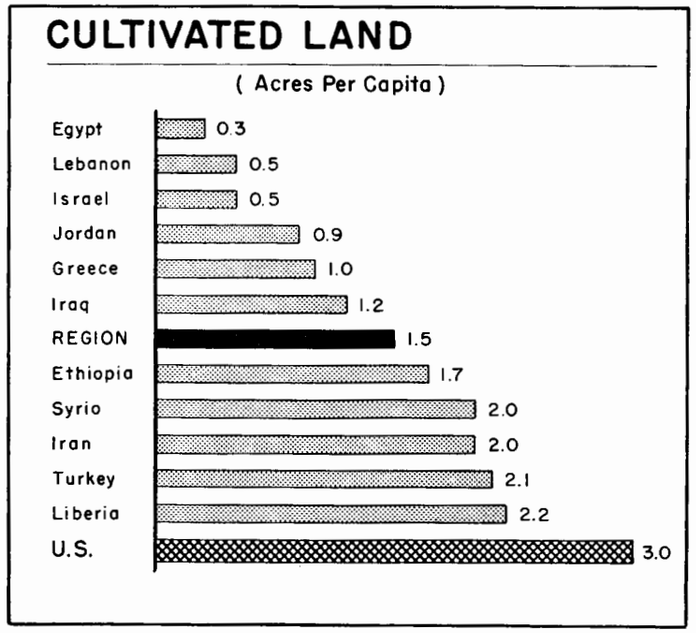
NEAR EAST AND AFRICA - REGIONAL SUMMARY

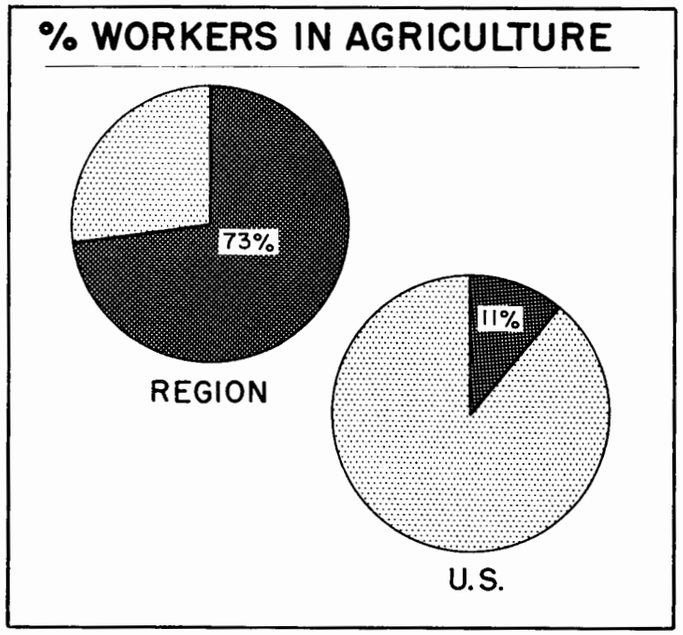


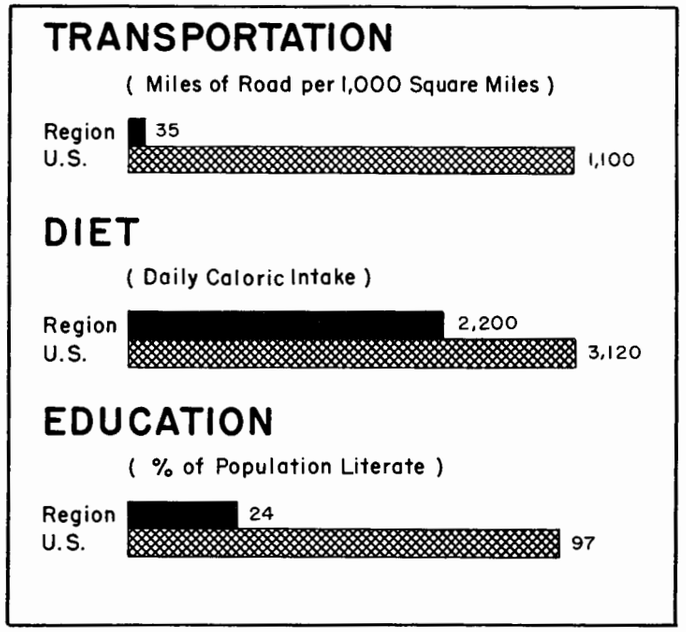
* 1954 - FOA estimates











NEAR EAST AND AFRICA

TOTAL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Country

(In thousands of dollars)

Country	Program FY 1954	Program FY 1955	Proposed FY 1956
Egypt	3,347	43,444	4,000
Ethiopia	2,660	3,352	3,400
Greece	21,085	26,610	16,500
Iran	83,893	74,300	55,000
Iraq	2,279	2,700	2,300
Israel	53,963	41,376	2,000
Jordan	10,617	7,168	2,800
Lebanon	8,890	7,958	2,500
Liberia	1,065	1,854	1,800
Libya	1,877	5,066	2,000
Saudi Arabia	957	370	
Syria			
Turkey	78,568	70,690	72,500
Overseas Territories	11,358	2,352	4,000
Regional Projects	327	1,719	2,200
Undistributed by Country			73,000
Palestine Refugees in the Near East	15,000	16,700	65,000
Total Programs Other Than Military Assistance	295,886	305,659 a/	309,000

a/ Includes $10,000 thousand from savings in the prior year program for Support of Forces in Cambodia, Laos, and Vietnam.

NEAR EAST AND AFRICA

REGIONAL SUMMARY FOR ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import of Saleable Commodities	All Other
Direct Forces Support											
1954	30,582										30,582
1955	25,000										25,000
1956	27,500			2,200					1,960		23,340
Defense Support											
1954	137,592	3,044	2,758	810		1,124	95			101,401	28,360
1955	136,003	360	2,380	1,440	100	940	80	230	200	86,203	44,070
1956	102,500									102,500	
Development Assistance											
1954	74,960	19,614	1,300	3,755		2,510	2,900			44,364	517
1955	94,130	10,620	3,064	35,878		8,708	330		200	34,900	430
1956	73,000	12,500	7,000	15,010		500	450			37,295	245
Technical Cooperation											
1954	37,752	14,562	3,035	1,503	224	4,881	7,933	1,540	1,209		2,865
1955	33,826	9,932	2,657	2,737	546	3,639	7,238	1,552	2,244		3,281
1956	41,000	10,706	3,726	3,089	850	5,211	7,866	2,640	3,857		3,055
Other Programs											
1954	15,000										15,000
1955	16,700										16,700
1956	65,000										65,000
Total All Programs											
1954	295,886	37,220	7,093	6,068	224	8,515	10,928	1,540	1,209	145,765	77,324
1955	305,659 a/	20,912	8,101	40,055	646	13,287	7,648	1,782	2,644	121,103	89,481
1956	309,000	23,206	10,726	20,299	850	5,711	8,316	2,640	5,817	139,795	91,640

a/ Includes $10,000 thousand programmed in this area from savings in the prior year program for Support of Forces in Cambodia, Laos and Vietnam.

NEAR EAST AND AFRICA

REGIONAL SUMMARY FOR ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954	30,582	30,582							
1955	25,000	25,000							
1956	27,500	25,000				2,500			
Defense Support									
1954	137,592	103,358		1,310	75	3,488			29,436
1955	136,003	89,802			69	3,401			42,800
1956	102,500	101,360			42	1,140			
Development Assistance									
1954	74,960	69,954			45	1,630			3,376
1955	94,130	93,310			40	820			
1956	73,000	72,555	10	175	6	200	14	70	
Technical Cooperation									
1954	37,752	11,310	749	8,969	307	9,536	764	2,605	5,332
1955	33,826	5,256	835	12,343	446	8,926	866	3,042	4,259
1956	41,000	7,291	851	14,099	566	10,957	1,078	3,733	4,920
Other Programs									
1954	15,000	15,000							
1955	16,700	16,700							
1956	65,000	65,000							
Total All Programs									
1954	295,886	230,204	749	10,279	427	14,654	764	2,605	38,144
1955	305,659 a/	230,068	835	12,343	555	13,147	866	3,042	47,059
1956	309,000	271,206	861	14,274	614	14,797	1,092	3,803	4,920

a/ Includes $10,000 thousand programmed in this area from savings in the prior year program for Support of Forces in Cambodia, Laos and Vietnam.

EGYPT

BASIC DATA

			Egypt	Near East	U.S.
Population (1954)..... millions	22.5	Gross National Product#			
Annual growth..... percent	2.5	Total (1954 est.) mill $	3,035	--	--
Area.....1,000 square miles	386	Per capita ..... $	135	148	2,200
Agricultural land..... percent	3	Caloric intake	2,290	2,200	3,120
Potentially productive land..... percent	1	Literacy rate .... percent	20	24	97
Agricultural land per capita..... acres	0.3	Infant mortality ..... per 1,000 births	129	n.a.	28
		Road miles per 1,000 sq mi	38	35	1,100

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	147	583	417	394	397
Imports, c.i.f.	185	667	628	503	459
Trade balance	-38	-84	-211	-109	-62
Principal export					
Cotton: Quantity..... 1,000 MT	378	255	270	347	337
Value ..... $ millions	127	471	363	335	326
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	5	47	76	26	20
Imports from U.S.	13	78	76	60	40
Balance	-8	-31	--	-34	-20
					Jan-June
Balance of Payments					
Balance on goods & services		-47	-154	-23	+58
Net capital		-85	14	26	-45
Private		-9	-3	-5	-13
Official and banking		-76	17	31	-32
Government grants		4	--	--	--
Long-term capital		-85	-43	1	--
Short-term capital		5	60	30	-32
Change in gold & exch. reserves		-132	-141	+3	+16
Gold and foreign exchange reserves (end of yr.)	95	550	409	412	412

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program e 1955	1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.1	0.4	12.9	3.3	43.4	4.0
			(calendar years)				
Ex-Im Bank disbursements	0.3	-	-	-	-		
IBRD disbursements	-	-	-	-	-		
U.S. private investment (net)							
Reinvested subsidiary earnings	2	3	2	-			
Book value of U.S. direct private investment	39	44	46	47			

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production	1935-39=100	100[a]	106	102	100	108
Major crops:						
Cotton	1,000 MT	400[a]	363	446	318	326
Rice (paddy)	1,000 MT	609[a]	620	517	652	1,118
Corn	1,000 MT	1,616[a]	1,421	1,506	1,853	1,753
Wheat	1,000 MT	1,246[a]	1,225	1,116	1,546	1,729
Major industries:						
Cotton yarn	1,000 MT	20	54	56	59	62
Crude petroleum	1,000 MT	228	2,328	2,352	2,400	1,980
Cement	1,000 MT	376	1,130	947	1,097	1,234

FINANCES

	1951	1952	1953	1954[b]	1955[b]
		(millions of US $)			
Central government budget-year ending June 30					
Revenue	541	570	586	681[c]	740
Expenditure	556	695	613	745[c]	852
Defense	101	125	120	126	177
Capital outlay	110	77	52	158[d]	188
Other non-defense	345	493	441	461	487
Surplus or deficit (-)	-15	-125	-27	-64[c]	-112
As % of total revenue	-3%	-22%	-5%	-9%	-15%
Defense expend. as % of budget	18%	18%	20%	17%	21%
Prices (Index 1948=100)					
Wholesale.....	116	113	108	105	
Cost of living: Cairo	124	113	105	101	

* 1954 data partly preliminary or estimated.
a Prewar average.
b Budget estimates.
c Estimated actual revenue is $652 million; expenditures, $628 million; and surplus, $24 million.
d Actual is $102 million.
e Funds for Development Assistance included in regional total.
\# FOA estimate; converted at rate of $2.8716 per E £.

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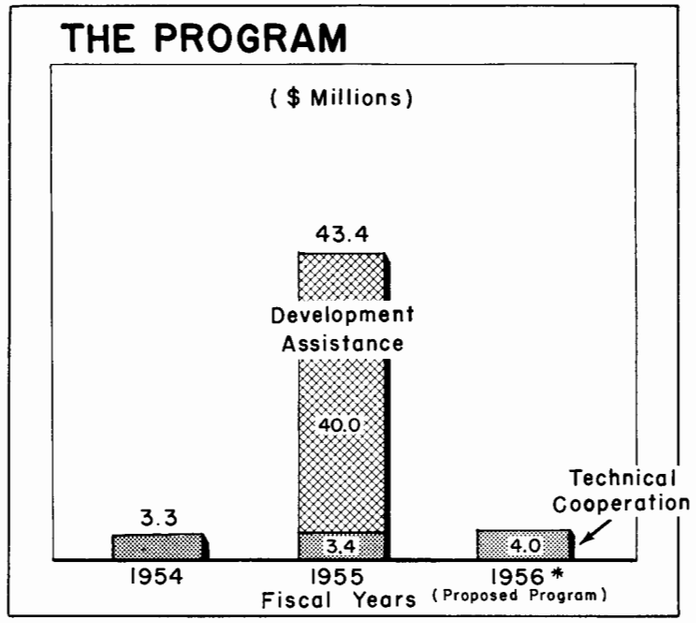
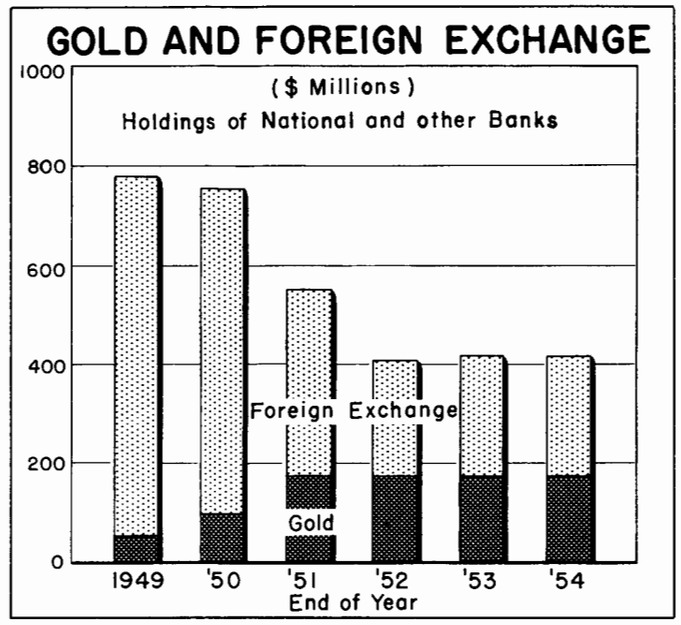
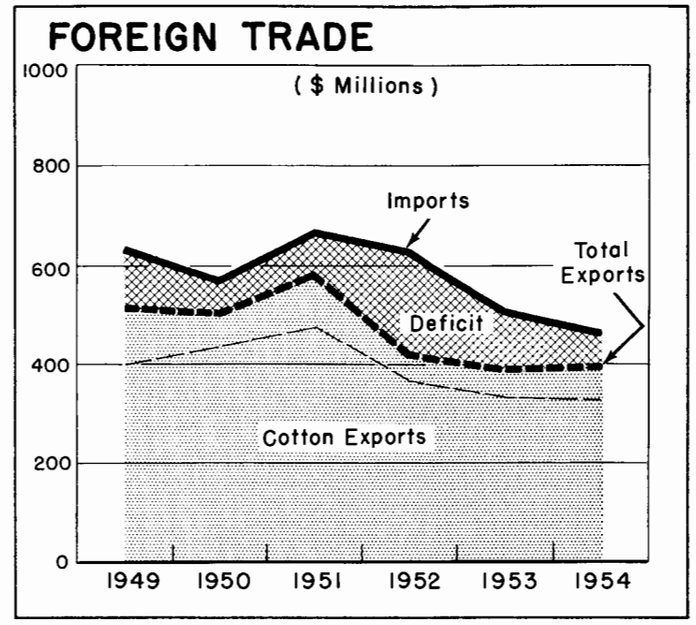
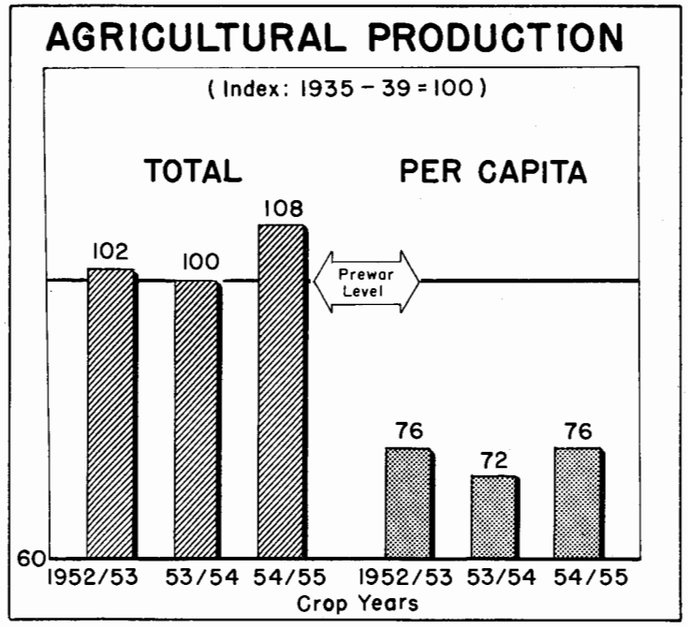
EGYPT

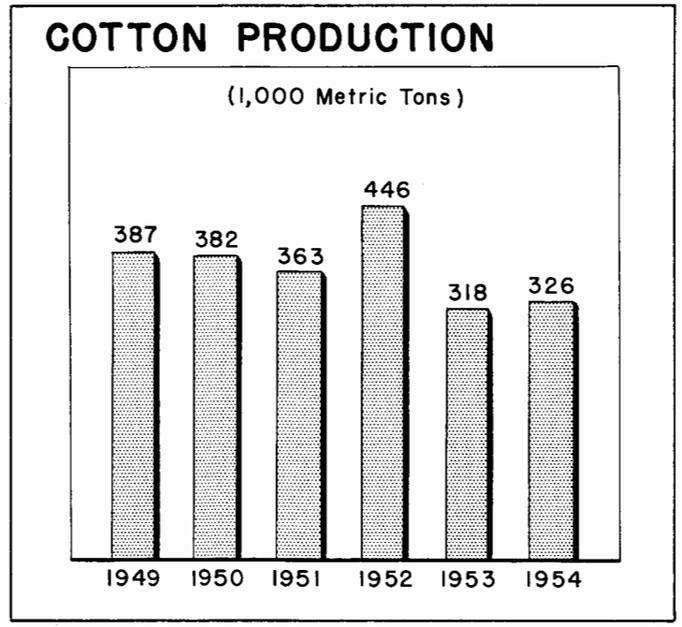


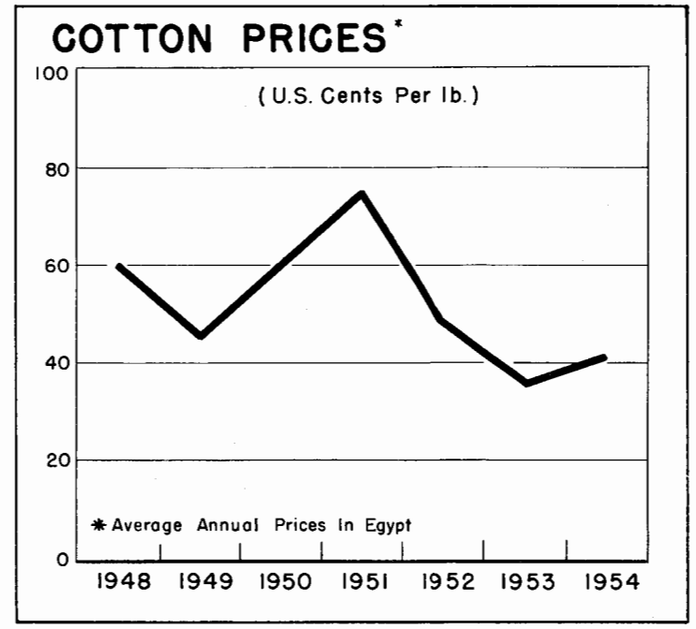
*Funds for Development Assistance included in area total.











NEAR EAST AND AFRICA

Country: EGYPT

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	-	40,000	a/
Technical Cooperation	3,347	3,444	4,000
Total Country Program	3,347	43,444	4,000 a/
Of Which Financed by Loan			
Development Assistance	-	7,500	-
MSP Sales Surplus Agricultural Commodities			
1. Sales to this country		1,000	a/
2. Sales Proceeds Programmed in this country		1,000	a/

a/ Development Assistance for FY 1956 included in Regional Totals only.

General Narrative Statement

Current Situation

Egypt embraces half the population of all the Arab States and by virtue of its size, location and the influence of its leaders is of prime importance in all our considerations of Near East policy.

Egypt's overpopulation problem is one of the worst in the world and a cause of the country's being one of the few in which the standard of living has declined throughout the twentieth century. Its 22,000,000 people are crowded onto three percent of the total area -- along the banks of the Nile and the Nile Delta. In the last 50 years, the population has more than doubled whereas the area under effective cultivation has not increased in proportion. While the population continues to grow rapidly (at present rate it will exceed 28 million in 10 years and 35 million in 20 years), the prospects for increased land utilization remain relatively limited. The Egyptian Government is pinning great hopes on its High Aswan dam project, which could create the largest man-made reservoir in the world.

The present regime which assumed power in July 1952 has successfully settled its dispute with the British over Suez Canal arrangements (October 1954), seriously embarked upon broad reforms in the field of labor and land tenure, liberalized and augmented its domestic and foreign investment legislation to the point of having attracted

General Narrative Statement (Continued)

relatively significant amounts of investment capital, and organized a National Production Council which is implementing comprehensive plans for national economic and social development.

Despite Egyptian concern at recent developments related to the Turke-Iraq pact, the Government of Egypt has given evidence of its basic desire to cooperate with the West.

Program Objectives

It is in the U. S. interest to support the present Egyptian Government in view of its efforts to develop the country in ways conducive to the general welfare of the Egyptian people. Potentially Egypt could be most helpful in taking the lead toward a reduction in area tensions and toward broader outlooks generally, regarding both political and security objectives. Egypt's assumption of control of the Suez Base following the agreement with the United Kingdom underlines the desirability from the point of view of U. S. interest, of strengthening the friendship between our two countries and attempting to support Egypt's own efforts toward stability and progress.

In an attempt to solve their economic dilemma and to shift the economic base from dependence on one agricultural crop, the Government of Egypt has instituted a long range economic development program. This program is primarily directed at maximizing agricultural production by the introduction of improved methods and techniques and by increasing the present totally inadequate arable land base and the supply and control of water for irrigation. In addition, the program calls for greatly expanding current industrial activities, and the introduction of new industries, geared to available natural resources and local and world markets. The total Egyptian development program, which is projected over a period of several years, amounts to LE 700 million ($2,030 million) of which LE 320 million ($928 million) is foreign exchange requirements.

To the estimated uncovered balance of LE 140 million the U. S., through its Technical Assistance and Economic Development programs, has contributed $60 million (about LE 20 million) and proposes to spend $4 million for technical assistance in FY 1956 and a substantially larger sum for special economic aid. It is expected that about half of the special economic funds will be in the form of commodity imports to generate local currency, including a significant amount for wheat.

The most important single project in Egypt's development program is the construction of the High Aswan Dam. When completed, it is anticipated that at least 2 million additional acres of cultivatable land will be available; this is equivalent to about one-third of the total acreage now under cultivation in all Egypt. In addition, 10 million KWH a year of electricity will be generated to provide a base for expanded industrial activity. The U. S. has assisted in Egyptian planning of the High Aswan Dam project through an aerial reconnaissance survey and in leader grant awards.

Progress to Date

The U. S. has programmed: (1) slightly more than $20 million to technical cooperation projects in Egypt since the signing of the Point Four Agreement in 1951; and (2) provided $40,000,000 for economic aid following the signing of a development assistance agreement in November, 1954.

Technical Cooperation: Notable successes have been achieved in many areas of activity. Some of the more outstanding achievements are: (a) the poultry improvement program through which quality and price of poultry and eggs have attained premium levels in the test area: (b) the establishment of an agricultural extension service and related projects designed to increase the area and productivity of the land; (c) in the southern part of the Delta area 36 test observation wells have been drilled. Data obtained serve to evaluate the ground water resources of the Delta and will give the necessary control for the contemplated development of groundwater for irrigation in the Delta; (d) outstanding for its degree of acceptance by the GOE is the survey of industrial opportunities being conducted by an American firm under contract with FOA; (e) marked success is evident in the program for elimination of bilharzia, where the host snails have been effectively eliminated in the test area, and the GOE has begun

General Narrative Statement (Continued)

application of the principles established in the demonstration; (f) a rural teacher training program has been activated which, with the full support of the Ministry of Education, promises eventually to reach a majority of the teachers in the country's primary school system; (g) the EARIS program involves the reclamation of about 40,000 acres of formerly saline land and settlement of 16,000 presently landless peasant families. The area thus settled will be owned by the relocated families; the first land ownership they will ever have experienced.

Development Assistance: Following settlement of the Suez canal dispute the U. S. and the Government of Egypt signed in November 1954 a Development Assistance Agreement for $40,000,000 of which $7,500,000 is in the form of a loan. The Egyptian Government proposes to spend $43,258,000 in support of agreed activities. The projects selected for implementation under the agreement are major activities in Egypt's 10 year Development Program. They are concentrated in the fields of Transportation, Health and Sanitation, and Public Works. The particular projects are as follows: (a) Highway Improvement (U. S. $10,089,000; GOE $17,500,000). There are only 2,500 miles of paved roads in Egypt. Most of these are in disrepair and as a result do not meet the demands made upon them. Work will be initiated on a portion of the Alexandria-Cairo Delta Road, the most important artery in the country, and a Training Center will be established near Cairo. As a result of U. S. Assistance the Cairo-Alexandria improvement will be completed in about two years; (b) Potable Water Supply (U.S. $7,488,000; GOE $1,015,000). Water-borne diseases in Egypt are the cause of roughly one-third of all deaths and seriously reduce the productivity of individuals working in the country. This contribution will provide the supplies necessary to bring about rapid completion of the potable water supply system program developed by the Egyptian Government. Through the elimination of the salt content of the water in many areas it is hoped that industry will be attracted to those areas where previously lack of pure water has prevented introduction of industrial installations; (c) Improvement of Waterways (U. S. $4,320,000; GOE $11,500,000). There are about 2,000 miles of navigable waterways in Egypt of which the most important are contiguous to the ports of Alexandria and Suez. The heavy traffic developing at these two ports has made imperative the rapid improvement of facilities at any early date; this is high on the Government of Egypt priority program. This project will provide equipment to deepen and widen existing channels as well as add new channels to accomodate the expanding number of vessels utilizing the routes; (d) Equipment for Machine Workshops (U. S. $1,440,000; GOE $2,592,000); Equipment to be provided is to modernize existing shops, most of which are at least fifty years old, and to equip new installations. The facilities presently available are inadequate, outmoded and overcrowded. The shops to be equipped perform production, maintenance and repair operations on irrigation and canal equipment, pumping stations, barges and dredges and general maintenance on all government owned equipment; (e) Railroad Improvement (U. S. $16,163,000; GOE $10,651,000) Railroads form the core of the transportation system of the country and while the mileage is adequate to the present need the rolling stock and roadbed have deteriorated due to overuse during the war and lack of proper maintenance. Renovation of the entire system is essential. This rehabilitation program is projected over a ten year period and the U. S. assistance will enable a substantial initial effort to be undertaken promptly.

The FY 1956 Program

Technical Cooperation

(1) Technical Cooperation for fiscal 1956 is set at the $4 million level, an increase of about $500,000 over 1955.

It continues the programs already underway, and while providing for the assumption of increasing participation in and assumption of responsibilities by the GOE in our joint agricultural health and education programs, provides for starting of new high priority undertakings, notably in the field of Transportation and Public Administration.

Transportation: Officials of Trans-World Airlines are now in Egypt under FOA auspices negotiating a contract with Misrair which will provide personnel to train Egyptian counterparts in all phases of airline operations.

General Narrative Statement (Continued)

Public Administration: Various projects will be undertaken to assist the Egyptian Government to improve its efficiency and economy.

It is contemplated that an American private management firm will be engaged to survey the organization and management of certain elements of the Egyptian Government.

Development Assistance

The D. A. program for 1956 will continue to be geared to the country's over-all development plan and aim to accelerate efforts toward a more stable economy. The planned activity for FY 1956 breaks down into four areas: (a) Highways - additional equipment is required to supplement the FY 1955 D. A. financed equipment pool, the expansion of which is designed to accelerate the road program. Major construction effort will concentrate on the Cairo-Aswan Highway; (b) Waterways - it is planned to augment the FY 1955 program by adding a floating crane and power shovel for port development improvement; (c) Grain silos construction is proposed at two major centers in order to conserve the estimated five percent of domestic annual production now lost by inadequate storage facilities, thereby reducing demands on foreign exchange for grain imports. The project is designed in part to encourage private construction of similar facilities by demonstrating the commercial feasibility; (d) Irrigation pumping stations and power plants - these are proposed to open new delta canals to agriculture and improve water use on land now under cultivation. Power plants will be built to provide power for major pumping stations.

Although no provision has been made in FY 1956 for participation in the High Aswan Dam, it is considered by the Egyptian Government to be the most important project for the long range development of their country. Until further details have been worked out, however, it is impossible to predict the extent, if any, to which United States assistance may be justified in support of this project.

NEAR EAST AND AFRICA

Country: EGYPT

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Development Assistance											
1954											
1955	40,000	1,440		26,997		7,488				4,075	
1956	a/										
Technical Cooperation											
1954	3,347	1,328	473	13		599	831	17	86		
1955	3,444	935	122	552		428	342	393	301		371
1956	4,000	793	313	727		303	488	585	516		275
Total All Programs											
1954	3,347	1,328	473	13		599	831	17	86		
1955	43,444	2,375	122	27,549		7,916	342	393	301	4,075	371
1956	a/										

a/ Development Assistance for FY 56 included in Regional total only.

NEAR EAST AND AFRICA

Country. EGYPT

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	3,347	1,993	45	637	3	395	48	106	216
1955	3,444	562	79	1,073	27	993	145	449	367
1956	4,000	520	95	1,500	49	1,251	143	488	241
Development Assistance									
1954									
1955	40,000	40,000							
1956	a/								
Total All Programs									
1954	3,347	1,993	45	637	3	395	48	106	216
1955	43,444	40,562	79	1,073	27	993	145	449	367
1956	a/		95	1,500	49	1,251	143	488	241

a/ Development Assistance for FY 1956 included in Regional total only.

NEAR EAST AND AFRICA

Country: EGYPT

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Development Assistance: For Project Use	FY 1955 Development Assistance: For Consumption & Generating Local Currency	Total
Commodities				
Food and Agricultural Imports				
Bread Grains			1,000	1,000
Total Food & Agricultural Imports			1,000	1,000
Less Sales Proceeds Programmed for other countries				
Net U. S. Financed Food & Agricultural Imports			1,000	1,000
Industrial Imports				
Raw and Semi-Finished Products			1,575	1,575
Machinery and Vehicles		35,925	1,500	37,425
Total Industrial Imports		35,925	3,075	39,000
Total Commodity Program		35,925	4,075	40,000
Transfer of Cash				
Services				
Total Country Program		35,925	4,075	40,000

ETHIOPIA

BASIC DATA

			Ethiopia	Near East	U.S.
Population (1954)..... million	16	Gross National Product#			
Area ..... 1,000 square miles	409	Total(1954 est.) mill $	830	--	
Agricultural land ... percent	55	Per capita ..... $	52	148	2,200
Potentially productive land..... percent	8	Literacy rate .. percent	10	24	97
Agricultural land per capita ..... acres	9	Road miles per 1,000 sq mi	8	35	1,100
		Elec. power per capita ..... KWH per yr.	2	33	3,165

TRADE[f] AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US dollars)			
Exports, f.o.b.		50	46	72	70[a]
Imports, c.i.f.		40	43	53	63[a]
Trade balance		+10	+3	+19	+7
Principal exports[a]					
Coffee: Quantity..... 1,000 MT		28	26	36	37
Coffee: Value..... $ millions		23	24	33	45
Hides & skins: Quantity.....1,000 MT		16	10	13	12
Hides & skins: Value..... $ millions		12	7	7	7
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	0.2	20	18	33	34
Imports from U.S.	0.2	4	6	5	7
Balance	-	+16	+12	+28	+27
					Jan-June
Balance of payments					
Balance on goods & services		5	-1	15	13
Net capital		-3	-1	-5	-5
Private		--	4	4	2
Official and banking		-3	-5	-9	-7
Government grants		--	b	b	b
Long-term capital		-3	-5	-9	2
Short-term capital		--	--	--	-9
Change in gold & exchange reserves ...		+3	-2	+6	+6
Gold and foreign exchange reserves[d](end of yr.)		14.5	12.3	19.4	26.1

PRODUCTION

	Unit	1938	1951	1952	1953	1954
Major crops:[e]						
Coffee	1,000 MT	21	25	42	38	48
Other major crops: grains, pulses, sorghum, oilseeds						
Major industries:						
Small local industries. Produce flour, cement, shoes, brick, and soap		Not available				

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
		(millions of US $)					
FOA obligations (fiscal years).....	-	0.1	1.2	1.5	2.7	3.4	3.4
		(calendar years)					
Ex-Im Bank disbursements	1.2	0.8	-	-	-		
IBRD disbursements	-	2.0	2.6	0.8	1.0[c]		

FINANCES

	1951	1952	1953	1954	1955
	(millions of US $)				
Central government budget - year ending September 10					
Revenue	33.05	34.74	39.82		
Expenditure	32.89	25.00	41.51		
Defense	6.40	7.29	9.54		
Non-defense	26.49		31.97		
Surplus or deficit (-)	+0.16	+9.74	-1.69		
As % of total revenue	--	28%	-4%		
Defense expend. as % of budget	19%	29%	23%		
Prices					
Wholesale: cattle hides (Index, 1951=100)	100	64	55		
Wholesale: coffee (Index, 1951=100)	100	108	97	115	

\# FOA estimate; converted at rate of 2.484 E $ per U.S. $.
* 1954 data partly preliminary or estimated.
a Year ending September 10.
b Less than $500,000.
c Undisbursed balance as of Dec. 31, 1954: $2.1 million.
d State Bank
e Crop years.
f Trade data include Eritrea beginning in 1953.

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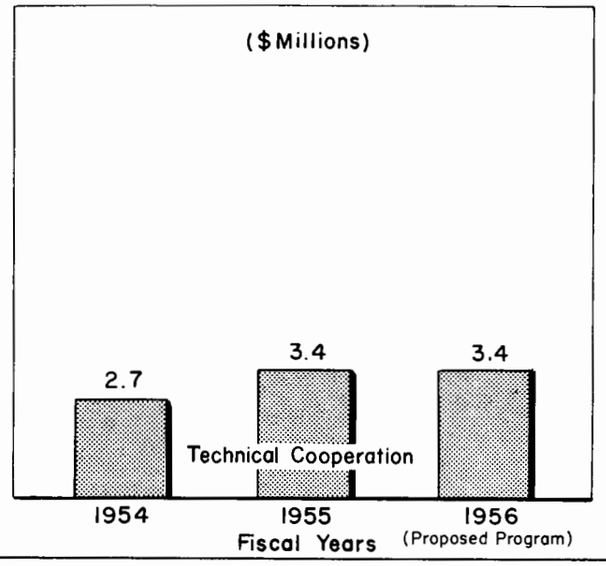
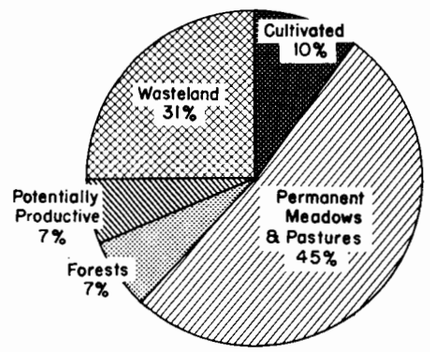
ETHIOPIA

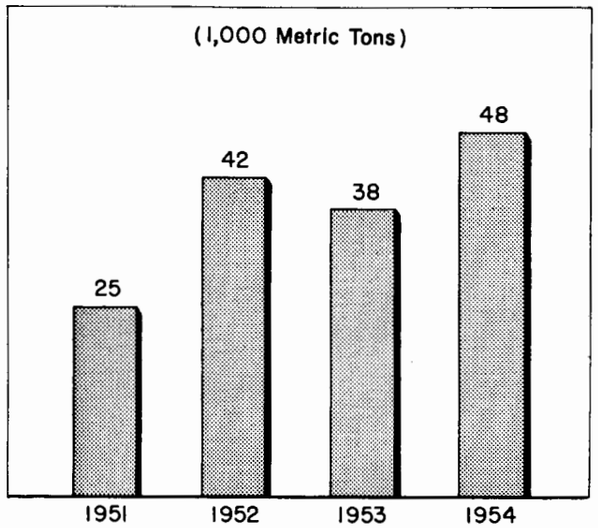
THE PROGRAM



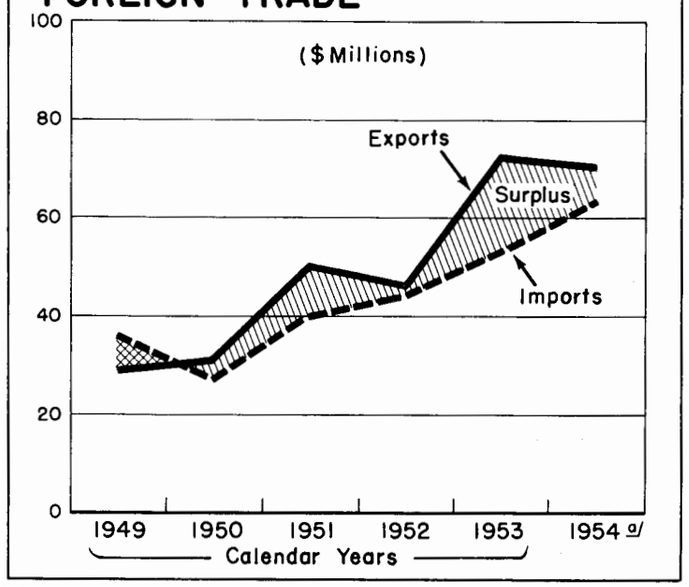
LAND UTILIZATION



COFFEE PRODUCTION

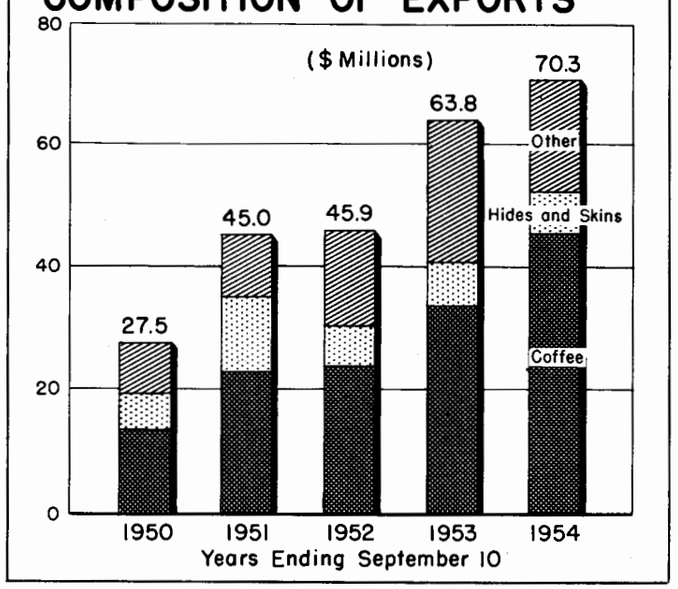


FOREIGN TRADE

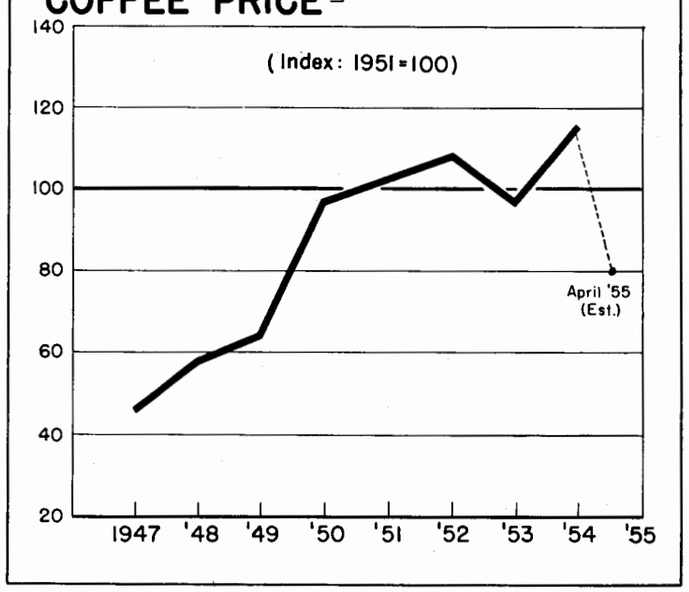


a/ Year ended September 10

COMPOSITION OF EXPORTS



COFFEE PRICE a/



a/ Average for Year at Addis Ababa

NEAR EAST AND AFRICA

Country: ETHIOPIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Technical Cooperation	2,660	3,352	3,400

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

Although Ethiopia traces its independence and culture back 3,000 years, it has for centuries remained virtually isolated from neighboring areas of Africa. It is only in our own time, under the enlightened leadership of Emperor Haile Selassie, that Ethiopia has begun to emerge from its static medieval existence and to acquire some of the benefits of Western technological progress. Even today the progressive attitude of the Emperor and of the small (but influential and growing) educated class he has inspired contrasts markedly with the general primitive level at which most of Ethiopia continues to live.

The most striking features of the social and economic organization of the country are the primitiveness of its economy and the dearth of experienced administrative personnel. Although Ethiopia is rich in natural resources, most of the population, handicapped by illiteracy, is engaged in agriculture and animal husbandry purely for subsistence. Only a small part of the agriculture is directed toward the export market or the internal money economy, but even this small part has placed the Government in a relatively favorable financial position.

Program Objectives

The U.S. interest in Ethiopia is derived from the latter's friendliness and support; its willing grant of military facilities to the US; its desire to align itself with the West in the United Nations and other international affairs; its strategic location at the horn of East Africa and along the Red Sea; and its important natural resources. Ethiopia's promise of developing into one of the most prosperous and important nations of Africa and its growing influence in international affairs as an independent nation make it important that the United States utilize the opportunity to strengthen this developing African nation and its pro-West orientation.

The U.S. program of technical cooperation in Ethiopia is planned to assist that country in developing its human and natural resources, improve its economy through the strengthening of governmental institutions, develop technical skills in agriculture and industry, and particularly to build Ethiopian confidence in the belief that cooperation with the governments and nationals of friendly

General Narrative Statement (Continued)

countries will not endanger Ethiopia's sovereignty or national security. Since its inception in 1952, the program has emphasized training and guidance in the fields of agriculture, public health, education and public administration. The U.S. is demonstrating how qualified technicians, equipped with adequate materials can, at a moderate cost, make significant long-range contributions to the country's development.

The MDAP objective for Ethiopia is to strengthen the Ethiopian Armed Forces for internal security and to contribute to the defense capabilities of the area.

Progress to Date

Technical Cooperation

With the experience of successful operations through FY 1954 and evidence of the desire of the Ethiopian government to expand the mutual program, the U.S. contribution to joint projects for FY 1955 was programmed at approximately $784 thousand more than the FY 1954 program to a total of $3.4 million.

Perhaps the most significant evidence of the extent to which technical cooperation has taken hold in this country lies in the establishment of an Inter-Ministerial Technical Cooperation Board which for the past five months has been carefully reviewing the entire program, project by project, with a view to providing it on a permanent basis in the government budget and assuring continued implementation within a balanced overall program of economic development. This action represents progress on the part of the Government in assuming greater responsibility for planning and carrying out the Joint Ethiopian-U.S. Technical Cooperation program within the framework of the country's long-range development.

Several new projects have been undertaken jointly with the Government, particularly in education. A training school for secondary school teachers (all of whom are now foreigners) and another for basic community education are being established, each under an American director with buildings to be supplied by the Government. A trade school for apprentices is being set up in Addis Ababa to be directed by Oklahoma A & N College technicians who are already active in related projects. Provision has been made to finance a number of two, three, and four-year scholarships abroad for selected students who, upon their return, will be available for replacing foreign advisors presently employed by the Government. Construction and equipping of the Imperial Agricultural and Mechanical Arts College at Harar is expected to be completed by the Government by January 1956.

The establishment of two additional agricultural improvement and extension centers is being jointly financed by the two governments. Oklahoma A & M will provide technicians for these centers as well as for the new livestock improvement and marketing project. A coffee development program has been started with the objective to increase production and quality of this most important export project.

The jointly-financed water resources survey and well-drilling projects are being expanded as a result of their demonstrated value. An American staff of commerce and industry specialists has been active in assisting the Government in drafting a revised, comprehensive statement of policy for attracting foreign private investment, as well as providing advice to local industry on production and marketing problems. Under a contract with the Public Administration Service, the U. S. has provided technicians to make organizational and procedural studies of various Ministries and central-local government relationships, to improve local government administration, and to advise in the establishment of modern methods of training civil servants.

Ethiopian Government contributions, both in cash and in kind, to the joint technical cooperation program have matched U.S. contributions, approximately $7 million to date.

Military Assistance Program

On May 12, 1953, Ethiopia was declared eligible to receive grant Military Aid. Prior to that date, the Army was organized along British lines and was equipped with an assortment of military equipment including Italian, British, American and

General Narrative Statement (Continued)

Czechoslavakian items. The weapons were of various calibre, imposing an ammunition and spare parts supply problem. Since signing the MDAP agreement, progress has been made toward standardization along United States lines in equipment and supply procedures. The impact of MDAP appears to have given the Army an increased impetus toward professional attainment and ability to maintain internal security.

The FY 1956 Program

It is proposed to continue in FY 1956 a Technical Cooperation program at the same level, $3.4 million, as in FY 1955. Although the bulk of these funds will be utilized for the continuation of projects already started, it is expected that new projects will be developed with emphasis on increasing the national output and raising the standard of living. Programs in the fields of industry, trade, and investment will be expanded and are expected to receive greater attention than in the past as a result of the Silver Jubilee Trade Fair to be held in Addis Ababa next November at which a large variety of products will be exhibited by foreign manufacturers interested in promoting sales to Ethiopia.

From preliminary discussions of the U. S. Operations Mission with the Government, a joint project is expected to develop in area resettlement. The Government is planning to distribute land in connection with the resettlement of some nationals, giving each family a parcel of land, seeds, and tools. U. S. assistance would consist of helping to finance some of the equipment and providing technical assistance in improved farm practices, education, public health, and well drilling. The program, which is expected to be large, would require training of and assistance to the farmers in establishing themselves on the land, in planting those crops best suited to the land and the people's needs, and in meeting the variety of problems entailed in setting up new communities.

A new project is also anticipated in the field of civil aviation where the Ethiopians are anxious to set up training in meteorology, radio maintenance, and airport engineering (foremen).

Ethiopia has increasing need for long-term capital to finance major projects essential to the country's development. With its favorable overall financial position, Ethiopia should be able to obtain long-term capital from existing sources abroad, both public and private. It is anticipated that the FY 1956 Program will include assistance in some of the technical and economic surveys and analysis required in preparing projects for which foreign capital will be sought by Ethiopia.

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Technical Cooperation											
1954	2,660	1,669	266			152	481	30			62
1955	3,352	1,096	105	187		525	966	110	331		32
1956	3,400	1,115	175	225		588	555	170	457		115

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	2,660	504	41	442	40	1,654	19	60	
1955	3,352	2,042	47	610	56	142	66	500	58
1956	3,400	1,440	55	905	77	730	24	200	125

GREECE

BASIC DATA

Population (1954) ..... million		8.2
Annual growth ..... percent		1
Area..... 1,000 square miles		51
Agricultural land..... percent		66
Potentially productive land..... percent		0.3
Agricultural land per capita ..... acres		2.6

	Greece	Near East	U.S.
Caloric intake.....	2,500	2,200	3,120
% Grains & starches..	58	n.a.	29
Literacy rate..percent	75	24	97
Road miles per 1,000 sq. mi.	98	35	1,100
Elec. power per capita .....KWH per yr.	110	33	3,165

USE OF RESOURCES - 1953/54

Gross national product (million U.S. dollars).....	1,700	%
Consumption	1,298	76.4
Gross investment (public and private).....	235	13.8
Government non-defense expenditure	130	7.6
Government defense expenditure	112	6.6
Net foreign balance	-75	-4.4
Per capita GNP (dollars).....	208	

(FOA estimates; converted at rate of 30 drachmas per U.S. dollar)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	90	102	120	132	150
Imports, c.i.f.	131	398	346	294	332
Trade balance	-41	-296	-226	-162	-182
Principal Exports					
Tobacco: Quantity ..... 1,000 MT	46	31	41	49	53
Value ..... $ millions	43	41	53	52	62
Currants: Quantity ..... 1,000 MT	74	47	49	51	59
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	15	21	20	20	18
Imports from U.S.	8	97	65	50	48
Balance	+7	-76	-45	-30	-30
					Jan-June
Balance of payments					
Balance on goods & services		-320	-136	-82	-64
Net capital.....		318	146	129	77
Private		31	33	61	30
Official and banking		287	113	68	47
Government grants.....		281	119	70	35
Long-term capital.....		-7	-10	-5	-5
Short-term capital		13	4	3	17
Change in gold & exch. reserves.....		-1	+13	+48	+16
Short-term assets in U.S. (end of yr.)		45.8	47.3	100.9	112.7

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Industrial production	1950=100	93	114	114	131	159
Agricultural production a/	Prewar=100	100 b/	107	99	126	119
Major crops:						
Wheat	1,000 MT	767 b/	930	1,050	1,419	1,225
Barley	1,000 MT	197 b/	230	213	258	236
Olive oil	1,000 MT	115 b/	141	70	157	114
Tobacco	1,000 MT	60 b/	63	39	59	63
Major industries:						
Textiles.....	1950=100	94	116	109	119	141
Basic metals	1950=100	106	177	215	239	246
Metal products	1950=100	122	120	121	144	200
Chemicals	1950=100	106	122	109	127	179

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
	(Millions of US dollars)						
FOA obligations (fiscal years)	176.7	157.0	179.3	81.1	21.1	26.6	16.5
	(calendar years)						
Ex-Im Bank disbursements	-	-	-	-	-		
IBRD disbursements	-	-	-	-	-		
Book value of U.S. direct private investment	6	8	9	9			

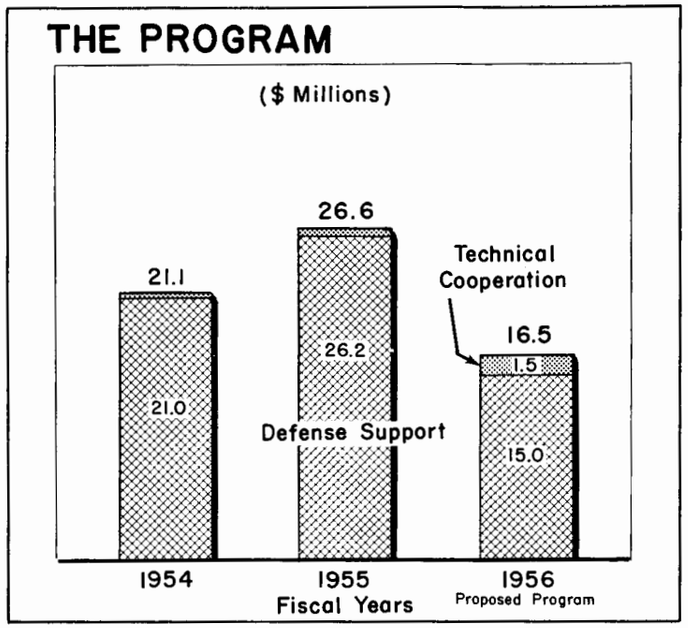
FINANCES

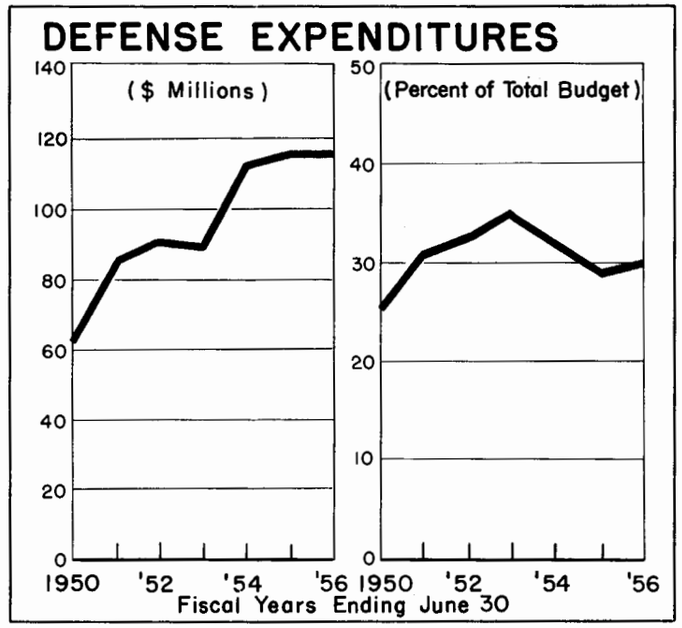
	1951	1952	1953	1954 d/	1955 d/
Central government budget - year ending June 30			(millions of US $)		
Revenue, excl. counterpart.....	157	195	208	275	318
Expenditure	274	271	252	345	393
Defense	86	90	89	112	115
Capital outlay.....	80	55	37	87	72
Other non-defense	108	126	126	146	206
Surplus or deficit (-) before counterpart.....	-117	-76	-44	-70	-75
Counterpart funds	+49 c/	+20	+57	+67	+56
Net surplus or deficit (-) after counterpart	-68	-56	+13	-3	-19
As % of total revenue.....	-33%	-26%	+5%	-1%	-5%
Defense expend. as % of budget.	31%	33%	35%	32%	29%
Defense expend. as % of GNP....	8.2%	7.9%	7.2%	6.6%	6.0%
Prices (index 1950=100)					
Wholesale: Athens	121	121	141	158	164 (Jan)
Cost of living: Athens	113	118	129	148	153 (Jan)

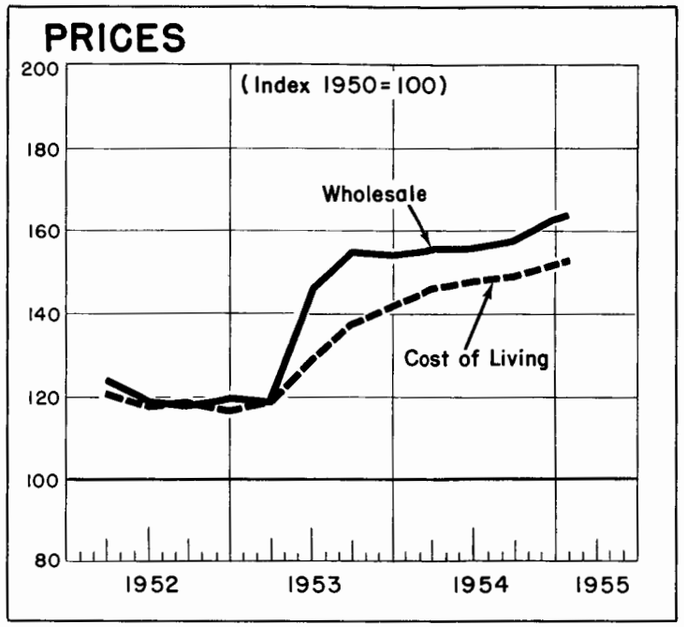
* 1954 data partly preliminary or estimated

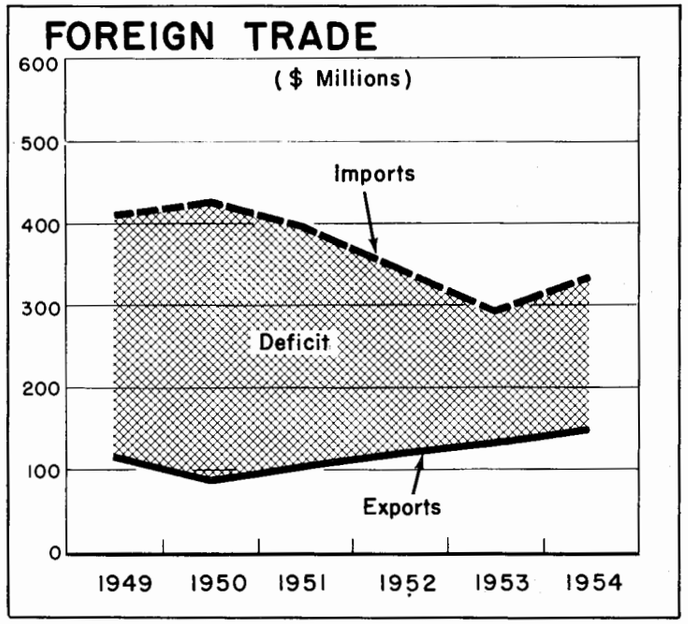
a/ Crop years beginning in year stated
b/ Prewar average
c/ Including $5 million from monetary operations
d/ Budget estimates

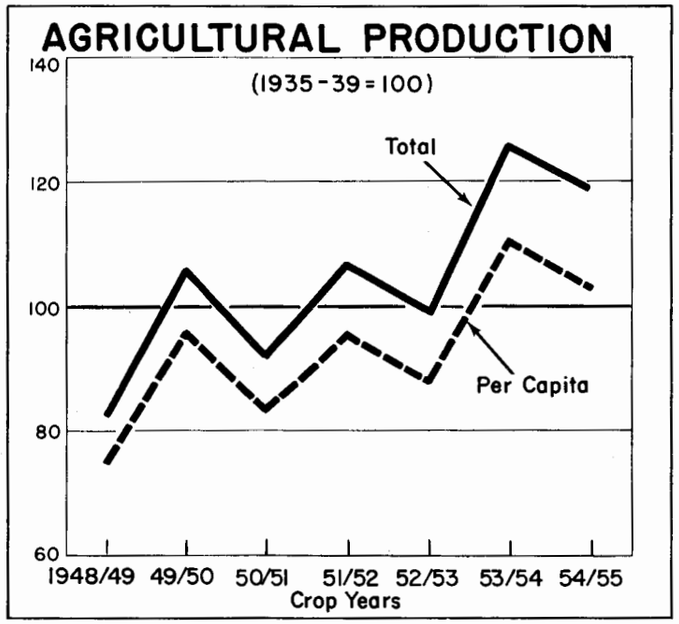
GREECE

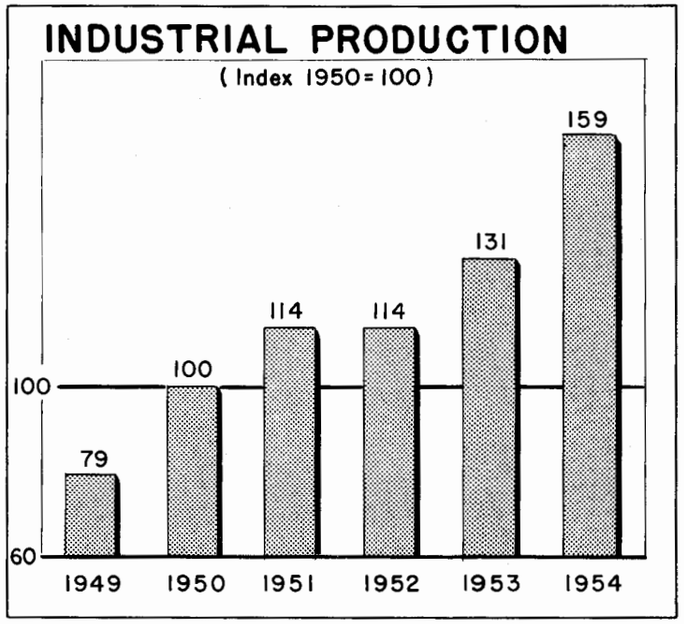

THE PROGRAM
($ Millions)
21.1
21.0
26.6
26.2
Defense Support
Technical Cooperation
16.5
1.5
15.0
1954
1955
Fiscal Years
1956
Proposed Program


DEFENSE EXPENDITURES
($ Millions)
(Percent of Total Budget)
140
120
100
80
60
40
20
0
50
40
30
20
10
0
1950
'52
'54
'56
1950
'52
'54
'56
Fiscal Years Ending June 30


PRICES
(Index 1950=100)
200
180
160
140
120
100
80
Wholesale
Cost of Living
1952
1953
1954
1955


FOREIGN TRADE
($ Millions)
600
500
400
300
200
100
0
Imports
Deficit
Exports
1949
1950
1951
1952
1953
1954


AGRICULTURAL PRODUCTION
(1935-39=100)
140
120
100
80
60
Total
Per Capita
1948/49
49/50
50/51
51/52
52/53
53/54
54/55
Crop Years


INDUSTRIAL PRODUCTION
(Index 1950=100)
100
60
79
100
114
114
131
159
1949
1950
1951
1952
1953
1954

NEAR EAST AND AFRICA

Country: GREECE

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support	20,994	26,200	15,000
Technical Cooperation	91	410	1,500
Total Country Program Other Than Military Assistance	21,085	26,610	16,500
Of Which Financed by Loan:			
Defense Support	-	10,000	-
MSP Sales Surplus Agricultural Commodities			
1. Sales to This Country	-	16,900	15,000
2. Sales Proceeds Programmed in This Country	-	16,900	15,000

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

The Current Situation

Greece, along with Turkey, is part of a strategic bulwark in the defense perimeter along the southern flank of the North Atlantic Treaty area. Its relatively large armed forces, which Greece maintains despite a heavy strain on her budget, are considered an essential element in the defense of the West. Since Greece has committed such a large share of her resources in the maintenance of these armed forces, it continues to look toward the United States for additional aid in support of this effort.

Pressure is still being exerted by the political opposition and the press for a reduction in military expenditures so that larger amounts of the Government's budget could be devoted toward increased economic development. Early in 1954, the Greek Army was reduced by 30,000 because it was considered essential by the Greek Government to avoid an increase of roughly 10 percent in the defense budget during FY 1955.

In order to maintain a proper defense posture in Greece, the U. S. country team in Athens recommended, and General

General Narrative Statement (Continued)

Gruenther substantiated, that the Greek Army should not be further reduced. Steps were taken during FY 1955 to provide the support required to maintain the Greek armed strength at the desired levels.

In Greece, the question of the level of defense expenditures is a continuing one and unquestionably will arise again in FY 1956. The Greek populace is very much aware of the fact that expenditures for economic development are in direct competition with defense expenditures, and that a high rate of development is essential to continuing improvements in the low Greek standard of living.

To achieve a standard of living that would begin to approach that of Western Europe, Greece must overcome the handicaps of limited natural resources, considerable underemployment and unemployment, and inefficient and backward methods in agriculture and industry. The Government through the use of its own resources,plus financial and technical support provided by the U. S., is attacking the problem with vigor.

Program Objectives

The over-all United States foreign policy objective is to enable Greece to utilize its military strength, strategic location and economic resources to the maximum extent in furthering our common aims by:

(1) Assisting the Government in the maintenance and improvement of defense forces capable of meeting its NATO force goal commitments;

(2) continuing the close and friendly cooperation which presently exists between the United States and the Greek Government on programs of mutual interest;

(3) helping maintain political and economic stability within the country, and

(4) helping to increase productivity and to raise the standard of living of the people.

Progress to Date

Military Assistance

Since the beginning of the MDA Program the Greek Army has changed from a loosely-knit organization, designed to cope with guerrilla activity, to a well-organized force with trained units that are familiar with the tactical use and technical aspects of their equipment. The Army MDA Programs have provided unit equipment to meet some of the deficiencies of the Greek Army and training in the maintenance of the equipment on hand. In addition, some war reserves are being provided. The Greek Navy has received a number of combatant vessels and small craft, as well as harbor defense equipment, maintenance equipment and spare parts. Some deficiencies still exist in the Navy, particularly in the field of small craft and maintenance equipment. The progress made in the Greek Air Force is even more impressive. By February 1, 1955, the Greek Air Force had increased to over four times its original size and now includes squadrons of jet fighter bombers. While past programs provided substantial amounts of materiel, there is still need for spare parts and maintenance items to reach maximum utilization of equipment provided under MDAP.

Economic Support

Progress under the economic aid programs has been equally encouraging. Greece is approaching the point when it will no longer require external economic aid of major proportions. This has been brought about mainly by a remarkable increase in Greek production. In addition, measures were introduced to check the expansion of currency and bank credit and help reduce the Government's deficit spending. The results of these measures have been noteworthy in that prices have been kept within reasonable limits following adjustments to the currency devaluation in April 1953. Currency circulation and bank credit have increased somewhat but these have been offset by increases in agricultural and industrial productivity. The price of the gold sovereign is an excellent economic indicator in Greece and has, with the exception of seasonal flurries, been very steady.

General Narrative Statement (Continued)

The Greek balance of payments deficit has been reduced from an average level of approximately $300 million during the guerrilla war period of 1949-1951 to $50 million in FY 1953, and $19 million in FY 1954. The deficit for FY 1955 is estimated to be around $30 million.

There has been remarkable progress in tax collections with increased yield from direct as distinct from consumption taxes. Further progress is needed and would contribute to economic advance, but at present levels Government taxes and other collections from Greek sources are taking a relatively large percentage of the Gross National Product -- more than 18 percent -- and a substantial increase in this figure cannot be expected. If economic stability is to be maintained, the Government must obtain either foreign grants or loans or reduce either the military expenditures or capital expenditures connected with the investment program.

The FY 1956 Program

(1) The proposed Defense Support aid of $15 million for FY 1956 would be used for wheat for the civilian economy. The local currency generated from the sale of this wheat would be used to support the defense budget, enabling the Government to maintain the army at a level commensurate with NATO force goals.

(2) It is proposed that the Technical Cooperation Program be expanded from a level of $410 thousand in FY 1955 to $1.5 million in FY 1956.

Although dramatic changes have taken place in the Greek economy through the use of previous aid from the United States, Greece is still considered an underdeveloped country. Its people, who are predominantly rural, still require additional training for further increases in their agricultural and industrial productivity. The Greek Government proposes to expand the present Technical Cooperation Program in these fields and also to continue programs in public administration, labor training, and to provide technicians to assist in the development of the newly established productivity center.

The Greek Government is aware of the politically sensitive nature of the areas along its northern borders with Albania and Bulgaria, and the necessity of improving the lot of the people in these regions. Conditions in the region are becoming more acute in that Communist front groups have made considerable inroads in the area through the use of Soviet-inspired propaganda, and by the arrival of recent repatriates who have extolled the higher standards of living behind the Iron Curtain by comparison with those in the northern tier of Greece. It proposes, through an expanded Technical Cooperation program, to launch a number of community development programs in these regions and thus present an attractive contrast between economic conditions in the free world and behind the Iron Curtain.

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: GREECE

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Defense Support											
1954	20,994									20,994	
1955	26,200									26,200	
1956	15,000									15,000	
Technical Cooperation											
1954	1,074	187	227	56				14			590
Less Savings prior Year Obligations	983	167	197	46				9			564
Net New Funds	91	20	30	10				5			26
1955	410	150	75	10	40		60	13			62
1956	1,500	251	200	141	177	12	109	34	500		76
Total All Programs											
1954	21,085	20	30	10				5		20,994	26
1955	26,610	150	75	10	40		60	13		26,200	62
1956	16,500	251	200	141	177	12	109	34	500	15,000	76

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: GREECE

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U.S. Government Technicians		Contracts		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Defense Support									
1954	20,994	20,994							
1955	26,200	26,200							
1956	15,000	15,000							
Technical Cooperation									
1954	1,074	194	9	97	4	109	68	130	544
Less Savings prior year Obligations	983	174		66	3	89	63	120	534
Net New Funds	91	20	9	31	1	20	5	10	10
1955	410	10	25	192	9	60	75	98	50
1956	1,500	400	33	460	5	209	123	389	42
Total All Programs									
1954	21,085	21,014	9	31	1	20	5	10	10
1955	26,610	26,210	25	192	9	60	75	98	50
1956	16,500	15,400	33	460	5	209	123	389	42

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Defense Support: Total	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Defense Support: Total
Commodities					
Food and Agricultural Imports					
Bread Grains	8,000	15,500	15,500	15,000	15,000
Coarse Grains	200				
Fats and Oils	2,600	1,000	1,000		
Fertilizer	6,600	3,600	3,600		
Total Food and Agricultural Imports	17,400	20,100	20,100	15,000	15,000
Less Sales Proceeds Programmed for Other Countries					
Net U.S. Financed Food and Agricultural Imports	17,400	20,100	20,100	15,000	15,000
Industrial Imports					
Fuel	1,994	3,400	3,400		
Raw and Semi-Finished Products	800	2,700	2,700		
Machinery and Vehicles	800				
Total Industrial Imports	3,594	6,100	6,100		
Total Commodity Program	20,994	26,200	26,200	15,000	15,000
Transfer of Cash					
Services					
Total Country Program	20,994	26,200	26,200	15,000	15,000

IRAN

BASIC DATA

Population (1954)..... millions	20.7
Annual growth..... percent	2.1
Area..... 1,000 square miles	629
Agricultural land..... percent	16
Potentially productive land..... percent	20
Agricultural land per capita..... acres	2.2

	Iran	Near East	U.S.
Caloric intake.....	1,820	2,200	3,120
Literacy rate.... percent	10	24	97
Road miles per 1,000 sq. mi.	25	35	1,100

USE OF RESOURCES - 1954

		%
Gross national product (million U.S. dollars).....	1,600	
Consumption.....	1,410	88.1
Gross investment (public and private).....	120	7.5
Government non-defense expenditure.....	100	6.3
Government defense expenditure.....	46	2.9
Net foreign balance.....	-76	-4.8
Per capita GNP (dollars).....	77	

(FOA estimates; converted at rate of 90 rials per U.S. dollar)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
	(millions of US $)				
Exports, f.o.b.[a].....	146[b]	590	152	75[c]	111
Imports, c.i.f.[a].....	79[b]	248	165	140[c]	222
Trade balance.....	67[b]	342	-13	-65[c]	-111
Principal exports[d]					
Petroleum products: Quantity..... 1,000 MT	7,200	31,200	9,050	75	
Value.....$ millions	77	688	212	18	
Cotton, raw: Quantity..... 1,000 MT	6	20	9	22	32
Value.....$ millions	2	10	15	30	50
Trade with U.S. (U.S. Customs data)					
Exports to U.S.....	3	35	23	25	19
Imports from U.S.	9	35	17	21	46
Balance.....	-6	0	6	4	-27
Balance of payments[d]					
Balance on goods & services.....		-18	-66	-35	-76
Net capital.....		6	62	46	83
Private.....		11	-15	11	-2
Official banking and reserves.....		-5	77	35	85
Government grants.....			2	16	115
Long-term capital.....			-1	-1	1
Short-term capital and gold.....		-5	76	20	-31
Gold and foreign exchange reserves[e] (end of yr.)		190	173	205	200

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production[f].....	Prewar=100	100[g]		111	120	120
Major crops:[f]						
Wheat.....	1,000 MT	1,963 g	1,796	2,041	2,250	2,100
Dates.....	1,000 MT	120 g	124	139	125	130
Cotton.....	1,000 MT	41 g	27	40	52	47
Tobacco.....	1,000 MT	16 g	12	18	15	13
Major industries:						
Petroleum production, crude.....	1,000 MT	10,356	16,848	1,356	1,344	2,940

EXTERNAL RESOURCES

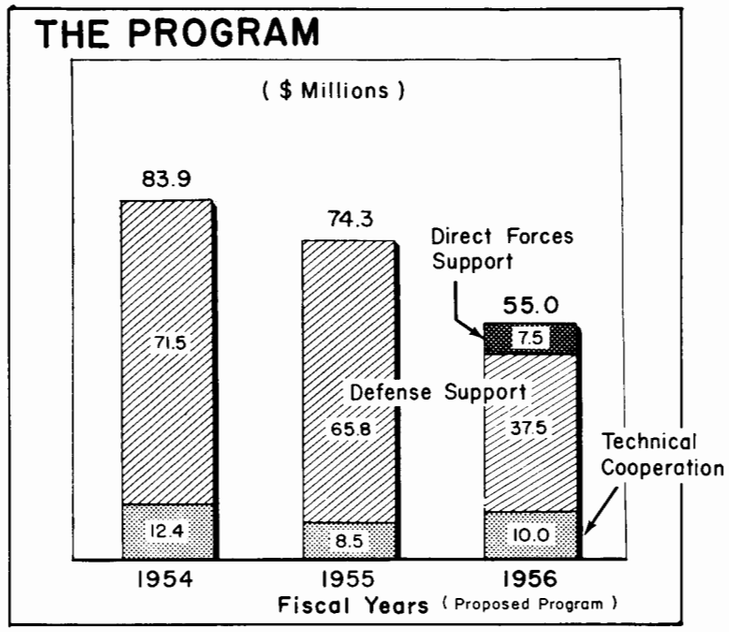
	1950	1951	1952	1953	1954	1955	1956 (Program)
	(millions of US $)						
FOA obligations (fiscal years).....	-	1.5	14.9	31.9	83.9	74.3	55.0
	(calendar years)						
Ex-Im Bank disbursements.....	-	-	-	-	-		
IBRD disbursements.....	-	-	-	-	-		

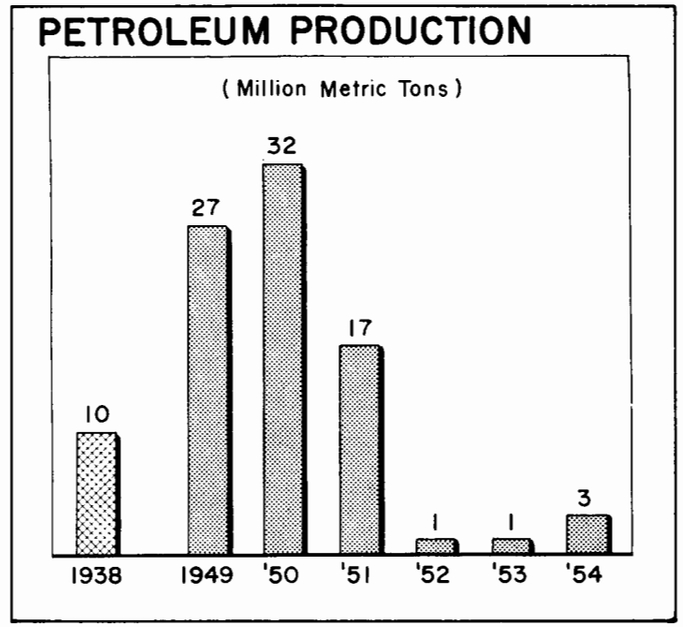
FINANCES

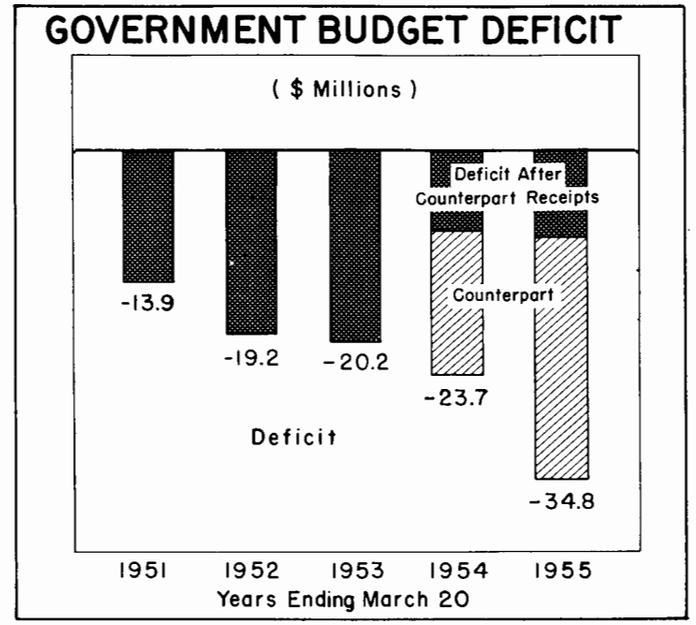
Central government budget year ending March 20	1951	1952	1953	1954[h]	1955[h]
		(millions of US$)			
Revenue, excl. counterpart...		87.9	81.4	93.4	120.5
Expenditure.....		107.1	101.6	117.1	155.3
Defense.....		n.a.	n.a.	34.7	47.8
Capital outlay.....		n.a.	n.a.	4.8	6.2
Other non-defense.....		n.a.	n.a.	77.6	101.3
Surplus or deficit (-) before counterpart.....		-19.2	-20.2	-23.7	-34.8
Counterpart funds.....				15.1	25.6
Surplus or deficit (-) after counterpart.....				-8.6	-9.2
As % of total revenue.....				-7.9%	-6.3%
Defense expend. as % of budget	-	-	-	29.6%	30.8%
Defense expend. as % of GNP	-	-	-	2.5%	-
Prices (index 1948=100)					
Wholesale: Tehran.....	89	93	113	133	134(Jan)
Cost of living.....	93	101	107	126	129(Jan)

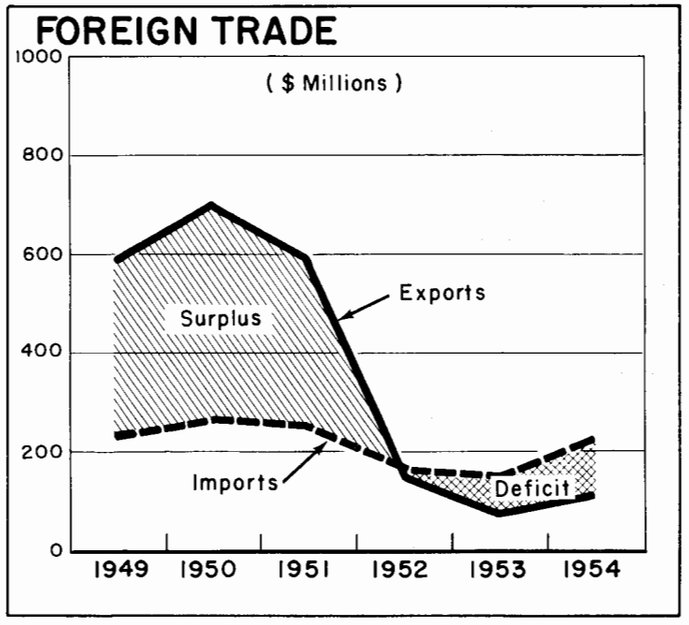
* 1954 data partly preliminary or estimated.
a Data include exports of petroleum products and imports by international petroleum company.
b Year beginning June 21.
c Estimate, based on nine-month data.
d Years ending March 20 of year stated.
e March 20 of following year; National Bank only.
f Crop years beginning in year stated.
g Prewar average.
h Revised budget estimate.

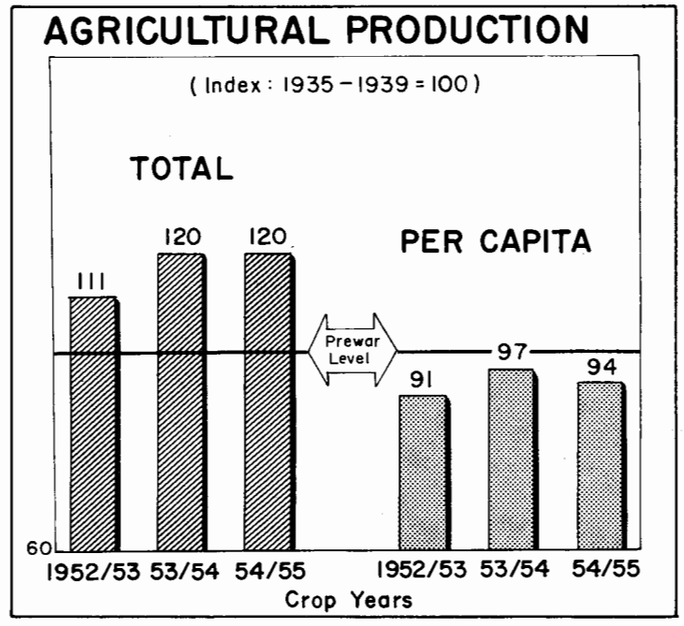
IRAN

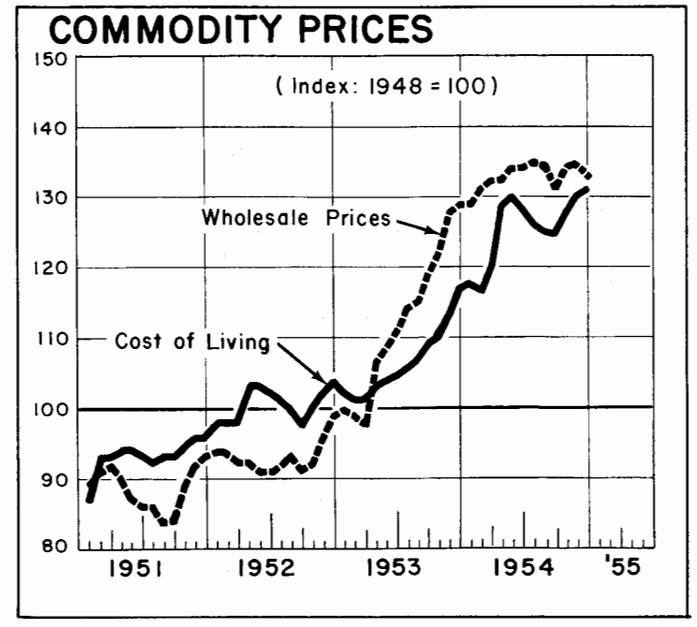

THE PROGRAM
($ Millions)
83.9
74.3
55.0
71.5
12.4
65.8
8.5
7.5
37.5
10.0
Direct Forces Support
Defense Support
Technical Cooperation
1954
1955
1956
Fiscal Years (Proposed Program)


PETROLEUM PRODUCTION
(Million Metric Tons)
10
27
32
17
1
1
3
1938
1949
'50
'51
'52
'53
'54


GOVERNMENT BUDGET DEFICIT
($ Millions)
-13.9
-19.2
-20.2
-23.7
-34.8
Deficit After Counterpart Receipts
Counterpart
Deficit
1951
1952
1953
1954
1955
Years Ending March 20


FOREIGN TRADE
($ Millions)
1000
800
600
400
200
0
Surplus
Exports
Imports
Deficit
1949
1950
1951
1952
1953
1954


AGRICULTURAL PRODUCTION
(Index : 1935 – 1939 = 100)
TOTAL
PER CAPITA
111
120
120
91
97
94
Prewar Level
60
1952/53
53/54
54/55
1952/53
53/54
54/55
Crop Years


COMMODITY PRICES
(Index: 1948 = 100)
150
140
130
120
110
100
90
80
Wholesale Prices
Cost of Living
1951
1952
1953
1954
'55

NEAR EAST AND AFRICA

Country: IRAN

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	-	-	7,500
Defense Support	71,501	65,800	37,500
Technical Cooperation	12,392	8,500	10,000
Total Country Program Other Than Military Assistance	83,893	74,300	55,000
Of Which Financed by Loan:			
Defense Support		32,000	
MSP Sales Surplus Agricultural Commodities			
1. Sales to this country	-	2,955	
2. Sales proceeds Programmed in this country	-	2,955	

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

It is a tribute to the Iranian people and their leaders, assisted in a time of great need by the free world through the United States Mutual Security Program and other cooperative efforts, that the country today is not numbered among the Soviet satellite nations.

Iran has a vulnerable common border of over 1200 miles with the USSR and its land mass stands between the Soviet Union and the oil rich Persian Gulf area that has long been an object of Russian ambition. A strong independent Iran serves to help protect the flank of Turkey and Iraq against the USSR's long time aspirations in the Eastern Mediterranean.

The serious economic and political crisis in Iran during the period 1951 through 1954 placed in serious jeopardy the stability of the Near East Area. The recent settlement of the oil problem and the general western orientation of the present government are developments of major importance to the free world. U.S. assistance during the critical period has been a significant factor in the maintenance of an independent Iran. Iran is, however, still in a transitional stage. Although revenues from oil production are again becoming available, operations will not reach full scale until 1957, and the government must rely largely upon normal income until then.

In view of existing internal tensions the policies of the Government of Iran will be influenced in large measure by the

General Narrative Statement (Continued)

extent to which the Government of Iran is able to bring about the general social and economic development of the country and maintain financial soundness and political stability. U.S. aid will be required to implement the important domestic programs of the Iranian Government and will in addition give tangible evidence of continued U.S. interest in the independence and ultimate viability of Iran.

The Iranian Government's own efforts to provide foundations for internal security, and political and economic stability by establishing the technical and economic bases essential to the continuation of economic progress will raise the standard of living and serve to satisfy the aroused expectations of the Iranian people. If U.S. aid were withheld during this transitional period, however, the emerging political and economic problems that would arise would bring with them severe consequences to the Iranian Government and the stability of the country.

An obstacle to the attainment of economic growth in Iran has been the dearth of foreign exchange and balance of payments difficulties that have existed since 1952 causing shortages of essential imported commodities. These shortages have contributed to inflation and to stagnation of the country's economic life. They also have compelled the government to postpone economic development projects and have retarded agriculture and industrial development, and the improvement of housing and health conditions. In March, 1955, Iran's foreign exchange reserves available for imports on private account amounted to only $30,000,000. Iran's cost of living index has reached the highest point since 1936. The government has had to put off badly needed pay raises for government employees and keep to a minimum expenditures needed for essential development projects. Scarcities of agricultural products caused a steady rise in food prices that increased the distress of people in the cities.

Program Objectives

It is the objective of the U.S. to help keep Iran independent by helping to prevent possible political instability and economic distress from providing an opportunity for communist exploitation. As in other underdeveloped free countries, the U.S. specific defense objective in Iran is first to maintain the capacity to deal effectively with internal security, and second to have Iran associated with the policies and aims of the free World.

Progress to Date

Defense Support

In 1952 Iran was in desperate straits. The economy was becoming progressively more unstable and less resilient and, therefore, more sensitive to stresses arising from the government's political difficulties.

Economic aid which had been initiated in 1953 provided the Iranian economy with badly needed imports that helped retard inflation and generated local currency to help meet the government's operating expenses. This enabled the government to concentrate on an oil settlement and the rooting out of subversive elements.

The proceeds from the sale of U.S. financed imports has also enabled work to be resumed on some unfinished public utility type projects, thereby reducing the number of unemployed, and has made it possible for the government to grant small badly needed temporary allowances for troops and gendarmes. Defense support has strengthened the economy of the country to a point where it will be easier for Iran to intensify its defense effort and reactivate its comprehensive economic development plan.

Technical Cooperation

Technical cooperation activities have greatly contributed to improved living conditions. Malaria, for example, is no longer the country's number one health problem. In three years it should be virtually wiped out. Serious epidemics of contagious diseases are now less frequent owing to the operations of the Iran-US Public Health Cooperative. Many farm families today enjoy a better return from their labor as a result of technical cooperation projects that introduced seed which produced higher yields, that improved the native cattle and chickens through

General Narrative Statement (Continued)

cross-breeding, and demonstrated the value of more economic methods of irrigating and growing crops.

Through other technical cooperation projects, American specialists have given thousands of teachers their first training in modern American teaching methods and specialized instruction in the fields of agriculture, homemaking and vocational skills. Modern text books based on American models are being placed in most elementary schools. U.S. government techniques and administrative practices have been introduced through the creation of an Institute for Administrative Affairs at Tehran University, and into government ministries, including the Ministry of Finance and the Iranian Plan Organization. The Ministry of Labor has been helped to develop modernized employment services, an apprentice system and safety programs. Factories have been assisted in raising production levels, in improving personnel practices, and in providing better working conditions.

Military Assistance

Iran has an earnest desire to improve its military potentials. Progress in the modernization and development of the Armed Forces has been a direct result of United States military aid and the concerted efforts of United States military personnel in Iran. One of the first and foremost accomplishments under the MDA program was the establishment of a sound school system which provided effective leadership for the Armed Forces. In addition, selected officers have attended service schools in the United States under the provisions of MDAP. Despite many existing difficulties such as the serious economic situation, and the widespread lack of military and technical knowledge, tangible progress has been made toward improving the armed forces. Actions have been initiated to adopt staff organizations and to reorganize the armed forces along United States Army lines. The military aid furnished Iran has provided its forces with materiel to meet a portion of the unit equipment deficiencies and with war reserves of ammunition and replacement for losses through attrition.

The navy has received small craft and repair facilities, and the air force has been provided a portion of initial equipment and support spares to sustain normal operations for fighter bomber, reconnaissance and transport squadrons. Progress in the armed forces over the past year has accelerated, and more tangible results can be expected in the future.

FY 1956 Program

Defense Support

Iran will incur a budgetary deficit of between $43 and $60 million by increasing its defense expenditures by about $12.4 million to about 42 percent of its current budget (excluding capital outlay), meeting current operating expenses, undertaking essential priority economic development, and assuming a larger share of the costs of the technical cooperation program. Inflationary pressures are expected to be increased by the anticipated 1955-56 operating deficit, an unfunded deficit carried over from previous years of $67 million, and by the planned local currency expenditures of the international oil consortium, the National Iranian Oil Company and the Iranian Plan Organization. About $225 million of imports on private account would be required to meet the demand that these expenditures will create. Only about $170 million in foreign exchange is expected to become available for imports, however, leaving a foreign exchange requirement of $55 million to be met from other sources. Thus in spite of an increase in oil revenues, the government in 1955-56 will not be able to avoid a budgetary deficit and a serious shortfall in foreign exchange.

In view of these facts it is unrealistic to expect the Government of Iran to authorize the larger expenditures needed to meet a larger defense budget, maintain vital public services and bring about some improvement in living conditions. A program of $37.5 million is therefore proposed for Defense Support. This program for FY 1956 is planned to serve three specific ends:

(a) Provide $17.5 million in rials to meet the local costs of defense construction projects now planned but not undertaken because of lack of financial resources. Foreign exchange costs of common use items needed for the same projects are to be financed under Direct Forces Support Funds.

(b) Finance $3.5 million of local currency requirements for continued technical cooperation projects, which the Iranian Government is not yet in a position to fully support.

General Narrative Statement (Continued)

(c) Provide budgetary support in the amount of $16.5 million, thus making a partial contribution to the increased costs of the Iranian Armed Forces (apart from the defense construction projects) and civilian costs contributing to an anticipated budgetary deficit.

Defense Support aid will be furnished through commodity imports (an estimated $15.4 million of sugar and wheat and $22.1 million in industrial items) which will help to cover the foreign exchange deficit mentioned above.

Technical Cooperation

Technical cooperation projects in health, education and agriculture are designed to foster and develop Iran's human and other resources and lay the foundation for orderly progress. The government is progressively assuming administrative responsibility for anti-malaria operations, the administration of health clinics, agricultural extension work, the operation of livestock breeding, poultry hatching and plant improvement stations, and all educational programs. In FY 1956 further steps are planned to institutionalize projects, when the Iranian Government is expected to assume greater financial responsibilities.

Increased technical aid will be extended in public administration to bring about needed improvement in the Iranian Government's performance. Assistance to the Iranian Plan Organization in the fields of industrial management and industrial engineering will be expanded to assist that agency in turning over many of its plants to private ownership. The Ministry of Finance needs further help in the development of orderly budgeting processes and of tax collection methods.

Guidance will be given the Ministry of Labor in developing a country-wide system for the mobilization of labor resources for economic development. In other technical cooperation projects greater emphasis will be given to urban activities, including "self-help" housing, improvement of law and order, and the encouragement of youth activities to combat communism.

In FY 1955 the U.S. share of the technical cooperation effort amounted to $8.5 million and in addition $13.0 million of defense support funds were used to support projects developed under this program. In FY 1956, the proposed Technical Cooperation program is $10 million and $3.5 million defense support funds are also proposed to support projects developed under this program. This amounts to an overall reduction of about $8 million in these programs which will in part be covered by increased Iranian direct contributions expected to amount to the local currency equivalent of $4 million, with other contributions, largely in kind, amounting to an estimated $5 million. Despite this encouraging sharing of financial responsibility by the Iranian Government, the lack of adequate institutions and financial resources requires continuing U.S. financial interest for the present.

Direct Forces Support

A Direct Forces Program is proposed for the first time in Iran in FY 1956. A program of $7.5 million of common use items includes construction equipment, machinery and services required to meet the dollar costs of defense construction projects necessary to an expanded military training program now under the active guidance of an expanded U.S. training mission. This program is closely related to MDAP objectives and end item delivery schedules.

NEAR EAST AND AFRICA

Country: IRAN

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	Import of Saleable Commodites	Other Costs
Direct Forces Support											
1954											
1955											
1956	7,500			2,200					1,960		3,340
Defense Support											
1954	71,501	3,044	2,758	810		1,124	95			35,310	28,360
1955	65,800	360	2,380	1,440	100	940	80	230	200	16,000	44,070
1956	37,500									37,500	
Technical Cooperation											
1954	12,392	3,601	1,011	579	122	2,496	3,242	1,093	178		70
1955	8,500	1,440	715	220	435	845	1,530	810	695		1,810
1956	10,000	1,247	946	428	475	1,722	1,490	1,080	959		1,653
Total All Programs											
1954	83,893	6,645	3,769	1,389	122	3,620	3,337	1,093	178	35,310	28,430
1955	74,300	1,800	3,095	1,660	535	1,785	1,610	1,040	895	16,000	45,880
1956	55,000	1,247	946	2,628	475	1,722	1,490	1,080	2,919	37,500	4,993

NEAR EAST AND AFRICA

Country: IRAN

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	US Government Tech. No. of Persons	US Government Tech. Cost	Contract Services No. of Persons	Contract Services Cost	Participants No. of Persons	Participants Cost	Other Costs
Direct Forces Support									
1954									
1955									
1956	7,500	5,000				2,500			
Defense Support									
1954	71,501	40,535		1,310		220			29,436
1955	65,800	21,180			8	1,820			42,800
1956	37,500	37,500							
Technical Cooperation									
1954	12,392	3,730	203	2,753	63	3,015	84	586	2,308
1955	8,500	485	198	4,510	115	1,625	148	830	1,050
1956	10,000	1,925	150	3,698	146	2,642	146	662	1,073
Total All Programs									
1954	83,893	44,265	203	4,063	63	3,235	84	586	31,744
1955	74,300	21,665	198	4,510	123	3,445	148	830	43,850
1956	55,000	44,425	150	3,698	146	5,142	146	662	1,073

NEAR EAST AND AFRICA

Country: IRAN

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support: For Project Use	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Total	FY 1956 Defense Support: For Project Use	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities								
Food and Agricultural Imports								
Bread Grains			2,955	2,955		3,000		3,000
Coarse Grains								
Fats and Oils	500							
Fertilizer								
Etc.	16,181		5,050	5,050		12,400		12,400
Total Food and Agricultural Imports	16,681		8,005	8,005		15,400		15,400
Less Sales Proceeds Programmed for Other Countries								
Net U.S. Financed Food and Agricultural Imports	16,681		8,005	8,005		15,400		15,400
Industrial Imports								
Fuel	1,050		80	80				
Raw & Semi-finished Projects	2,298		1,624	1,624		4,000	1,500	5,500
Machinery & Vehicles	9,260		2,165	2,165		6,500	1,000	7,500
Misc. & unclassified	11,246	5,180	4,126	9,306		11,600	2,500	14,100
Total Industrial Imports	23,854	5,180	7,995	13,175		22,100	5,000	27,100
Total Commodity Program	40,535	5,180	16,000	21,180		37,500	5,000	42,500
Transfer of Cash	28,966		42,800	42,800				
Services	2,000	1,820		1,820			2,500	2,500
Total Country Program	71,501	7,000	58,800	65,800		37,500	7,500	45,000

IRAQ

BASIC DATA

Population (1954)..... millions	4.9
Annual growth..... percent	2.1
Area..... 1,000 sq.mi.	168
Agricultural land..... percent	14
Potentially productive land..... percent	27
Agricultural land per capita..... acres	3

#	Iraq	Near East	U.S.
Gross national product			
Total(1954 est.) mill $..	620	--	
Per capita .....$	126	148	2,200
Caloric intake.....1,930	2,200	3,120	
Literacy rate.....percent	20	24	97
Road miles per 1000 sq.mi..	70	35	1,100
Elec. power per capita.....KWH per yr	56	33	3,165

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.[a]	68	185	288	407	434
Imports, c.i.f.[a]	46	143	173	192	210
Trade balance.....	22	42	115	215	224
Principal exports					
Petroleum: Quantity..... 1,000 MT		7,957	17,728	28,869	29,660
Value..... $ millions		104	232	352	373
Grains, pulses, flour:					
Quantity..... 1,000 MT		530	357	531	475
Value..... $ millions		43	27	27	24
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	3	20	10	16	16
Imports from U.S.	3	29	23	19	28
Balance.....	0	-9	-13	-3	-12
Balance of payments					
Balance on goods & services.....		30	36	57	
Net capital.....		-4	9	-12	
Private.....		-1	4	1	
Official and banking.....		-3	5	-13	
Government grants.....		d	d	1	
Long-term capital.....		d	4	-11	
Short-term capital.....		-3	1	-3	
Change in gold & exch. reserves		-2	+31	+52	
Gold and foreign exchange reserves[b] (end of yr.)		49.7	80.8	132.9	175.0

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.1	0.5	2.1	2.3	2.7	2.3
			(calendar years)				
Ex-Im Bank disbursements.....	-	-	-	-	-		
IBRD disbursements	-	0.1	4.6	1.2	0.4[c]		

* 1954 data partly preliminary or estimated.
\# FOA estimate; converted at rate of $2.80 per dinar.

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production[e]	Prewar=100			122	156	148
Major crops:						
Barley.....	1,000 MT	515[f]	751	650	1,110	700
Wheat.....	1,000 MT	493[f]	520	500	700	735
Dates.....	1,000 MT	260[f]	349	354	272	320
Major industries:						
Petroleum production, crude.....	1,000 MT	4,296	8,352	18,348	27,684	30,450

FINANCES

Central government budget - year ending April 30	1951	1952	1953	1954[g]	1955[g]
		(millions of US $)			
Revenue.....		109.3	147.4	173.5	199.0
Expenditure.....		90.8	130.8	156.4	178.1
Defense.....		22.2	38.5	43.1	47.9
Capital outlay[h]		--	--	--	--
Non-defense.....		68.6	92.3	113.3	130.2
Surplus.....		18.5	16.6	17.1	20.9
Oil revenue allocated to the Development Board for capital outlay.....		20.6	62.2	97.5	107.0
Expenditure of the Development Board.....		14.0	45.9	42.3	n.a.
Surplus of Development Board.....		6.6	16.3	55.2	n.a.
Defense expend. as % of budget.....		24.4%	29.4%	27.6%	26.9%
Prices (index 1948=100)					
Wholesale: Baghdad.....	93	96	80	77	78(Jan)
Cost of living: Baghdad.....	78	84	73	71	72(Jan)

a Data include exports of petroleum products and imports by international petroleum companies.
b Includes holdings of Central Bank and other banks.
c Undisbursed balance as of December 31, 1954: $6.5 million.
d Less than $500,000.
e Crop years beginning in year stated.
f Prewar average.
g Revised budget estimates.
h Only minor amounts included in general budget. Capital outlay is essentially financed by Development Board.

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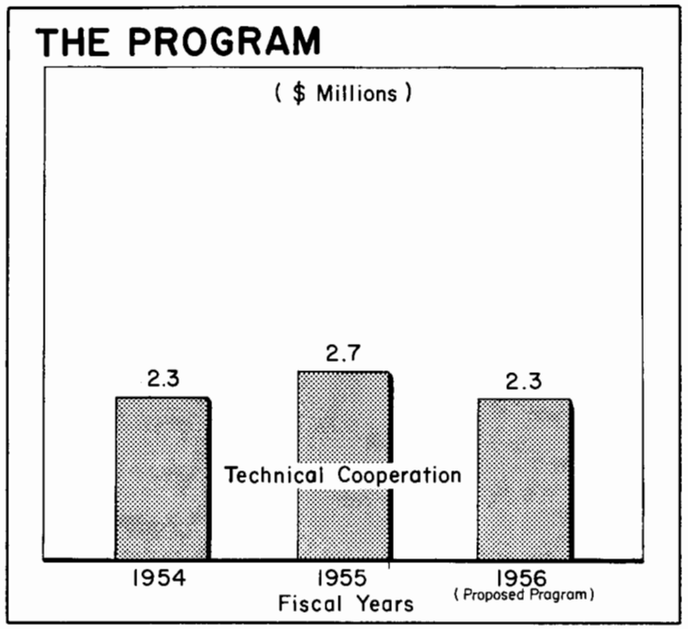
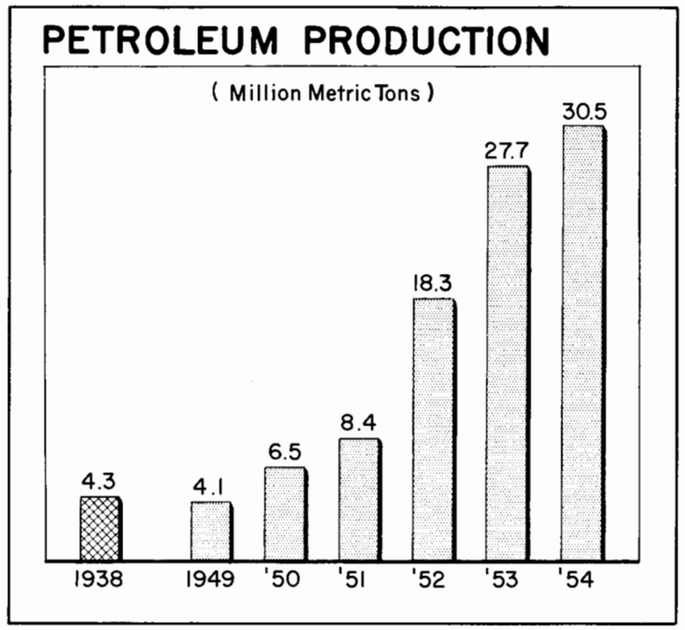
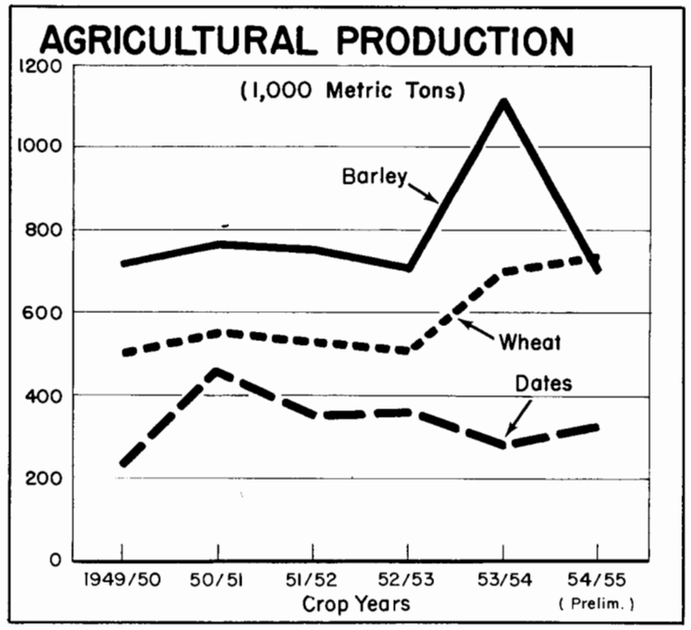
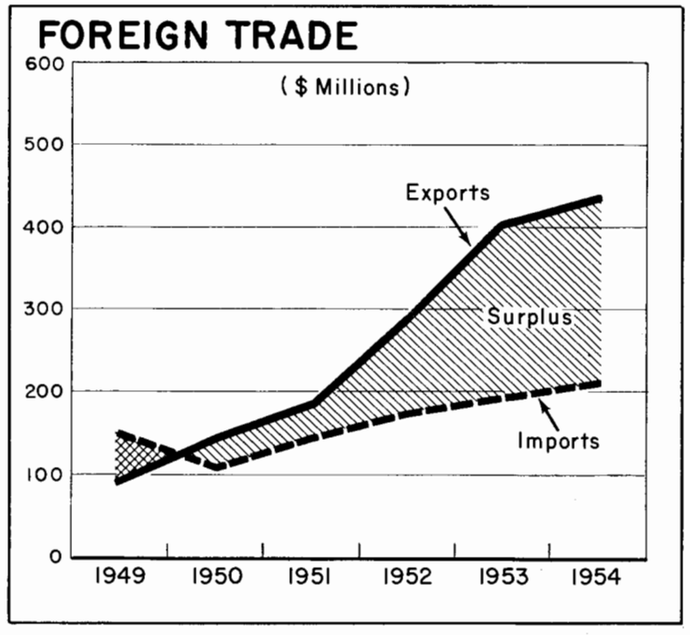
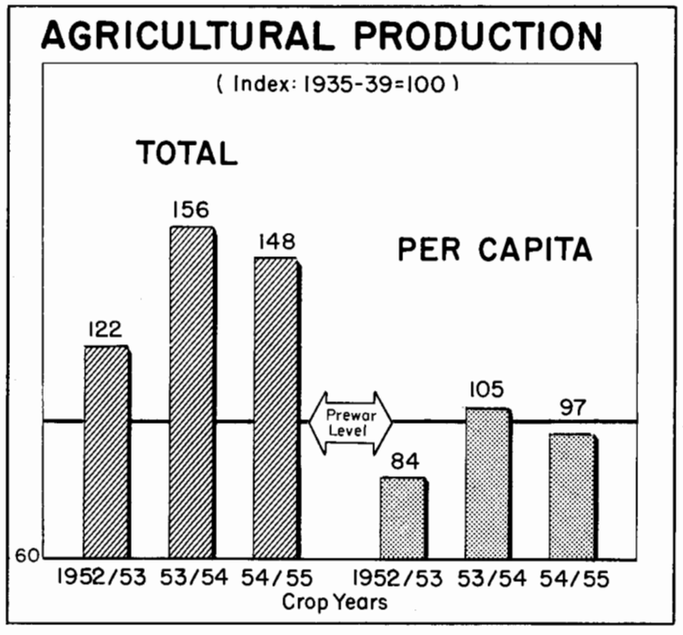
IRAQ

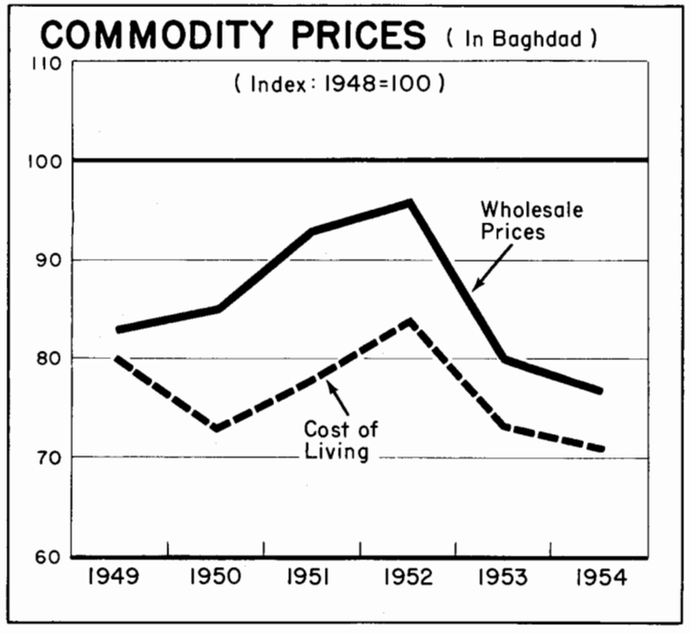

THE PROGRAM
($ Millions)
2.3
2.7
2.3
Technical Cooperation
1954
1955
1956
(Proposed Program)
Fiscal Years


PETROLEUM PRODUCTION
(Million Metric Tons)
4.3
4.1
6.5
8.4
18.3
27.7
30.5
1938
1949
'50
'51
'52
'53
'54


AGRICULTURAL PRODUCTION
(1,000 Metric Tons)
1200
1000
800
600
400
200
0
Barley
Wheat
Dates
1949/50
50/51
51/52
52/53
53/54
54/55
(Prelim.)
Crop Years


FOREIGN TRADE
($ Millions)
600
500
400
300
200
100
0
Exports
Surplus
Imports
1949
1950
1951
1952
1953
1954


AGRICULTURAL PRODUCTION
(Index: 1935-39=100)
TOTAL
PER CAPITA
122
156
148
84
105
97
Prewar Level
60
1952/53
53/54
54/55
1952/53
53/54
54/55
Crop Years


COMMODITY PRICES (In Baghdad)
(Index: 1948=100)
110
100
90
80
70
60
Wholesale Prices
Cost of Living
1949
1950
1951
1952
1953
1954

NEAR EAST AND AFRICA

Country: IRAQ

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Technical Cooperation	2,279	2,700	2,300
Total Country Program Other Than Military Assistance	2,279	2,700	2,300

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

The Government of Iraq is in good political and financial health at the present time. The country recently signed a mutual assistance pact with Turkey and in so doing has bolstered the defense potentialities of the Near East area. By this action, taken in the face of opposition from other members of the Arab League, Iraq has squarely aligned herself with the United States and the West. The combination of its two sizeable rivers - the Tigris and the Euphrates - and of its substantial oil resources - makes Iraq's economic potential probably greater than that of any other state in the area. Oil revenues enable it to carry on a large economic development program and over $100 million will be spent this year in dam construction, roads, land settlement, reclamation and irrigation. Agricultural production continues to increase slowly; the country is nearly self-sufficient in food. However, the development program has not yet gone far enough to bring about any notable change in the low living standards of the general population and per capita income is approximately $125. Except for the oil and date industries, productive capacity is low.

Program Objectives

Paramount U. S. objectives are to help Iraq maintain a stable government; to develop a sound and expanding economy, based upon agricultural, water and industrial resources; and to maintain her political and military alignment with the West.

Iraq lacks technical skills and the adequate understanding of how to make the best use of its natural resources. The basic objective of the U. S. technical cooperation program is to help supply these lacking elements by providing a portion of the total technical assistance required, by training Iraqi technicians, and by assisting in giving a measure of direction and guidance to the large self-financed Iraqi development program.

The following specific technical cooperation objectives may be listed: assist in land reclamation and water-resources development in the Tigris and Euphrates valleys; improve agricultural productivity by developing extension services; expand rural teacher training and assist in developing the Iraq Agricultural College; assist in the resettlement of landless peasants

General Narrative Statement (Continued)

and improvement of living conditions among village dwellers; improve health through programs in maternal and child care, environmental sanitation, preventive medicine and nursing; and assist in the development of an adequate road network.

The objective of the military assistance program is to provide military aid which will contribute toward improving the military strength and political stability of Iraq and facilitate its participation in regional defense.

Progress to Date

Technical Cooperation

Plans are being made for eventual phasing out of U. S. assistance on individual projects and the assumption of financial responsibility by the host country. The emphasis of the program is on training Iraqis to take over the work performed by American technicians. Progress in this direction varies considerably from project to project. In the training of agricultural extension workers, for example, the Ministry school last year was conducted by Americans while this year the courses are directed by Iraqis. Similarly, the weed control program, inaugurated by an American, has been taken over completely by Iraqis. Other such cases might be cited. Not all of the American technicians can be phased out in the near future, however, for there are a number of projects requiring long and complicated training programs before they can be adequately and fully manned by Iraqi personnel.

Since the inception of the program in FY 1952, total U. S. contributions have been about $7,500,000, while total Iraqi contributions have been slightly less than $38,000,000. Insofar as feasible and where no undue retardation of the program is involved, costs are being shifted to the host government. For instance, the contract with an American engineering firm for the development of a highway department has been revised so that the Iraqi Government takes over the local currency costs. The Mission is also entering into negotiations on other projects to maximize its efforts by getting increased host government financial participation by contributing local currency costs of the U. S. technicians.

Military Assistance

While Iraq has a considerable military potential, the MDA Program here is in its infancy. The initial shipment of military equipment arrived in December 1954 and consisted mainly of transport vehicles and signal and engineer equipment. The effect of the aid program on the Iraqi forces cannot as yet be determined due to the short amount of time this equipment has been in the country. The Iraq Army has the ability to receive, distribute, maintain and put to effective use all of the MDAP materiel presently programmed. Ample storage is being provided for the ammunition and all other equipment is being issued to the troops.

The FY 1956 Program

The FY 1956 program would follow the same general lines as in previous years and would continue to be limited to technical assistance. The proposed level of the program is $2.3 million, representing a reduction of four hundred thousand dollars from the FY 1955 figure of $2.7 million. The major efforts will be concentrated on increasing agricultural production through reclamation and land settlement and improved agricultural methods; improvement of certain basic services, particularly in connection with public health, village improvement and technical and rural education, all of which are essential components to economic development; development of an adequate communications network; and assistance in the field of public administration.

Country: IRAQ

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing
Technical Cooperation								
1954	2,279	1,034	10	329	235	346	46	279
1955	2,700	755	30	204	322	988	59	342
1956	2,300	843		215	366	349	100	427

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	2,279	403	73	931	21	796	56	104	45
1955	2,700	143	78	1,138	40	1,188	83	141	90
1956	2,300	138	87	1,456	33	490	97	152	64

ISRAEL

BASIC DATA

Population (1954).....millions	1.7
Area.....1,000 sq.mi.	8
Agricultural land.....percent	20
Agricultural land per capita.....acres	0.6

	Israel	Near East	U.S.
Caloric intake.....	2,630	2,200	3,120
Literacy rate.....Percent	85	24	97
Infant mortality per 1,000 births.....	36	n.a.	28
Road miles per 1,000 sq.mi.	237	35	1,100
Elec. Power per capita.....KWH per yr.	542	33	3,165

USE OF RESOURCES - 1954

	1,005	%
Gross national product (million U.S. dollars).....		
Consumption.....	640	63.7
Gross investment (public and private)	240	23.9
Government non-defense expenditure.....	140	13.9
Government defense expenditure.....	38	3.8
Net foreign balance.....	-53	- 5.3
Per capita GNP (dollars).....	595	

(FOA estimates; converted at rate of $0.56 per Israeli pound)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.....	28[a]	47	44	60	88
Imports, c.i.f.....	56[a]	380	321	282	290
Trade Balance.....	-28	-333	-277	-222	-202
Principal exports					
Polished diamonds: Quantity..1,000 carats		132	131	147	175
Value..... $ millions		12	11	13	15
Citrus fruits .....Quantity...1,000 boxes			3,700	5,400	9,000
Value..... $ millions		19	20	24	38
Trade with U.S. (U.S. Customs data)					
Exports to U.S.....		12	12	12	14
Imports from U.S.....		104	90	77	74
Balance.....		-92	-78	-65	-60
Balance of payments					
Balance on goods & services.....		-368	-300	-252	-249
Net capital.....		240	293	270	n.a.
Private.....		120	145	135	153
Official and banking.....		120	148	135	n.a.
Government grants.....		14	85	97	n.a.
Long-term capital.....		96	71	38	n.a.
Short-term capital.....		10	-8	-	n.a.
Change in gold & exchange reserves		-18	-7	+3	
Gold and foreign exchange reserves[b] (end of yr.)		25.5	30.5	72.5	30.1

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production[e].....	1935-39=100	100[f]	-	102	120	121
Major crops: [e]						
Citrus fruits.....	1,000 boxes	10,185[f]	8,098	8,049	10,760	12,250
Barley	1,000 MT	25[f]	90	90	64	87
Wheat.....	1,000 MT	20[f]	30	30	30	40
Industrial production:						
Electric power (for industry).....	mill. KWH			177	207	290
Cement.....	1,000 MT			446	465	550
Superphosphate.....	1,000 MT			24	33	70
Potash.....	1,000 MT			0	4	18

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956[i]
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.1	63.7	73.6	54.0	41.4	2.0
			(calendar years)				
Ex-Im Bank disbursements.....	40.7	41.1	31.0	11.8	2.9[c]		
IBRD disbursements	-	-	-	-	-		
U.S. private investment (net)							
New direct investment.....	2	19	7	14			
Reinvested subsidiary earnings.....	-	-	d	1			
Book value of U.S. direct private investment	15	34	41	56			

FINANCES

Central government budget - year ending March 31	1951	1952	1953	1954	1955
		(millions of US $)			
Revenue, excl. counterpart.....		59.9	119.4	160.2	208.6
Expenditure[h].....		117.1	157.3	220.4	321.1
Defense.....		34.9	45.8	31.4	38.6
Capital outlay.....		41.2	56.2	90.7	106.0
Other non-defense.....		41.0	55.3	98.3	176.5
Surplus or deficit (-) before counterpart.....		-57.2	-37.9	-60.2	-112.5
Counterpart funds.....		-	5.9	31.4	42.0
Other aid (German reparations)....		-	5.0	21.7	37.5
Net surplus or deficit (-).....		-57.2	-27.0	-7.1	-33.0
As % of total revenue.....		-95%	-22%	-4%	-13%
Defense expend. as % of budget....		29.8%	29.1%	14.2%	12.0%
Defense expend. as % of GNP.....		9.3%	8.1%	4.2%	3.8%
Prices (index 1948=100)					
Wholesale: Tel Aviv, Haifa, & Jerusalem.....	91	156	229	270	278(Jan.)
Cost of living.....	104	162	208	234	241(Jan.)

* 1954 data partly preliminary or estimated.
[a] Palestine.
[b] Commercial banks only.
[c] Undisbursed balance as of December 31, 1954; $0.2 million.
[d] Less than $500,000.

[e] Crop years.
[f] Prewar average.
[g] Palestine.
[h] Includes debt retirement.
[i] Funds for Development Assistance included in regional total.

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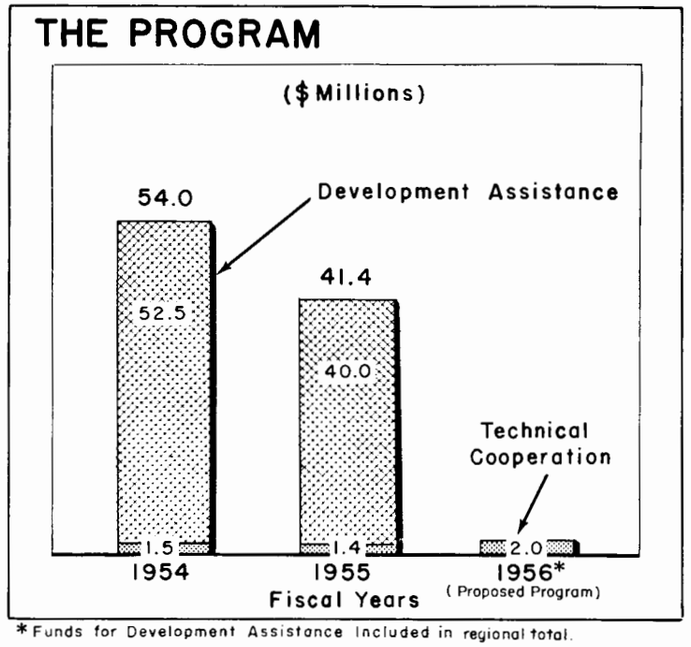
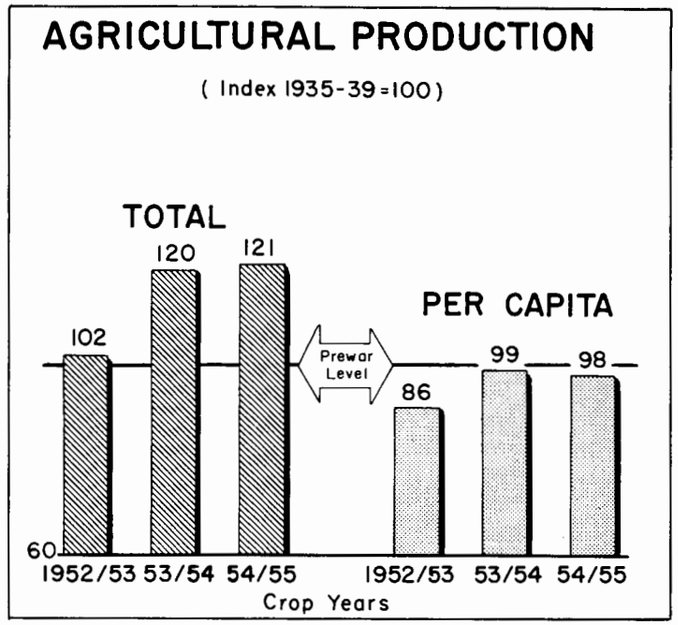
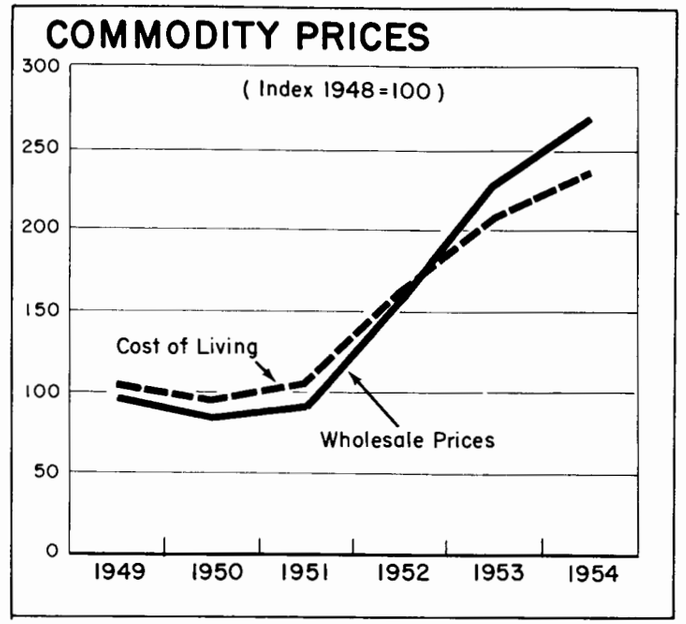
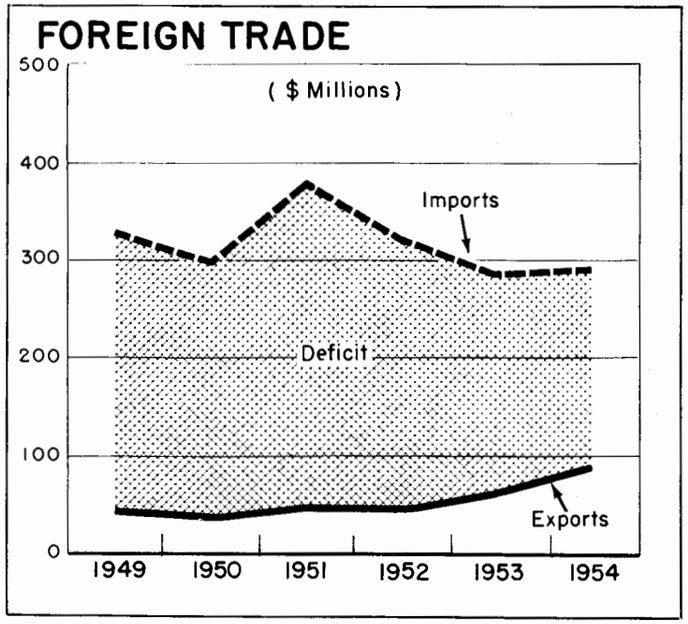
ISRAEL

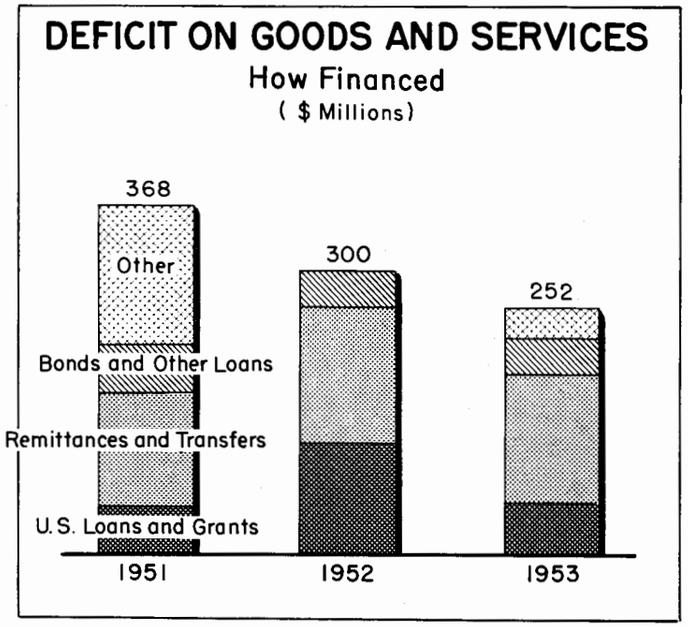


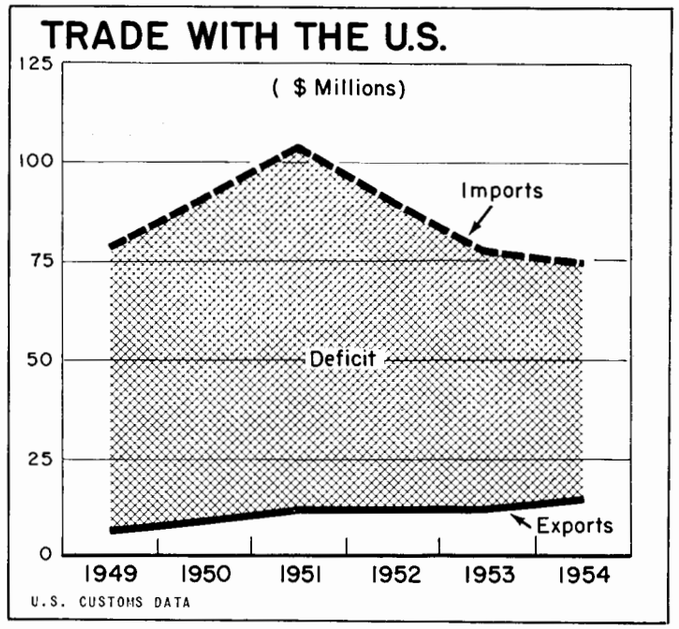
*Funds for Development Assistance included in regional total.











NEAR EAST AND AFRICA

Country: ISRAEL

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	52,443	40,000	a/
Technical Cooperation	1,520	1,376	2,000
Total Country Program	53,963	41,376	2,000 a/
Of Which Financed by Loan			
Development Assistance		20,000	
MSP Sales Surplus Agricultural Commodities			
1. Sales to this country	1,200	18,040	a/
2. Sales Proceeds Programmed in this country Development Assistance	1,200	18,040	a/

a/ Development Assistance for FY 1956 included in Regional Totals only.

General Narrative Statement

Current Situation

Israel has made marked economic progress in recent years but is still struggling to achieve the stability and strength which will insure the continued existence of the State. Even now, it is earning only about one-third of the foreign exchange required to maintain present standards of consumption and a satisfactory development program.

The past year has been a good one. The rate of inflation has been much reduced; production has increased; imports have been held to about the same level and exports have increased. Even so, a continuation of the heavy investment program, the foreign exchange component of which last year exceeded for the first time the amount of U. S. aid, must be continued if viability is to be approached.

The net rate of immigration which fell to almost nothing in 1953 after the first years of the nation's existence has recently increased slightly. The three-quarters of a million people who have come into the country since 1948 have not, however, been completely absorbed. Further education and training is still required in agriculture and vocational work. Progress is required in manufacturing, and in the exploration and exploitation of minerals. Only about 40% of Israel's manpower is engaged in "producing" activities, the service ratio being one of the highest in the world.

The internal political forces are varied but relatively stable; internationally Israel continues to align with the West. The relationships between Israel and its Arab

General Narrative Statement (Continued)

neighbors are governed by the terms of an armistice signed in 1948, but peace terms have not yet been arranged and relatively large military forces are maintained.

The U. S. played an important part in the establishment of the State of Israel and has as an objective its continued existence. This objective, together with the U.S. basic interest in promoting stability in the area and in securing and maintaining its friendship, can best be achieved, in the case of Israel, by providing continued assistance in reducing Israel's economic problems and making concentrated efforts to achieve international amity.

Program Objectives

The U. S. program has been directed at the economic and social problems which stand in the way of a successfully integrated population, a stable and progressive country, and a self-supporting economy. The broad task of U. S. aid has been considered to be that of assisting temporarily in providing resources for development and of helping guide the country in the most economic possible use of all its available resources.

Progress to Date

The success of the U. S. program to date can only be measured in terms of total Israel progress, which has been substantial. Agricultural output increased nearly 18 percent and industrial production nearly 20 percent in 1954. The annual excess of imports over exports has been reduced by about $130 million in the past three years. Exports increased by 35 percent in 1953 and by another 48 percent in 1954. The share of Israel's foreign exchange requirements which it earned itself rose in the past two budget years to 23 percent, then 32 percent, and may re reach 40 percent in FY 1955; while the share supplied by the U.S. Government has decreased - 28 percent, 17 percent, and 13 percent (est.).

Development Assistance

The key element in this progress has been the U. S. Development Assistance Program which has supplied an essential portion not only of the development goods but also of consumer requirements such as surplus agricultural commodities ($18 million in FY 55) which in turn makes possible a total capital investment program at a level necessary for an approach to viability.

Technical Cooperation

Under the Technical Cooperation Program, U. S. technicians have been instrumental in the achievement of a number of improvements, including a substantial shift into the kinds of crops most likely to contribute to early self-support. A strengthened research and demonstration program has been in operation. Range management work has made possible a new start on a livestock industry which had largely disappeared with the Arab exodus. However, early indications of the 1955 crop year are disappointing because of serious drought.

Minerals are being explored and some commercial exploitation has begun. Potash and phosphate production show promise of reaching profitable levels.

Individual branches of industry are being improved by the application of American techniques. Food processing and marketing are achieving a degree of quality and standardization designed to make Israel products competitive on the world markets. The quality of ceramics is being improved and losses decreased. The same is true of glass, which last year suffered a major production set-back caused by a breakdown resulting from the continued use of unsuitable fuels.

The bus and railroad systems are being improved, as are the harbors and air transport facilities.

There are still other fields in which the U. S. technicians are making substantial contributions. Thousands of young Israelis and immigrant adults are being given vocational guidance and training. Local health centers have been established; preventive medicine given great impetus; the Ministry of Health reorganized; and improvements made in urban sewage treatment. The Government is being assisted with income tax administration, with its civil service system, with its budgeting and treasury administration.

General Narrative Statement (Continued)

The FY 1956 Program

While a precise and final determination of the level of aid to Israel in fiscal year 1956 cannot be made at this time, it is clear that Israel's continued economic progress will permit the level of aid to be further reduced. In the peak year of 1953, aid to Israel under Mutual Security legislation totalled $70.2 million for economic development and $2.6 million for technical cooperation; in 1954, the totals were $52 million and $1.5 million respectively; in 1955 development assistance is programmed at $40 million, of which $20 million will be on a repayment basis, and $1.4 million is programmed for Technical Cooperation. It is proposed that the economic aid program be continued on a reduced scale during FY 1956, with, however, some increase in technical cooperation.

Development Assistance

It is planned that half of the development assistance funds will be made available on terms of repayment and that about half of the assistance will be in the form of surplus agricultural commodities. Further attention will be given to the possibility of utilizing funds to encourage projects with regional significance.

Technical Cooperation

A peak of activity has been reached in the Technical Cooperation Program. For the most part, it is proposed that projects underway be continued at approximately the same levels and that a few new high priority projects be initiated. In agriculture and natural resources, the field of principal concentration to date, it is anticipated that a number of projects will be carried to completion during FY 1956 which will permit a reduction of activity in this field. It is proposed that new projects in industry and mining be undertaken.

NEAR EAST AND AFRICA

Country: ISRAEL

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Trans-por-tation	Labor	Health and Sanita-tion	Educa-tion	Public Admin.	Community Development, Social Welfare and Housing	Import of Saleable Commodi-ties	All Other
Development Assistance											
1954	52,443	9,443	1,300	1,700		510				39,490	
1955	40,000	7,025	2,650	2,600		500				27,225	
1956	a/										
Technical Cooperation											
1954	1,520	824	118	59	16	181	139	27	22		134
1955	1,376	291	411	84	13	131	86	69	25		266
1956	2,000	475	580	98	17	164	112	142	50		362
Total All Programs											
1954	53,963	10,267	1,418	1,759	16	691	139	27	22	39,490	134
1955	41,376	7,316	3,061	2,684	13	631	86	69	25	27,225	266
1956	a/										

a/ Development Assistance for FY 56 included in Regional total only.

NEAR EAST AND AFRICA

Country: ISRAEL

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954	52,443	52,443							
1955	40,000	40,000							
1956	a/								
Technical Cooperation									
1954	1,520	45	41	408	23	753	68	198	116
1955	1,376	4	54	654	25	259	70	210	249
1956	2,000	23	52	800	25	685	70	210	282
Total All Programs									
1954	53,963	52,488	41	408	23	753	68	198	116
1955	41,376	40,004	54	654	25	259	70	210	249
1956	a/								

a/ Development Assistance included in Regional total only.

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION) Country: ISRAEL

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Development Assistance: For Project Use	FY 1955 Development Assistance: For Consumption & Generating Local Currency	Total
Commodities				
Food and Agricultural Imports				
Bread Grains	3,600		12,530	12,530
Coarse Grains			2,210	2,210
Fats and Oils	1,200		2,200	2,200
Fertilizer				
Etc.	7,200		2,000	2,000
Total Food and Agricultural Imports	12,000		18,940	18,940
Industrial Imports				
Fuel	12,000		4,960	4,960
Raw and Semi-Finished Products	19,375	3,925	3,325	7,250
Machinery and Vehicles	6,400	7,660		7,660
Miscellaneous and Unclassified	2,668	1,190		1,190
Total Industrial Imports	40,443	12,775	8,285	21,060
Total Commodity Program	52,443	12,775	27,225	40,000
Transfer of Cash				
Services				
Total Country Program	52,443	12,775	27,225	40,000

JORDAN

BASIC DATA

Population (1954).....millions	1.3
Area..... 1,000 sq. mi.	37
Agricultural land..... percent	12
Agricultural land per capita..... acres	2

	Jordan	Near East	U.S.
Gross national product#			
Total (1954 est.)million $	140		
Per capita $	108	148	2,200
Literacy rate percent	25	24	97
Road miles per 1,000 sq. mi.	64	35	1,100

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	2.8	4.1	4.3	5.9	6.0
Imports, c.i.f.	6.4	43.9	48.5	51.4	50.0
Trade balance.....	-3.6	-39.8	-44.2	-45.5	-44.0
Principal exports					
Vegetables and fruits:					
Value ..... $ millions		0.6	1.2	2.0	
Olive oil:					
Value ..... $ millions		0.1	0.5	1.8	
Trade with U.S. (U.S. Customs data)					
Exports to U.S.		a	a	a	a
Imports from U.S.		2.9	1.6	3.3	3.5
					Jan-June
Balance of payments					
Balance on goods & services		-37	-37	-39	-13
Net capital		30	38	44	n.a.
Private		8	8	7	"
Official and banking		22	30	37	"
Government grants		20	24	35	"
Long-term capital		1	5	2	"
Short-term capital		1	1	--	"
Change in gold & exchange reserves		-7	+1	+5	"

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production	Prewar = 100	100		167	133	173
Major crops:						
Wheat	1,000 MT	b	b	225	100	233
Barley	"	b	b	93	43	104
Olives	"	b	b	62	49	60
Major industries:						
Small industries processing agricultural products		Not Available				
Phosphate rock mining	1,000 MT	-	7	24	40	75

FINANCES

Central government budget - year ending March 31	1951	1952	1953	1954	1955[c]
			(millions of US $)		
Domestic revenue	12.3	14.6	15.2	15.8	17.6
Expenditure	25.6	38.5	37.6	41.7	44.2
Defense[d].....	17.8	23.5	25.3	27.2	27.7
Surplus or deficit (-) before aid..	-13.3	-23.9	-22.4	-25.9	-26.6
Foreign aid (U.K. and Arab League).	16.5	18.3	20.5	24.3	24.4
Net Surplus or deficit (-).....	+3.2	-5.6	-1.9	-1.6	-2.2
As % of total revenue	+11%	-17%	-5%	-4%	-5%
Defense expend. as % of budget	70%	61%	67%	65%	63%
Prices (index 1950 = 100)					
Cost of living: Foods	139	138	114	103(6 mos.)	

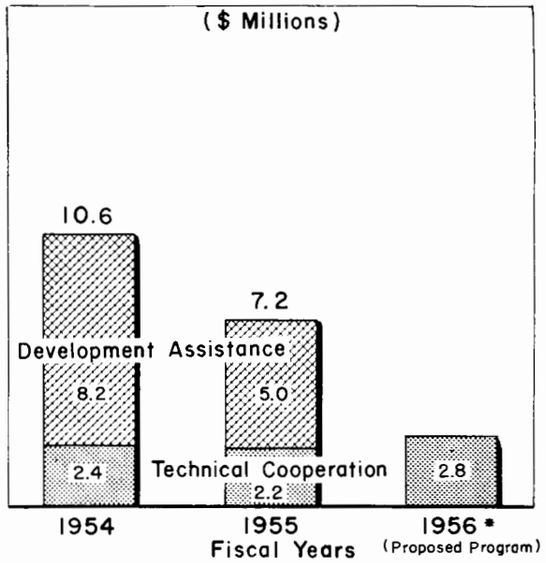
EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956[e]
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.1	4.7	2.9	10.6	7.2	2.8
			(calendar years)				
Ex-Im Bank disbursements	-	-	-	-	-		
IBRD disbursements	-	-	-	-	-		

Foa estimate; converted at rate of $2.80 per Jordanian dinar.
* 1954 data partly preliminary or estimated.
a Less than $50,000.
b Data not available for present territory.
c Revised estimate.
d Includes police.
e Funds for Development Assistance included in regional total.

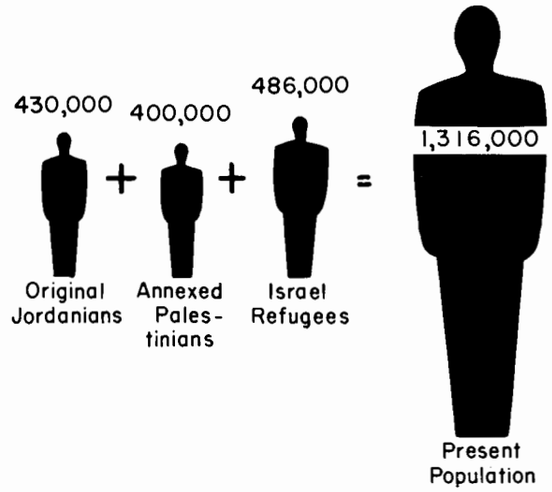
JORDAN

THE PROGRAM

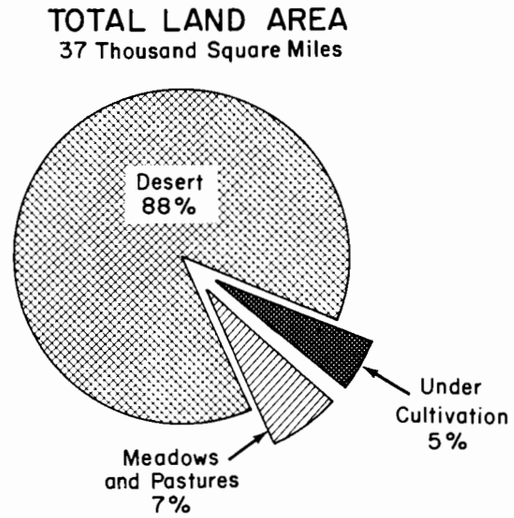


* Funds for Development Assistance included in Area Total

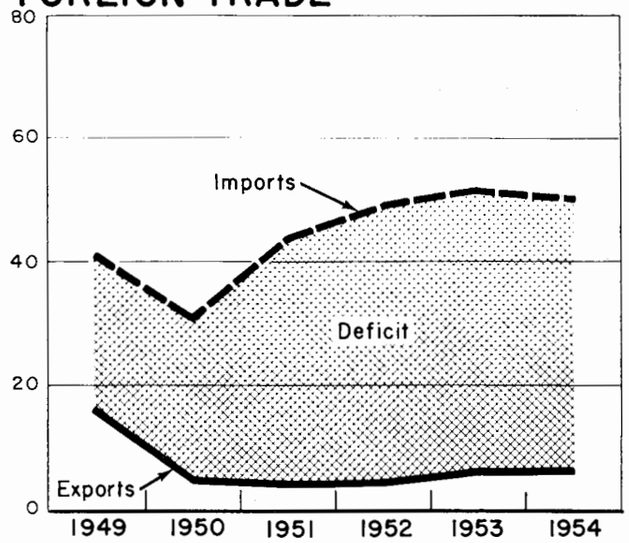
POPULATION



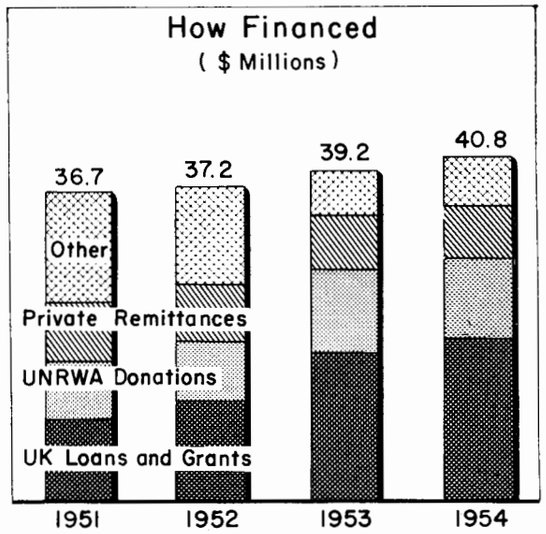
LAND UTILIZATION



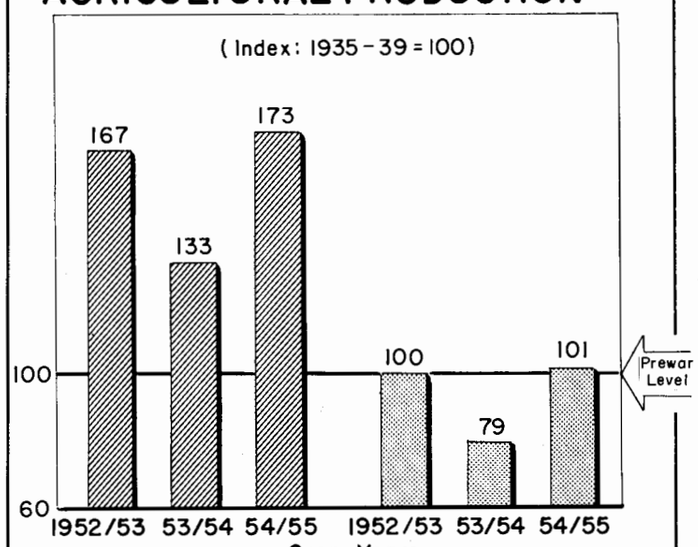
FOREIGN TRADE



DEFICIT ON GOODS & SERVICES



AGRICULTURAL PRODUCTION



NEAR EAST AND AFRICA

Country: JORDAN

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	8,172	5,000	a/
Technical Cooperation	2,445	2,168	2,800
Total Country Program	10,617	7,168	2,800 a/

a/ Development Assistance for FY 1956 included in Regional Totals only.

General Narrative Statement

Current Situation

Jordan's outstanding problem is lack of productivity. The country has unusually limited resources, insufficient arable land to feed her population, and general unemployment, magnified by more than 486,000 destitute Arab refugees from what is now Israel. Moreover, the unresolved issues between Israel and Jordan constitute a threat to peace as well as a fertile ground for Communist activity.

Jordan is not self-supporting. Tax revenue and the tax base are too small to meet current expenses. Economic survival of the people is dependent on British grants for the Arab Legion ($20 million annually) and non-interest bearing British development loans ($6-$8 million annually) which constitute more than half of the national budget receipts. The economy is further supported by UNRWA, whose contribution to Jordan's refugees aggregate $12 to $15 million annually. The country seriously needs public works, some of which will not produce revenue directly. Present forecasts indicate a severe shortage of cereals in fiscal 1956 because of drought during the current growing season.

Jordan has had moderately stable governments and the 1954 elections resulted in a substantial majority for the pro-western group.

Program Objectives

The interests of the United States lie in establishing conditions in Jordan which will contribute to political stability and reduce existing tensions in the area.

The U.S. program of technical cooperation and development assistance is designed to help national economic development and improve living conditions through better utilization of Jordan's limited agricultural and mineral resources. A truly self sustaining economy cannot be expected in the near future. U. S. aid is directed toward a solution of Jordan's basic problems.

Program to Date

The United States Development Assistance Program has contributed towards filling Jordan's basic needs for water, transportation and increased food production. Thousands of rural people and their flocks have benefited from the program which has developed additional water, grazing

General Narrative Statement (Continued)

lands and improved roads. New water storage facilities and developed wells have produced additional water for 30,000 people and their flocks. Five thousand acres of desert land offer improved grazing as a result of completed waterspreading projects. New or renovated irrigation systems have increased food production.

Initial construction of a north-south highway system has resulted in 83 kilometers of useful roadways. An additional 69 kilometers are under construction. These projects are supplying work for about 7,000 persons hitherto unemployed.

The Technical Cooperation Program is providing for the development of basic knowledges and skills and aiding Jordan in obtaining technical information necessary to her development. Over 3,000 Jordanians have received training in specialized fields either at home or abroad. Teacher training schools are in operation. Demonstrations of modern methods of sanitation and health and hygienic practices are going forward. Suitable seeds and planting dates for staple crops have been identified. A U.S. firm has been discussing the possibility of erecting a potash plant as a result of an FOA engineering planning project. Basic engineering fundamental to the proposed irrigation of the Jordan Valley is virtually complete. The results of this work were used in the negotiations for agreement in the proposed Israel-Arab development of the Jordan water system. The total U.S. program has contributed to the 76 percent increase in economic activity in Jordan during the period from 1950 to 1954.

The FY 1956 Program

The total proposed program for fiscal year 1956 calls for continued development assistance and $2.8 million in technical assistance. The largest portion of the economic aid funds would again be devoted to highway and water development. The north-south system would be further extended and an east-west link provided to join the most populous areas of Jordan. The success of the water development program has resulted in a multitude of requests for assistance in this field of work from farming communities and desert tribes. Current requests, which include offers of contribution to the maximum community capabilities, number 130 for cisterns, 20 for waterspreading, 200 for irrigation improvement, and 50 for spring development during fiscal 1956. These requests would be honored to the extent possible under available funds in those cases where engineering examinations reveal them to be practical. There will be greater emphasis on well drilling and development for which 150 requests are already in hand.

The Technical Assistance aspect of the program will continue to be devoted to training in health, education, and agriculture, including the water development techniques. A new approach to developing basic knowledges and skills and adding impetus to the aided self-help program will be provided by a community development program, which is calculated to reach approximately 150 villages. Previous activity in the establishment of institutions such as schools and hospitals will diminish as these organizations are turned over to the Jordan Government.

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: JORDAN

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Development Assistance											
1954	8,172	2,871		1,155						3,974	172
1955	5,000	405	414	381					200	3,600	
1956	a/										
Technical Cooperation											
1954	2,445	1,266	169	122		230	236	26	271		125
1955	2,168	832	244	162		314	476		25		115
1956	2,800	900	436			450	391	18	320		285
Total All Programs											
1954	10,617	4,137	169	1,277		230	236	26	271	3,974	297
1955	7,168	1,237	658	543		314	476		225	3,600	115
1956	a/										

a/ Development Assistance for FY 56 included in Regional total only.

NEAR EAST AND AFRICA

Country: JORDAN

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954	8,172	6,667			41	1,230			275
1955	5,000	4,180			40	820			
1956	a/								
Technical Cooperation									
1954	2,445	151	58	786	63	784	31	124	600
1955	2,168	229	70	1,219	6	193	28	77	450
1956	2,800	399	65	1,183	8	132	55	239	847
Total All Programs									
1954	10,617	6,818	58	786	104	2,014	31	124	875
1955	7,168	4,409	70	1,219	46	1,013	28	77	450
1956	a/								

a/ Development Assistance for FY 1956 included in Regional total only.

NEAR EAST AND AFRICA

Country: JORDAN

INDIVIDUAL COUNTRY DATA

(EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Development Assistance: For Project Utilization	FY 1955 Development Assistance: For Consumption and Generating Local Currency	FY 1955 Development Assistance: Total	FY 1956 Development Assistance: For Project Utilization	FY 1956 Development Assistance: For Consumption and Generating Local Currency	FY 1956 Development Assistance: Total
Commodities							
Food & Agricultural Imports							
Bread Grains							
Dairy Products							
Fats and Oils							
Fertilizer							
Etc.							
Total Food & Agric. Imports							
Less Sales Proceeds Programed for Other Countries							
Net U.S. Financed Food & Agric. Imports							
Industrial Imports							
Raw and Semi-Finished Products	1,265		2,000	2,000			
Machinery and Vehicles	4,692	580	1,600	2,180			
Total Industrial Imports	5,957	580	3,600	4,180			
Less Sales Proceeds for Coal Programmed for Other Countries							
Net U.S. Financed Industrial Imports							
Total Commodity Program	5,957	580	3,600	4,180			
Services	1,505	820		820			
TOTAL COUNTRY PROGRAM	7,462	1,400	3,600	5,000			

LEBANON

BASIC DATA

Population (1954)..... millions	1.4
Annual growth..... percent	2.4
Area..... 1,000 sq.mi.	4
Agricultural land..... percent	28
Potentially productive land..... percent	40
Agricultural land per capita..... acres	0.5

	Lebanon	Near East	U.S.
Gross national product#			
Total(1954 est.)Mill $..	380		
Per capita..... $..	274	148	2,200
Caloric intake.....	2,000	2,200	3,120
Literacy rate..... percent	80	24	97
Road miles per 1000 sq.mi.	625	35	1,100
Elec. power per capita..... KWH per yr.	117	33	3,165

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.[a]		41	35	39	40
Imports, c.i.f.[a]		136	139	144	160
Trade balance.....		-95	-104	-105	-120
Principal exports					
Citrus fruits: Quantity..... 1,000 MT		43.0	41.2	31.6	
Value..... $ millions		3.4	3.3	2.9	
Other fruits: Quantity..... 1,000 MT		12.5	14.5	18.7	
Value..... $ millions		2.9	2.9	3.2	
Wool: Quantity..... 1,000 MT		4.4	1.5	1.4	
Value..... $ millions		10.0	2.7	1.7	
Trade with U.S. (U.S. Customs data)					
Exports to U.S.		9	3	2	3
Imports from U.S.		28	22	22	30
Balance.....		-19	-19	-20	-27
Balance of Payments					
Balance on goods & services.....		-35	5		
Net capital.....		35	-3		
Change in gold and exchange reserves.....		+1	+2		
Gold and foreign exchange reserves (end of yr.)		40	42	55	76

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956[f]
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.1	1.7	3.0	8.9	8.0	2.5
			(calendar years)				
Ex-Im Bank disbursements.....	-	-	-	-	-		
IBRD disbursements.....	-	-	-	-	-		

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production.....	1935-39=100	100[b]	-	150	183	170
Major crops:						
Citrus fruits.....	1,000 MT	51[b]	80	82	88	85
Barley.....	1,000 MT	29[b]	19	15	15	16
Wheat.....	1,000 MT	35[b]	50	49	54	56
Industrial production:						
Cotton cloth.....	1,000 MT		3	2	2	n.a.
Fuel oil.....	1,000 MT		148	266	249	n.a.
Olive oil.....	1,000 MT	40[b]	11	7	10	7
Cement.....	1,000 MT	170	302	281	314	336

FINANCES

Central government budget - year ending December 31	1951	1952[c]	1953	1954	1955[c]
		(millions of US $)			
Revenue.....	32.0	39.6	40.8	43.3	48.9
Expenditure.....	27.4	39.6	40.8	44.4	48.9
Defense.....	d	8.2	9.4	9.9	10.7
Capital outlay.....	5.5	5.0	4.1	5.4	38.2
Other non-defense.....	22.0	26.4	27.3	29.1	
Surplus or deficit (-).....	+4.6	e	-	-1.1	-
Defense expend. as % of budget.....	n.a.	20.7%	22.9%	22.4%	21.8%
Prices (index 1948=100)					
Wholesale: Beirut.....	95	86	78	72	
Cost of living: Beirut.....	94	94	88	84	

* 1954 data partly preliminary or estimated.
a Data include trade in gold, and exports and imports of international petroleum companies.
b Prewar average.
c Budget estimates.
d Included in "Other non-defense."
e Final accounts show a surplus of $11 million.
f Funds for Development Assistance included in regional total.
\# FOA estimate; converted at rate of 3.28 LL per U.S. $.

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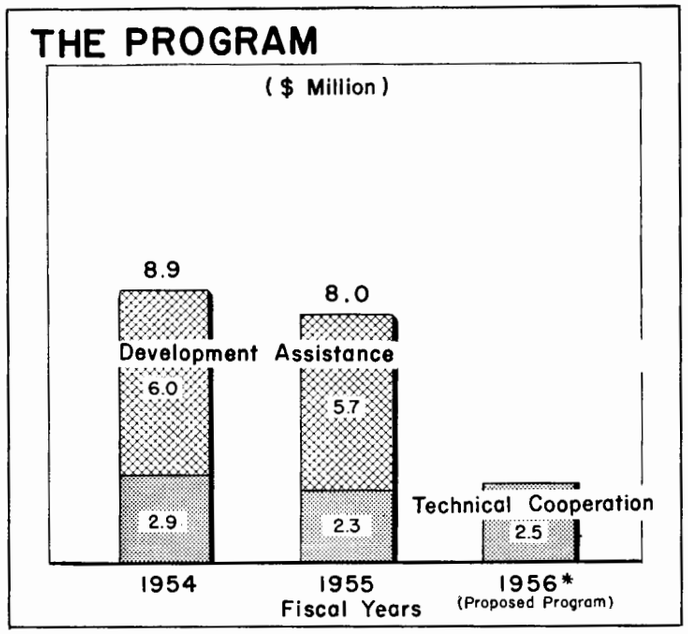
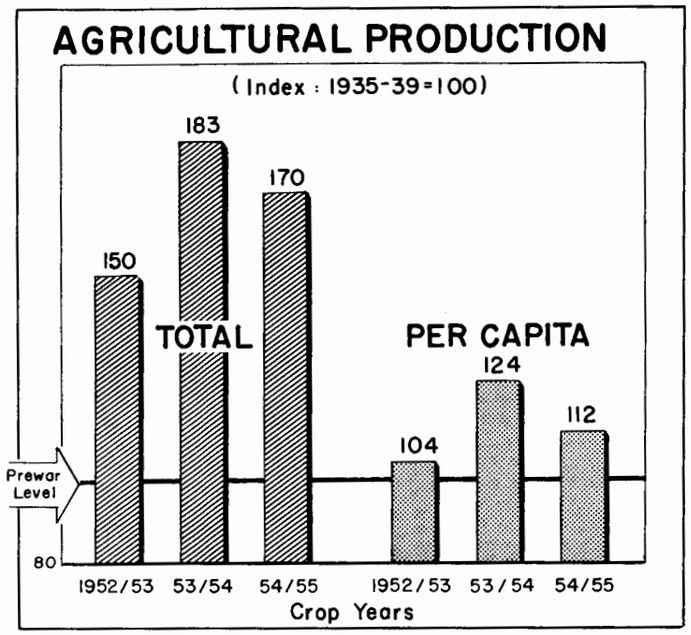
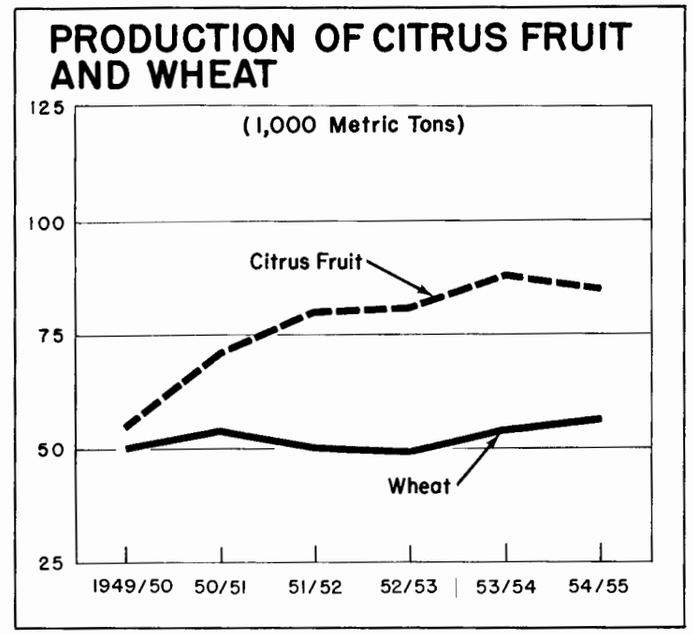
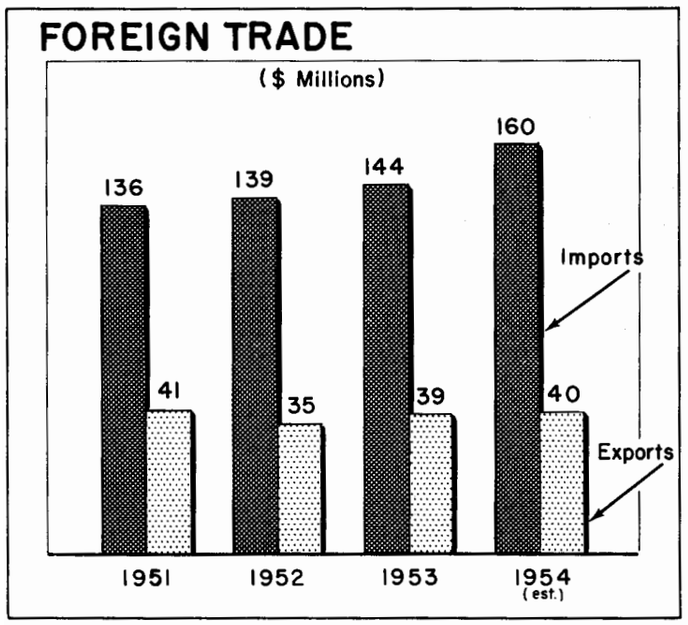
LEBANON

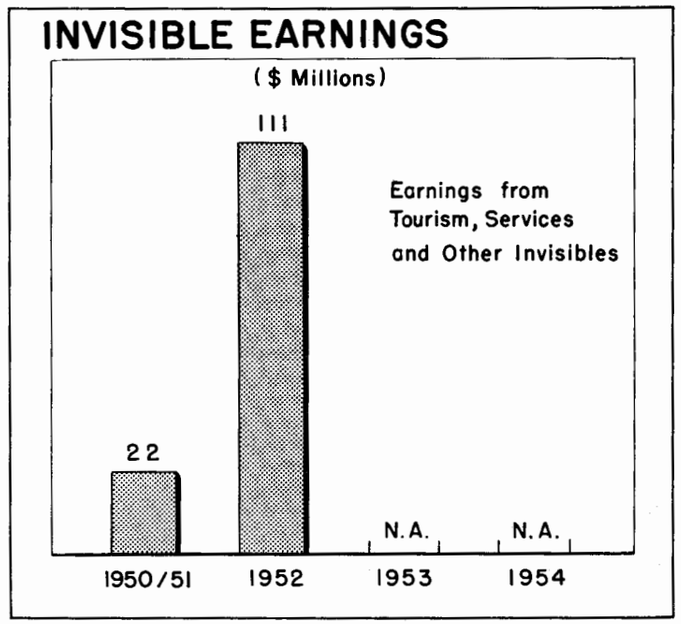


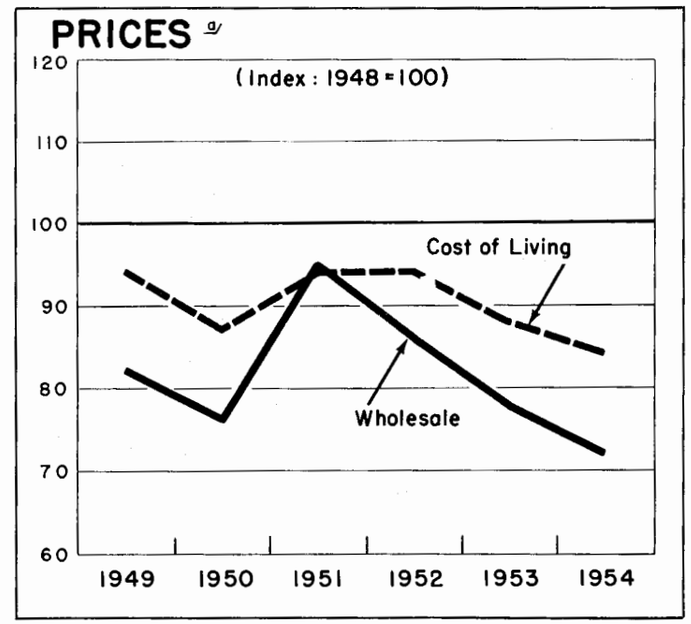
* Funds for Development Assistance included in regional total.











a/ In Beirut

NEAR EAST AND AFRICA

Country: LEBANON

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	6,000	5,700*	a/
Technical Cooperation	2,890	2,258	2,500
Total Country Program	8,890	7,958	2,500 a/

* Tentatively programmed, principally in the form of a loan.

a/ Development Assistance for FY 1956 is included in Regional Totals only.

General Narrative Statement

Current Situation

Lebanon is a small dynamic country with relatively thorough western orientation due in part to the fact that half of its population is Christian and that many of its people who have emigrated to the West maintain close contacts with their homeland. Although still on a low living standard, the Lebanese have achieved higher living and educational standards than any other Arab state. Lebanon is a hub of commercial enterprise in the Near East and to a considerable degree relies upon trade and communication with the West for its economic vitality. Its trading position is vulnerable to political and economic movements toward self-sufficiency in surrounding countries, however, and its relative overpopulation and underdevelopment call for maximum use of its limited resources. The increasingly widespread desire for economic and social reform has had some measure of success and has resulted inter alia in the establishment of a permanent economic development board as well as of a semi-autonomous National Litani Office to develop power and irrigation from the country's only important river.

Lebanon is closely affected by Arab-Israel tensions as well as by efforts directed toward area defense, including the recent Turkish-Iraq pact.

Program Objectives

U. S. objectives in Lebanon follow those for the whole area including particularly the major goal of continued Lebanese support for the Jordan Valley Development Plan and support of U. S. efforts to relieve tensions in the area. It is believed that the relatively small aid program for this country is mutually beneficial to Lebanon and the U. S. not only in relation to the foregoing objectives, but also as a stimulant toward the large potential economic development of Lebanon with economic benefits flowing to the surrounding region where resources are less promising. In other words, Lebanon in a sense serves as a catalyst for general area development.

General Narrative Statement (Continued)

Specific program objectives are:

(1) To increase agricultural production through extension, research, and demonstration of approved agricultural, distributive and marketing practices in order to narrow the present food production deficit;

(2) to assist in the educational field by expanding teacher and vocational training;

(3) to extend public health and preventive services to selected rural areas on a demonstration basis;

(4) to assist in training Lebanese Government personnel in improved techniques for carrying out governmental responsibilities;

(5) to assist the GOL in the implementation of their five-year highway development program.

Progress to Date

Technical Cooperation

Major emphasis has been given to natural resource development (water) and increasing food production. Other activities are: health and sanitation, education, industry, public administration, and community development.

The Litani River report was completed and presented to the Lebanese Government in May 1954. This was a blueprint for the development of the major water resource in Lebanon. At an estimated cost of construction of approximately $100 million, this long-range project will provide irrigation water for 55,000 acres and the development of 168,000 installed KW of hydroelectric power.

Within 10 days after receipt of the report, the Lebanese parliament had established a National Litani Office and appropriated 5,000,000 L£ for its operation. This office asked for proposals and is expected this spring to enter into a contract with an outstanding engineering firm to act in an advisory and consultive capacity and to assist in the letting of contracts and the supervision of construction of the first phase of the Litani development. The Lebanese have also entered into discussions with the International Bank with respect to financing of the foreign currency costs of construction of the first phase of Litani development. While the U. S. is still interested in this development, full responsibility for it has been shifted to the Lebanese Government.

Of further significance is the increasing support given the agricultural program by the Ministry of Agriculture.

To provide assistance to the newly formed Industry Institute in the fields of marketing, business administration, industrial engineering and production management, a contract was entered into with Battelle Memorial Institute.

Technical vocational education is being furthered with a contract entered into with the Issac Delgado Trade School of New Orleans and four technicians are now working at the Arts et Metiers School.

Development Assistance

During FY 1954 considerable joint USOM and GOL analysis and planning of economic development projects resulted in a program aimed at stimulating capital formation in Lebanon. Technical assistance alone was insufficient to stir local capital into productive channels. Lebanon was 50 percent short of meeting its food needs requiring considerable use of available foreign exchange for food imports; funds which could otherwise be used for other essential needs. Water, the lifeblood of the agricultural economy, was in critically short supply in widespread areas of the country. The lack of an elementary road system precluded the development of trade and investments in many areas throughout the country.

The study indicated three primary activities most in need of support in order to develop and attract local capital

General Narrative Statement (Continued)

formation, i.e., agricultural development, village water supply, and public roads. Combined with economic and financial measures previously undertaken by the Government of Lebanon, optimum results are assured for the joint development assistance program. Meanwhile, other steps are being taken to facilitate economic development, including the proposal of an investment guarantee agreement aimed at encouraging the flow of American investment capital in Lebanon.

Three project agreements totalling $6 million in U. S. funds were signed in June 1954, under an over-all agreement which authorized the inauguration of economic aid to Lebanon in addition to technical assistance. The agreements covered the following fields:

(1) Agricultural Development - with the U. S. contributing $2.5 million and the Lebanese Government 1,688,485 LL ($527,650). A program has been initiated to (a) increase the production of wheat and improve storage facilities, (b) reduce food losses by better control of insects and diseases, (c) improve livestock and poultry, in quality and quantity, and (d) increase the three planting program. Present food production is only about one-half of Lebanon's needs and there is much wasteland which can be used only for forestry purposes.

(2) Village Water Supply - with the U. S. contributing $2 million and the GOL 4,880,000 LL ($1,520,500). A program has been started to supply domestic water to 200 villages with a population of 164,000 in six districts.

(3) Public Roads - with the U. S. contributing $1.5 million and the Lebanese Government 12,500,000 LL ($3,906,250). Impetus is being given to Lebanon's five-year public roads program designed to strengthen Lebanon's economy by facilitating internal and international communication. This project is being implemented by a contract with an American firm which is providing four technicians to advise and consult with the Lebanese Department of Roads and to train Lebanese technicians in modern methods of road construction. In the implementation of this program, $900,000 worth of wheat and flour has been imported for the purpose of generating local currency.

The possibility of extending the development assistance program through a loan from fiscal year 1955 funds is under consideration. This subject was discussed during recent negotiations covering the Jordan Valley.

The FY 1956 Program

The Technical Cooperation Program with the exception of the Litani River and Kasmie projects (which are or will be completed) is substantially a continuation of activities initiated in previous years. The projected level for FY 1956 will require $2.5 million.

A development assistance program, most of which would be on a loan basis and a part of which would be in commodities, is proposed along the line of the FY 1955 program. The funds would be used primarily in the fields of agriculture and natural resources, industry and transportation.

NEAR EAST AND AFRICA

Country: LEBANON

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	Import of Saleable Commodities	Other Costs
Development Assistance											
1954	6,000	2,500		600		2,000				900	
1955	5,700			5,700							
1956	a/										
Technical Cooperation											
1954	2,890	1,436	361		20	258	498	18	299		
1955	2,258	1,130	299		10	250	340		229		
1956	2,500	774	329	40	50	328	621	46	312		
Total All Programs											
1954	8,890	3,936	361	600	20	2,258	498	18	299	900	
1955	7,958	1,130	299	5,700	10	250	340		229		
1956	a/										

a/ Development Assistance for FY 1956 included in Regional total only.

NEAR EAST AND AFRICA

Country: LEBANON

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954	6,000	5,400			4	400			200
1955	5,700	5,700							
1956	a/								
Technical Cooperation									
1954	2,890	561	51	878	11	290	25	150	1,011
1955	2,258	666	49	677	1	16	26	116	783
1956	2,500	637	49	745	11	185	42	174	759
Total All Programs									
1954	8,890	5,961	51	878	15	690	25	150	1,211
1955	7,958	6,366	49	677	1	16	26	116	783
1956	a/								

a/ Development Assistance for FY 1956 included in Regional totals only.

NEAR EAST AND AFRICA

Country: LEBANON

INDIVIDUAL COUNTRY DATA
(EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Development Assistance: For Project Utilization	FY 1955 Development Assistance: For Consumption and Generating Local Currency	FY 1955 Direct Forces Support	FY 1955 Total	FY 1956 Development Assistance: For Project Utilization	FY 1956 Development Assistance: For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains	900								
Total Food & Agric. Imports	900								
Industrial Imports									
Miscellaneous	4,500	5,700			5,700				
Total Commodity Program	5,400	5,700			5,700				
Services	600								
Total Country Program	6,000	5,700			5,700				

LIBERIA

BASIC DATA

Population (1954)..... millions	2
Area..... 1,000 sq.mi.	43
Agricultural land..... percent	23
Potentially productive land..... percent	30
Agricultural land per capita..... acres	2.6

	Liberia	Near East	U.S.
Gross national product#			
Total(1954 est.).. Mill.$	150		
Per capita..... $	75	148	2,200
Literacy rate..... percent	5	24	97
Road miles per 1000 sq.mi.	16	35	1,100
Elec. power per capita..... KWH per yr.	15	33	3,165

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.		51	37	30	30
Imports, c.i.f.		17	18	19	18
Trade balance		+34	+19	+11	+12
Principal exports					
Rubber: Quantity..... 1,000 MT		35	36	35	38
Value..... $ millions		25	28	20	21
Iron ore: Quantity..... 1,000 MT		186	890	1,295	1,400
Value..... $ millions		1	3	6	7
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	2[c]	44	36	28	27
Imports from U.S.	1[c]	10	12	16	13
Balance.....	+1[c]	+34	+24	+12	+14

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.8	1.1	1.7	1.1	1.9	1.8
			(calendar years)				
Ex-Im Bank disbursements.....	2.5	1.5	1.1	0.4	1.0[a]		
IBRD disbursements.....	-	-	-	-	-		
U.S. private investment (net).....							
New direct investment.....	32	b	b	14			
Reinvested subsidiary earnings.....	3	22	36	33			
Port folio investment.....	--	--	--	--			
Book value of U.S. direct private investment	82	104	140	187			

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Major crops:						
Rubber.....	1,000 MT	3	35	36	35	38
Rice.....	1,000 MT		110	123	155	n.a.
Mining production:						
Iron ore.....	1,000 MT	0	190	900	1,300	1,500

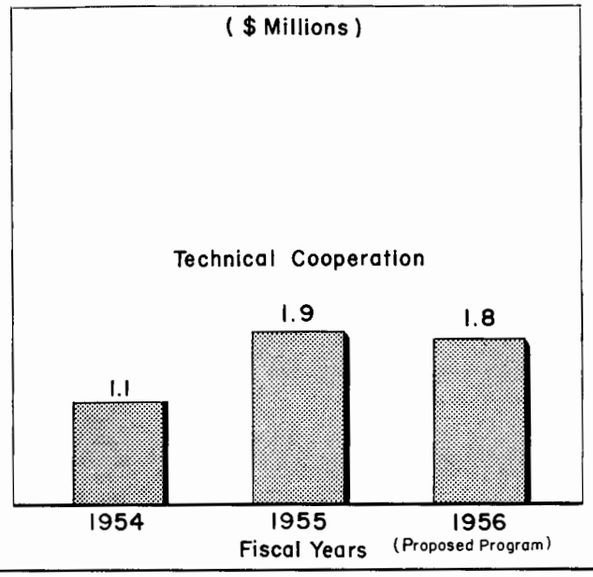
FINANCES

Central government budget - year ending December 31	1951	1952	1953	1954	1955
			(millions of US $)		
Revenue.....	12.8	8.9	11.2	10.7	
Expenditure.....	10.3	12.7	12.4	10.7	
Defense.....	1.1	1.1	1.1	1.1	
Non-defense.....	9.2	11.6	11.3	9.6	
Surplus or deficit (-).....	+2.6	-3.8	-1.2	--	
As % of total revenue.....	20%	-43%	-11%	--	
Defense expend. as % of budget.....	11%	9%	9%	10%	

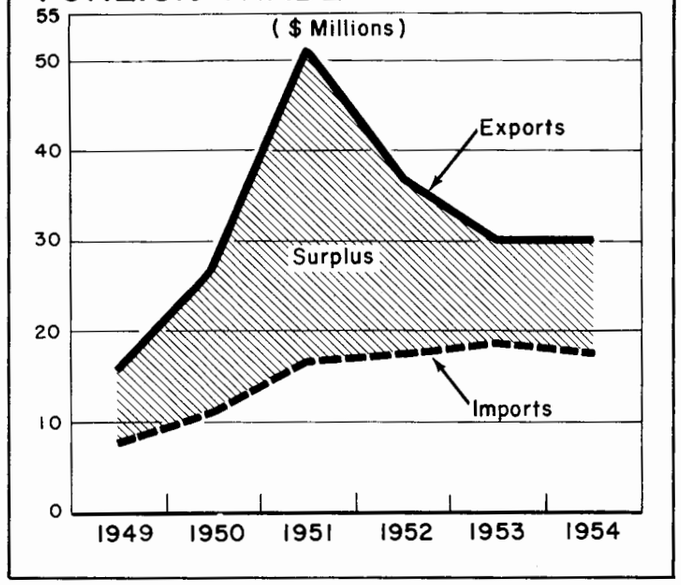
\# FOA estimate.
* 1954 data partly preliminary or estimated.
a Undisbursed balance as of December 31, 1954: $3.9 million. $15.0 million loan authorized in January, 1955.
b Less than $500,000.
c 1936 - 1940 average.

LIBERIA

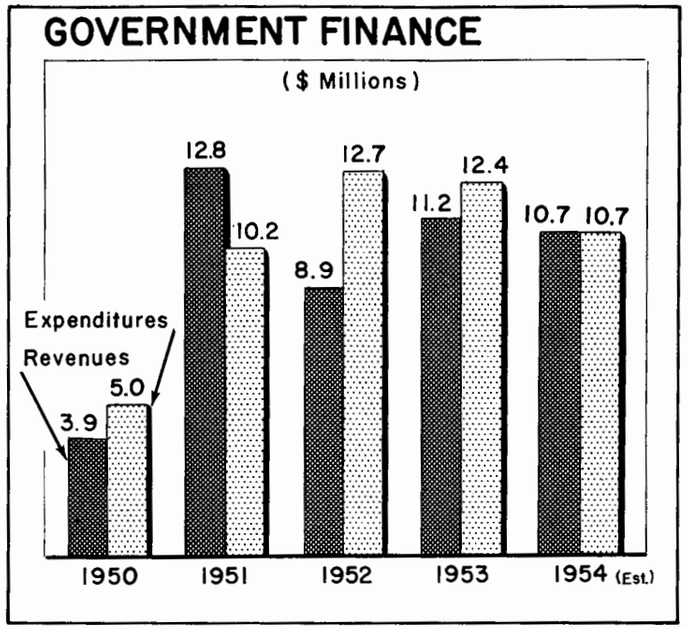
THE PROGRAM



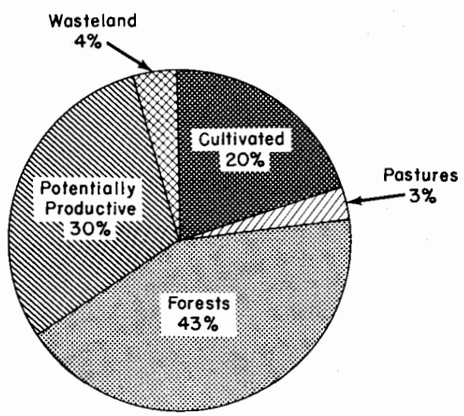
FOREIGN TRADE



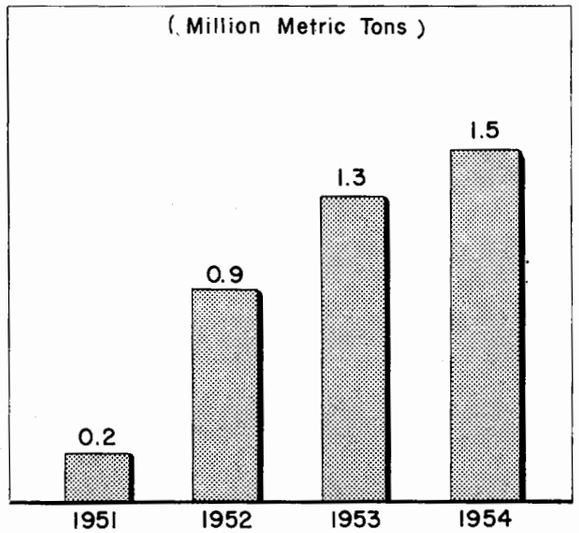
GOVERNMENT FINANCE



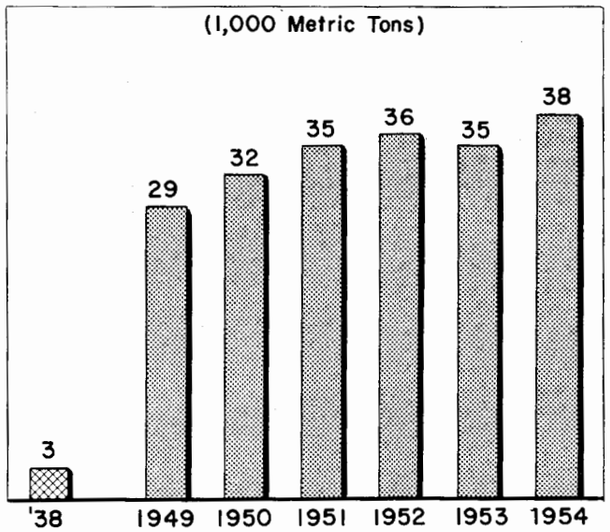
LAND UTILIZATION



IRON ORE PRODUCTION



RUBBER PRODUCTION



NEAR EAST AND AFRICA

Country: LIBERIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Program Proposed FY 1956
Technical Cooperation	1,065	1,854	1,800

General Narrative Statement

Current Situation

The Liberian economy during 1954 remained stable. Revenues from the rubber and mining industries constitute a large portion of the income of the country. The price increases of rubber in the latter half of 1954 helped maintain the stability of the economy. Iron ore exports are becoming increasingly important as the second largest dollar earner for the country. The development of both of these commodities has been made possible by American venture capital.

The $15 million credit recently made available for road building by the Export-Import Bank was an important development of the year.

In West Africa, and even elsewhere in Africa and Europe, the success of Liberia in becoming a modern state and improving the well-being of its people will be one measure of U.S. intentions toward Africa and other underdeveloped countries. Liberia's willingness to accept private investment could be an important demonstration to other areas now hesitant about accepting or making full use of such investment.

The Government of Liberia is stable and in firm control of the country; it continues to regard the United States as Liberia's closest friend. It is strongly anti-Communist and there is no evidence that Communism has any appeal for or following among the people. Under a government interested in both the social and economic progress of the Liberian people, in attracting private investment capital and enterprise and in cooperating with the U.S. in a technical assistance program, Liberia has established a base for progress in both the social and the economic fields which should lead to continued improvement in the future.

Program Objectives

Liberia is the only independent nation in West Africa. The United States played a leading role in the formation of Liberia and relations between the two countries have been very good. Liberia is the closest of all African countries to Brazil and during World War II served as an important link in the strategic air route across the South Atlantic. In the event of war, the port and air-field facilities could be important as alternatives to those at Dakar.

A successful technical cooperation program in Liberia can have a significant influence on the opinions of the United States held by large populations of native peoples in Africa south of the Sahara. A program of technical cooperation has been in active operation for several years in Liberia and considerable headway has been made in teaching the Liberian Government and people to utilize more effectively the talents and resources of the country. This success has helped to attract private capital to investment possibilities in Liberia.

The prime objective is to help Liberians to locate and recognize the potential wealth of their country, and to assist

General Narrative Statement (Continued)

them in learning ways of doing things that will permit them to develop these resources. From the agricultural, mineral and forest resources, Liberians will gain income with which to help themselves, to support and improve education, health and other public service programs which are essential to continued growth.

The first requisite, without which progress cannot be continued is the construction of a system of farm-to-market roads which will make it possible to reach into the undeveloped hinterland. With 58 percent of the country covered by forests, such roads would provide access to this important resource and provide a new impetus to private investors. American engineers are assisting and training Liberians in road surveying, and the many phases of engineering which lead to the preparation of contracts for bids.

Progress to Date

Under the program to date Liberia has been helped in the following ways:

(1) An effective Department of Agriculture has been built up and a basic staff trained in the rudiments of operating an extension service and central experiment station. A successful demonstration of swamp rice production has shown the way to high rice yields on former unused land. Extension work in bringing this success to the attention of local tribesmen is meeting with considerable response.

(2) The Bureau of Forest Conservation is the result of cooperative efforts in developing plans for the utilization of their potential forest resources. The swamp rice program is helping to eliminate the practice of cutting back forest areas for rice production.

(3) A Highway Department has been established and most of the basic staff trained. The program presently provides for on-the-job training in the preparation of specifications, letting of bids and supervision of construction of a series of roads financed under the Export-Import Bank loans. Plans are under way for a highway maintenance training project to keep the new road system in repair.

(4) A three year college contract with Prairie View A & M College is presently in process of implementation through the efforts of the Prairie View Chief Advisor in Liberia. The increased interest of private investors in Liberia together with the expanding activities of the Government of Liberia will require the progressive development of a trained labor force as well as the training of professional people. It is believed this contract will provide the professional and technical service required to develop the Booker Washington Institute into a first class technical institution.

(5) Another new project which is in the process of being implemented provides for training of Liberians to operate diamond drilling equipment. This project will train personnel for the Bureau of Mines and Geology to investigate the mineral potentialities of the country.

(6) An official of the Unitarian Services Committee is presently in Liberia to draw up a plan of action as a basis for a contract with FOA. The contract is to train technicians for a rural health demonstration project in the Western Province.

The FY 1956 Program

The technical cooperation program proposed for FY 1956 is in the amount of $1,800,000, approximately the same level as FY 1955. No substantial change in emphasis is expected, since a major reorientation of the program was made in FY 1955 as a result of which increased emphasis has been put on education, public health and public administration.

Country: LIBERIA

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	All Other
Technical Cooperation									
1954	1,065	450	0	115	199	202	62	37	
1955	1,854	410	68	283	383	525	15	88	82
1956	1,800	428	43	281	371	548	25	40	64

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	1,065	232	43	618	10	120	9	45	50
1955	1,854	358	62	752	30	503	15	78	163
1956	1,800	223	68	867	34	523	8	41	146

LIBYA

BASIC DATA

			Libya	Near East	U.S.
Population (1954).....	millions	1.5			
Area.....	1,000 sq.mi.	679			
Agricultural land.....	percent	5			
Potentially productive land.....	percent	2			
Agricultural land per capita.....	acres	15			
Gross national product#					
Total (1954 est.). Mill. $			90		
Per capita..... $			60	148	2,200
Literacy rate.....	percent		5	24	97
Road miles per 1,000 sq. mi.			3	35	1,100

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954
		(millions of US $)			
Exports, f.o.b.	6	13	13	9	10
Imports, c.i.f.	47	28	35	37	31
Trade balance.....	-41	-15	-22	-28	-21
Principal exports					
Agricultural products.....($ thousands)		4,706	3,475	3,886	
Scrap metal.....($ thousands)		4,721	4,430	2,033	
Raw materials (incl. esparto grass and sponges).....($ thousands)		3,147	4,346	3,083	
Trade with U.S. (U.S. Customs data)					
Exports to U.S. ..... ($ thousands)		66	21	50	29
Imports from U.S. ..... ($ thousands)		128	332	830	1,539
Balance..... ($ thousands)		-62	-311	-780	-1,510

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	1955	1956[e]
			(millions of US $)				Program
FOA obligations (fiscal years)	-	0.2	1.6	1.4	1.9	5.1	2.0
U.S. special program allotments (fiscal years)				0.3		3.2	
			(calendar years)				
Ex-Im Bank disbursements.....	-	-	-	-	-		
IBRD disbursements.....	-	-	-	-	-		

[a] Rough estimates.
[b] Tripolitania only.
[c] Tripolitania and Fezzan only.
[d] Data represent budget estimates. Figures do not include the "Exceptional Budget" and the Development Plan.

PRODUCTION [a]

	Unit	1938	1951	1952	1953	1954
Major crops:						
Barley[b].....	1,000 MT		54	75	12	8
Dates[c].....	1,000 MT			33		
Olives.....	1,000 MT		25	5		
Citrus fruits.....	1,000 MT		6	2		
Major industries:						
Textiles, tobacco processing, sponge fishing, olive oil processing, home industries.....		NOT	AVAILABLE			

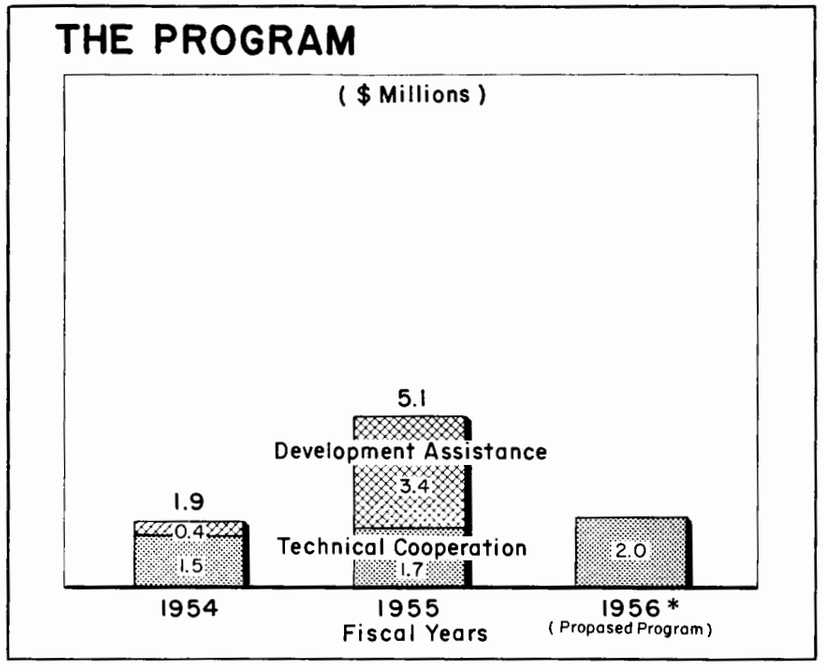
FINANCES

Central and provincial government budget[d] - year ending March 31	1951	1952	1953	1954	1955
			(millions of US $)		
Domestic revenue.....			13.0	14.2	15.2
Expenditure.....			17.9	24.1	26.5
Defense.....			n.a.	0.6	0.8
Capital outlay.....			n.a.	0.8	0.8
Other non-defense.....				22.7	24.9
Surplus or deficit (-) before aid...			-4.9	-9.9	-11.3
Other aid (foreign grants).....			4.9	11.1	10.6
Net surplus or deficit (-).....			-	+1.2	-0.7
Defense expend. as % of budget.....			n.a.	2%	3%
Prices (index Jan. 1953=100)					
Cost of living: Tripoli.....			97	94	

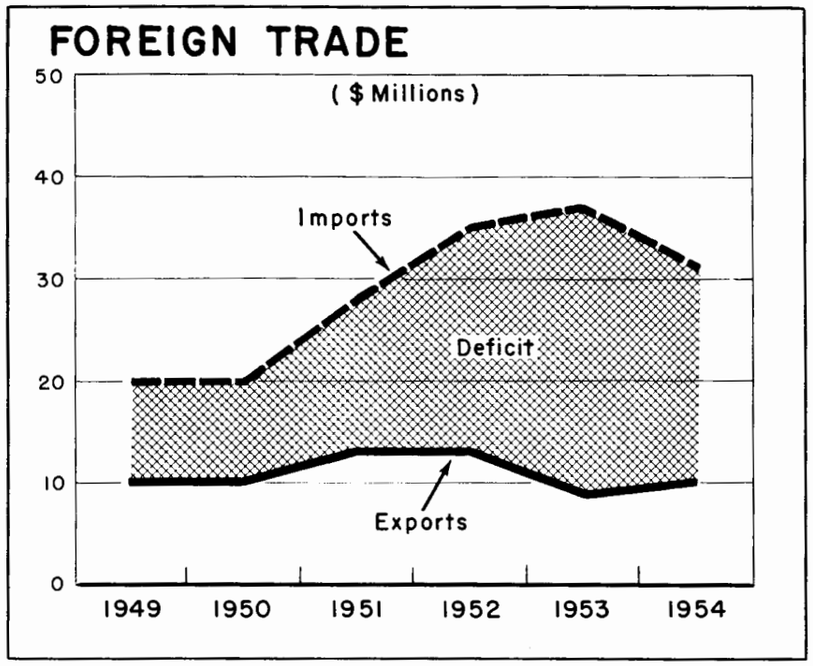
[e] Funds for Development Assistance included in regional total.
FOA estimate; converted at rate at $2.80 per L£.

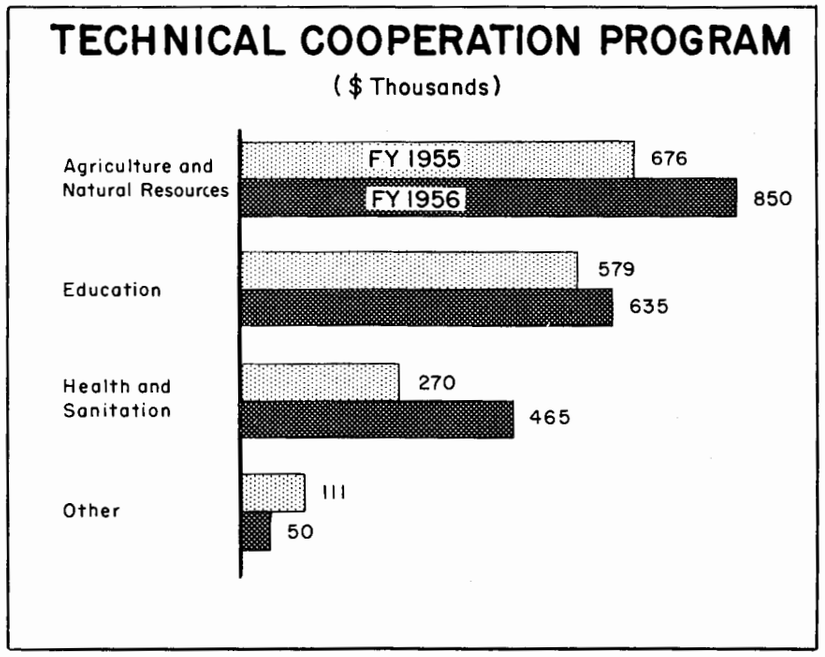
Revised May 18, 1955

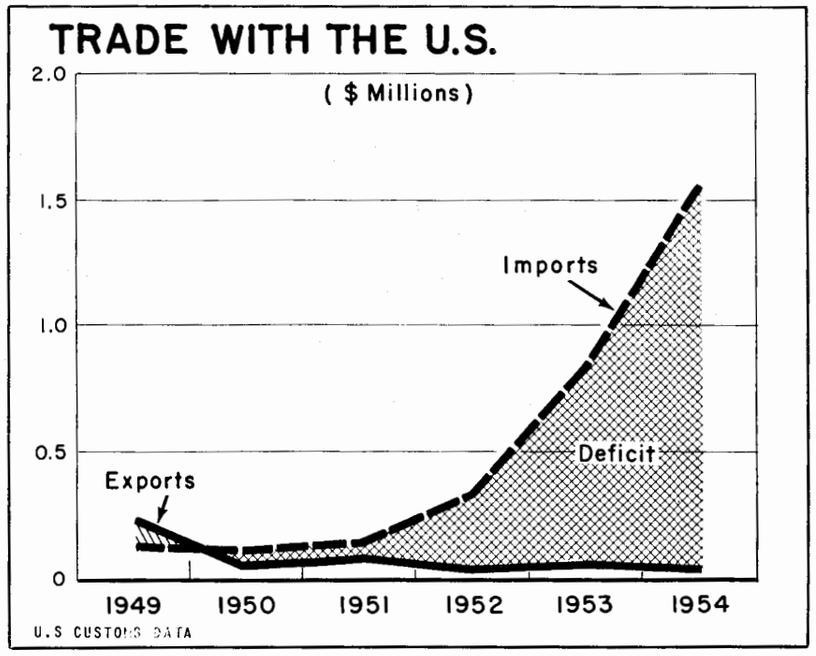
LIBYA



* Funds for Development Assistance included in regional total.







NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: LIBYA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	345	3,430	a/
Technical Cooperation	1,532	1,636	2,000
Total Country Program	1,877	5,066	2,000 a/

a/ Development Assistance for FY 1956 is included in Regional Totals only.

General Narrative Statement

Current Situation

During its three years of independence, the new Arab nation of Libya has made a systematic beginning in its transition from Colonial status. It has initiated programs essential to its economic and social growth while at the same time continued with organizing a government, discharging administrative responsibilities and negotiating a completely new set of relations with countries abroad. This effort to attack many problems simultaneously has resulted in a diffusion of Libya's limited finances and experienced personnel. It has been virtually impossible to start projects requiring substantial capital. Even today war damage is still in evidence.

Libya has received financial or technical aid from the United Kingdom, France, Turkey, Egypt and Italy, as well as from the United States and the United Nations. The exceptional poverty of Libya has forced it to rely for the present on such foreign assistance. Within the Government, most professional and technical responsibilities must be entrusted to foreign nationals. United States aid has until recently been confined to technical assistance, although indirect economic benefits resulted from the operations at Wheelus Field, the large U. S. Air Force base near Tripoli.

Strategic location is one of Libya's most important assets. The United Kingdom in particular relies on Libyan facilities for a large portion of its military forces stationed in the Mediterranean-Middle East area. In 1953 the United Kingdom and Libya concluded a Treaty of Friendship and Alliance, under which, in exchange for military facilities, the United Kingdom has undertaken to pay an annual subsidy, amounting to the equivalent of $10.5 million annually during the first five years.

As a member of the Arab League, Libya has supported its policies but has not advocated extreme measures. Its closest international ties are with Egypt, Turkey, The United States and The United Kingdom. Many internal political problems remain to be solved before the diverse provincial and tribal elements of the country are welded into a unified nation.

Program Objectives

In September 1954, the United States and Libya concluded a Military Base Rights Agreement, the most important benefit of which is permission to operate Wheelus Field until 1971. Recognizing Libya's serious economic deficiencies and the

General Narrative Statement (Continued)

need for a long-range attack on them, the United States at the same time undertook to grant some economic assistance. The United States also promised sympathetic consideration of possible future economic needs in the light of Libya's progress and accomplishments made through funds already provided.

Disturbances elsewhere in the Mediterranean and Middle East emphasize the importance to us of a friendly relationship with Libya. The maintenance of Libya's friendship and its cooperation in the use of our military facilities there is obviously an important U. S. interest.

Beyond the implied responsibility undertaken in backing the UN decision that Libya should become independent, it is also in the U. S. self-interest to assist this young nation to achieve political stability and economic viability. For these reasons particularly, funds for technical cooperation are recommended at $2 million, an increase of more than $350,000 over FY 1955 program. They are to be used primarily to expand and accelerate programs already underway in education, agriculture, natural resources, and health and sanitation.

Progress to Date

Until Libyans have been educated in the various fields of government, industry, and the professions, the government must rely not only on foreign financial assistance but also on foreign nationals to help develop and carry on the necessary governmental services, as well as the development of the country's economic resources. While grants-in-aid are being devoted to development projects, the number of trained people is being steadily increased by GOL scholarships (some 200), FOA training grants, and by on-the-job training in technical assistance projects, and by expanding the Libyan educational system and facilities.

Most of Libya's industry consists of individual artisans of indifferent skill. Until recently, scrap metal from the war was the country's most valuable export; esparto grass, which grows wild, remains high on the list in proportion to other exports. Financing and training are equally and jointly essential if a sound base is to be laid for economic and social development in Libya. Without skilled workers and an assumption of some local market, investors will not venture their capital; without trained employees, the government will either founder or continue to depend indefinitely upon nationals of other countries to help conduct Libyan affairs.

Libyans must be educated before they can be teachers, lawyers, doctors, nurses, administrators, bookkeepers, farm extension workers, processors, industrialists, engineers, etc.

In the absence of known exploitable natural resources, Libya's chance to become self-suffieient lies in the maximum development and efficient utilization of its limited water supplies, improved agricultural practices including the use of better seed, use of fertilizer, diversification and rotation of crops, development of more arable land and prevention of further encroachment by the desert on good land; improvement of the quality and marketing of available resources such as hides and skins, construction of refrigeration plants for meat, fruits and vegetables, and the manufacturing of goods from native materials; and industrial development as permitted by the country's supply of labor and raw materials.

GOL's development plans encompass a wide range of projects including providing the Province of Cyrenaica with a modern port by reconstructing the Benghazi Harbor, and credit for the farming population.

During FY 1955, 27,000 tons of grain are being granted Libya under Title II of Public Law 480. The third successive year of drought brought a poor crop, when reserves were not available. The grain is being distributed free or in partial payment for work on public works undertaken by the Libyan Government.

General Narrative Statement (Continued)

The FY 1956 Program

The expansion of technical assistance will be geared, wherever appropriate, to impact programs financed through economic aid funds. This will be particularly true in water exploration and development work. Further, it has been possible this year to capitalize on the availability of additional workers from the GOL's relief programs. More areas than were planned for have been prepared for waterspreading in time to benefit from this year's rains. If, as is expected, a Libyan Agricultural Credit Law is passed, FOA will provide technicans to assist in the establishment of credit facilities and their operation.

Present predictions indicate the possibility of another bad crop year. Until more reliable information is available, it is not known whether Libya will need or seek agricultural surpluses during FY 1956.

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: LIBYA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Development Assistance											
1954	344										344
1955	3430	1750		200		720	330				430
1956	a/										
Technical Cooperation											
1954	1532	680				243	541	6			62
1955	1636	676	10			270	579	15			86
1956	2000	850	25			465	635	25			
Total All Programs											
1954	1876	680				243	541	6			406
1955	5066	2426	10	200		990	909	15			516
1956	a/										

a/ Development Assistance for FY 1956 included in Regional totals only.

Country: LIBYA

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of Dollars)

Programs by Fiscal Year	Total	Supplies & Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954	344	344							
1955	3,430	3,430							
1956	a/								
Technical Cooperation									
1954	1,532	382	49	440	3	37	38	68	605
1955	1,636	291	53	737	3	25	29	50	533
1956	2,000	465	60	815	5	40	40	85	595
Total All Programs									
1954	1,876	726	49	440	3	37	38	68	605
1955	5,066	3,721	53	737	3	25	29	50	533
1956	a/								

a/ Development Assistance for FY 1956 included in Regional totals only.

NEAR EAST AND AFRICA

Country: SAUDI ARABIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Technical Cooperation	957	370	-

General Narrative Statement

In early July of 1954 the Government of Saudi Arabia indicated to the United States Government that it was planning to finance the technical and economic development of the country with its own funds, and was not requesting the U.S. to continue the 1951 agreement under which the U.S. had been providing technicians and some demonstration equipment for joint programs of technical cooperation. It is believed that notwithstanding Saudi Arabia's own substantial financial resources, the small technical assistance program resulted, during its three year existence, in mutually advantageous accomplishments, including the creation of a much needed Monetary Agency, a new customs law and important basic work in water resources utilization. Inasmuch as all U.S. programs of technical cooperation are initiated and operated only at the specific request of the host governments concerned and only on a basis of mutual consent, arrangements were made for the liquidation of the USOM and its program in Saudi Arabia. Liquidation costs amounting to $200,000 were authorized from FY 1955 funds. Withdrawal of personnel was completed in October, 1954, with most of the tec-technicians being transferred to active programs in nearby countries - others being returned to the United States.

In December, 1954, the FOA authorized funds to the U.S. Geological Survey in the amount of $170,000 to complete work on a project previously under way in Saudi Arabia to compile geographic and geologic maps; prepare final reports on water and mineral resources of Saudi Arabia; and to analyze chemical and mineralogical material collected in the field. In the absence of this step much valuable work would have been lost to all concerned.

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NEAR EAST AND AFRICA

Country: SAUDI ARABIA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	957	161	21	631			29	115	50
1955	370					170			200 a/
1956				NO PROGRAM					

Summary by Major Activity

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	All Other
Technical Cooperation										
1954	957	413		88		275	84	97		
1955	370	170								200 a/
1956				NO PROGRAM						

a/ Liquidation costs in connection with closing out program in Saudi Arabia.

SYRIA

BASIC DATA

Population (1954) ..... millions	3.6
Annual growth ..... percent	2.4
Area ..... 1,000 sq.mi.	70
Agricultural land ..... percent	50
Agricultural land per capita ..... acres	7

	Syria	Near East	U.S.
Gross national product#			
Total(1954 est.).. Mill.$	475		
Per capita ..... $	132	148	2,200
Caloric intake	2,000	2,200	3,120
Literacy rate .....percent	40	24	97
Road miles per 1,000 sq.mi.	86	35	1,100
Elec. Power per Capita KWH per yr.	36	33	3,165

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.		126	146	171	210
Imports, c.i.f.		139	143	131	170
Trade balance		-13	+3	+40	+40
Principal exports[f]					
Cotton ..... 1,000 MT		24	38	39	40
Barley ..... 1,000 MT		17	140	150	400
Trade with U.S. (U.S. Customs data)					
Exports to U.S.		23.5	7.7	8.6	7.9
Imports from U.S.		21.8	12.7	15.0	21.4
Balance		+1.7	-5.0	-6.4	-13.5
Balance of payments					
Balance on goods & services		11	24	n.a.	n.a.
Net capital		14	2		
Private		7	9		
Official and banking		7	-7		
Government grants		3	3		
Long-term capital		4	-10		
Change in gold & exch. reserve		-2	-4		

PRODUCTION

	Unit	1938[a]	1951	1952	1953	1954*
Agricultural production:[b] Total.	1935-39=100	100		148	168	177
Per capita.	1935-39=100	100		97	114	117
Major crops:						
Wheat	1,000 MT	495	550	708	800	850
Cotton	1,000 MT	6	49	45	50	55
Tobacco	1,000 MT	3.7		6.6	3.8	4.9
Barley	1,000 MT	306		229	300	450
Industrial production:						
Cement	1,000 MT	65	39	151	224	249
Electric power	Mill. KWH		87	99	114	128

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956[e]
			(millions of US $)				
FOA obligations (fiscal years)	-	-	-	-	-	-	-
			(calendar years)				
Ex-Im Bank disbursements	-	-	-	-	-	-	-
IBRD disbursements	-	-	-	-	-	-	-

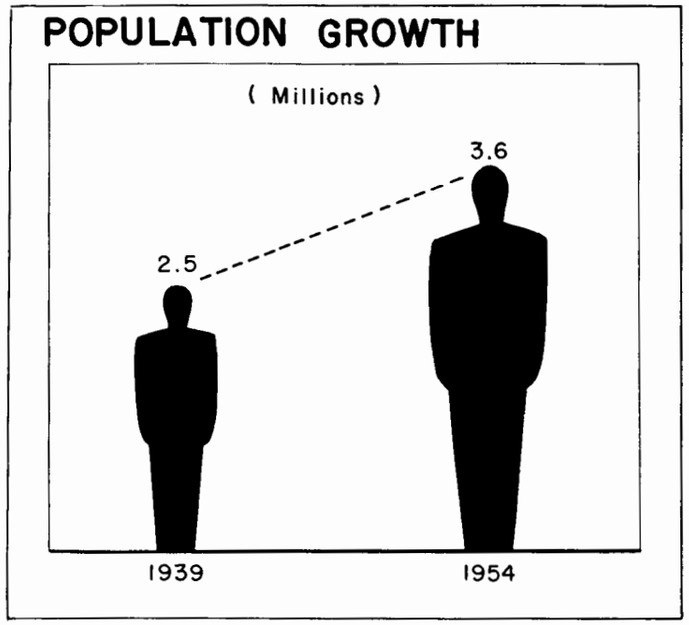
FINANCES

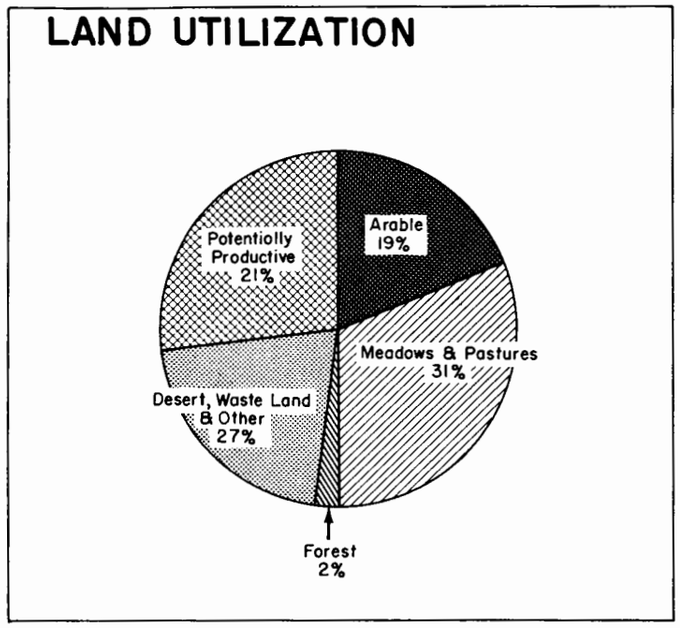
	1951[c]	1952[d]	1953	1954	1955
			(millions of US $)		
Central government budget - years ending December 31					
Revenue	59	72	54	57	70
Expenditure	60	74	57	58	73
Defense	26	30	24	24	25
Capital outlay	5	6	5	5	7
Other non-defense	29	38	28	29	41
Surplus or deficit (-)	-1	-2	-3	-1	-3
As % of total revenue	-2%	-3%	-6%	-2%	-4%
Defense expend. as % of budget	43%	41%	42%	41%	34%
Defense expend. as % of GNP	n.a.	1.5%	1.6%	1.4%	n.a.
Prices (index 1949=100)					
Wholesale (raw materials)	136	119	110	134(Oct)	
Retail (food)	84	90	82	76(Oct)	

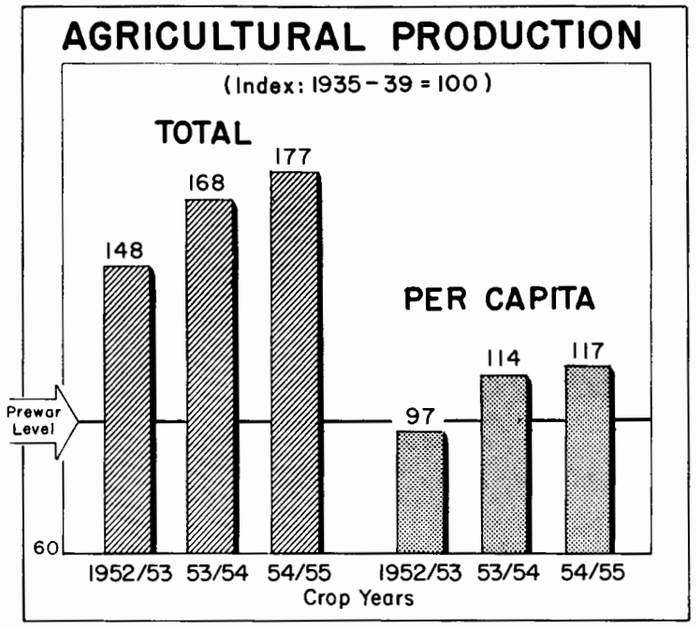
* 1954 data partly preliminary or estimated.
a/ Prewar averages for agricultural production.
b/ Crop years beginning in year stated.
c/ 18 months, January 1950 - June 1951.

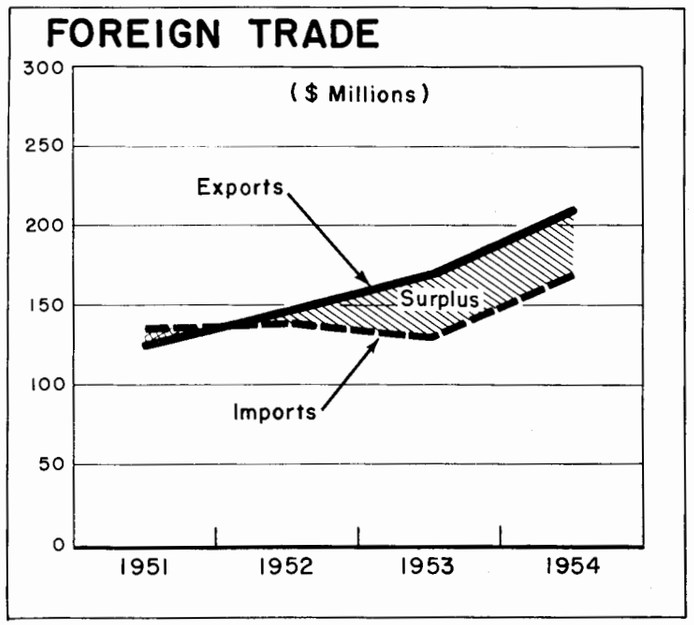
FOA estimate; converted at rate of 3.575 Syrian pounds per U.S. $.
d/ 18 months, July 1951 - December 1952.
e/ Funds for Development Assistance included in regional total.
f/ Years ending July 31.

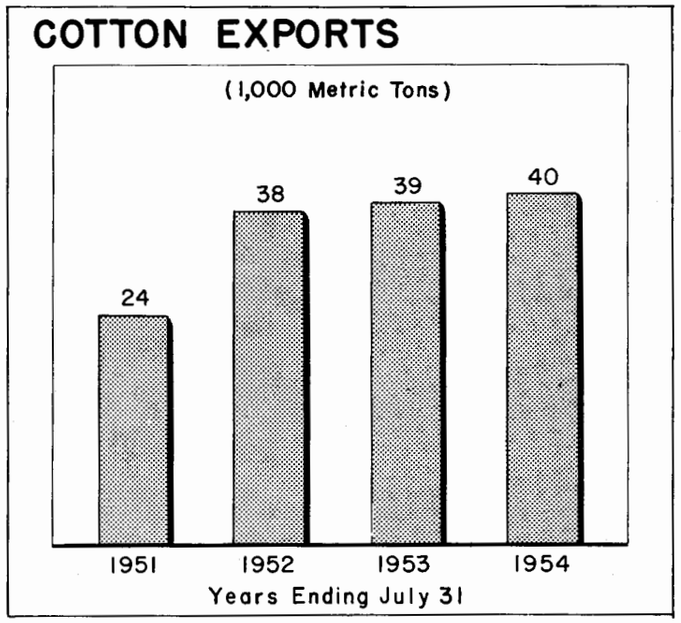
SYRIA

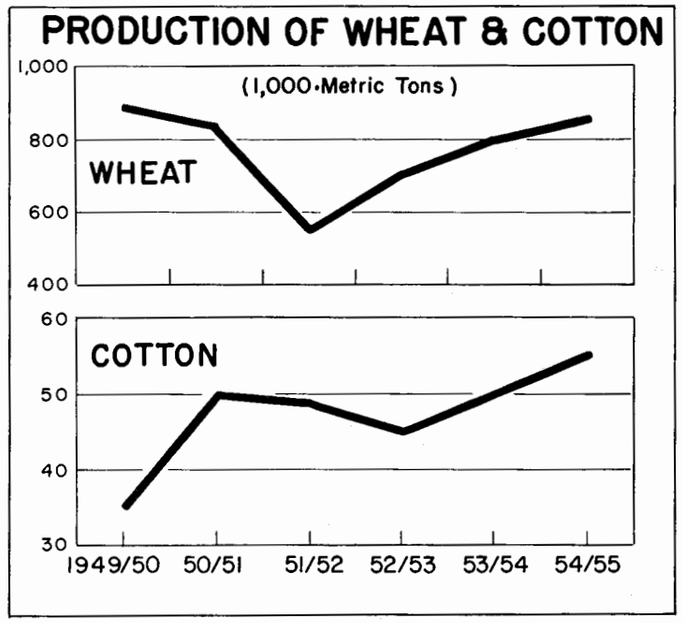

POPULATION GROWTH
(Millions)
2.5
3.6
1939
1954


LAND UTILIZATION
Arable 19%
Meadows & Pastures 31%
Forest 2%
Desert, Waste Land & Other 27%
Potentially Productive 21%


AGRICULTURAL PRODUCTION
(Index: 1935-39 = 100)
TOTAL
148
168
177
PER CAPITA
97
114
117
Prewar Level
60
1952/53
53/54
54/55
1952/53
53/54
54/55
Crop Years


FOREIGN TRADE
($ Millions)
300
250
200
150
100
50
0
Exports
Surplus
Imports
1951
1952
1953
1954


COTTON EXPORTS
(1,000 Metric Tons)
24
38
39
40
1951
1952
1953
1954
Years Ending July 31


PRODUCTION OF WHEAT & COTTON
(1,000 Metric Tons)
1,000
800
600
400
WHEAT
60
50
40
30
COTTON
1949/50
50/51
51/52
52/53
53/54
54/55

Country: SYRIA

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance			a/
Total Country Program			

a/ Development Assistance for FY 1956 included in Regional Totals only.

General Narrative Statement

Current Situation

Syria is a sizeable Arab state with a reasonably stable though largely underdeveloped economy and a relatively high potential for development. It lacks the large oil revenues of its neighboring state of Iraq, yet has the same great need of large scale expenditure of investment capital if it is to develop the broad base of economic activity that its national aspirations demand. It is of considerable political and geographic importance in connection with settlement of the Palestine refugees and is a potential ally in area defense.

The past year has seen four changes in government in Syria, a quasi-military regime having been followed by caretaker governments and finally by one responsible to a reinstalled elected parliament. On the other hand, it was a prosperous year for the country with record crops and with increases in light industrial production and construction. Syria's economic growth has been noteworthy despite political uncertainties which have characterized Syria since her independence.

Syria has not, however, shown positive interest in concluding bilateral agreements with the U.S. either for technical assistance or special economic aid, and little progress has been made under its refugee rehabilitation agreement with UNRWA.

U.S. Objectives

U.S. objectives involve those for the whole area and include the major goal of Syrian support for the Jordan Valley Development plan, since the Jordan River's principal tributary, the Yarmuk, rises in Syria and since the entire plan involves Palestine refugees and Arab-Israel relations. One of the factors limiting the development of Syrian industry and agriculture is power. It may well be that irrigation plans on the Yarmuk and Jordan rivers will prevent the full utilization of the power potential of the Yarmuk and Syria may wish to look for sources of thermal power. External credit for power development may be necessary to meet this requirement.

The Program

Syria has not sought assistance from the United States for bilateral programs in the past, and no provision therefore has been made in present plans for a Technical Cooperation program in Syria. If Syria should seek such aid, it may prove to be in our interest to make funds available for this purpose.

In view of the importance of solving the problem of the Jordan River, it may be necessary to provide special economic aid; Syrian acceptance of unified planning is essential to plans for the full utilization of the waters of the Jordan and Yarmuk. Our negotiators have recommended provision of mutual security funds for this purpose.

General Narrative Statement (Continued)

The IBRD has in preparation a complete study of the Syrian economy; this analysis may result in efforts by the Syrian Government to accelerate its development programs, and indicate more clearly the resources - including possible IBRD loans - which can be mobilized for this purpose. It is clear that the potential of Syrian agriculture, industry and trade is a key to many problems of the area, including the rehabilitation of many thousands of the Palestinian Arabs.

TURKEY

BASIC DATA

			Turkey	Near East	U.S.
Population (1954)..... millions	22.9				
Annual growth..... percent	2.2				
Area.....1,000 sq.mi.	296	Caloric intake.....	2,480	2,200	3,120
Agricultural land..... percent	70	Literacy rate.....percent	30	24	97
Agricultural land per		Road miles per 1000 sq.mi.	96	35	1,100
capita..... acres	6	Elec. power per capita.....KWH per yr.	56	33	3,165

USE OF RESOURCES - 1954

		%
Gross national product (million U.S. dollars).....	5,754	
Consumption.....	4,402	76.5
Gross investment (public and private)	754	13.1
Government non-defense expenditure.....	403	7.0
Government defense expenditure.....	370	6.4
Net foreign balance.....	-175	-3.0
Per capita GNP (dollars).....	251	

(FOA est.; converted at rate of 2.825 Turkish liras per U.S. dollar)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.		314	363	396	335
Imports, c.i.f.		407	556	532	478
Trade balance.....		-93	-193	-136	-143
Principal exports					
Cotton: Quantity.....1,000 MT		56	70	101	60
Value.....$ millions		77	69	79	52
Chrome ore: Quantity..... 1,000 MT		505	545	678	357
Value.....$ millions		17	23	28	17
Tobacco: Quantity..... 1,000 MT		58	57	72	65
Value.....$ millions		67	62	85	86
Trade with U.S. (U.S. Customs data)					
Exports to U.S.		76	63	82	65
Imports from U.S.		61	63	65	80
Balance.....		+15	0	+17	-15
Balance of payments					
Balance on goods & services.....		-82	-183	-137	-181[a]
Net capital.....		75	184	44	221
Private.....		-26	43	30	97
Official and banking.....		101	141	14	124
Government grants.....		38	53	46	45
Long-term capital.....		22	2	-11	-15
Short-term capital.....		41	86	-21	94
Change in gold and exchange reserves.....		-28	-11	+22	+17
Gold and foreign exchange reserves[d] (end of yr.)		217	191	213	205

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Industrial production.....	1950=100	56	109	118	130	135
Agricultural production.....	Prewar=100	100[e]	148	171	193	164
Major crops:						
Wheat.....	1,000 MT	3,693[e]	5,579	6,505	6,530	4,900
Barley.....	1,000 MT	1,931[e]	2,700	3,189	3,640	2,400
Tobacco.....	1,000 MT	58[e]	89	91	116	96
Cotton.....	1,000 MT	54[e]	131	150	139	142
Major industries:						
Textiles.....	1950=100	64	93	110	114	
Mining and quarrying.....	1950=100	48	112	121	145	
Chrome ore.....	1,000 MT	-	602	666	515	420

EXTERNAL RESOURCES

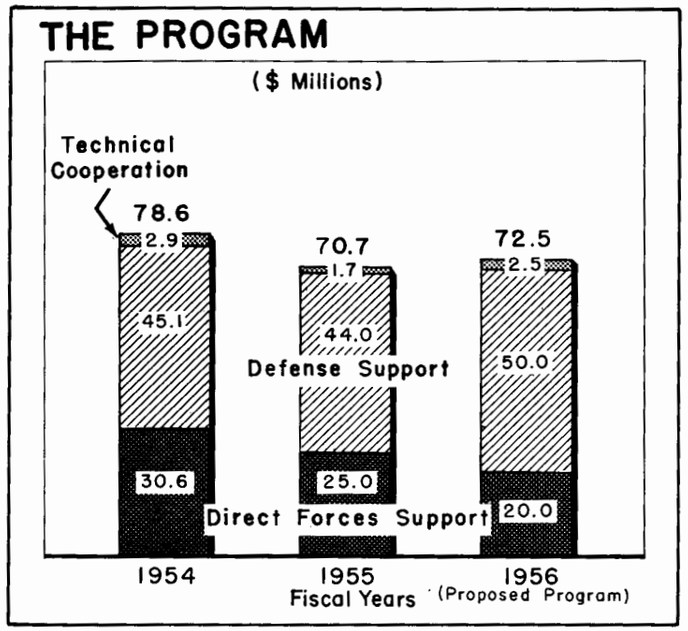
	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	71.9	49.8	69.6	58.6	78.6	70.7	72.5
			(calendar years)				
Ex-Im Bank disbursements.....	5.6	0.7	1.2	0.8	0.1[b]		
IBRD disbursements.....	-	0.7	3.7	9.5	13.4[c]		

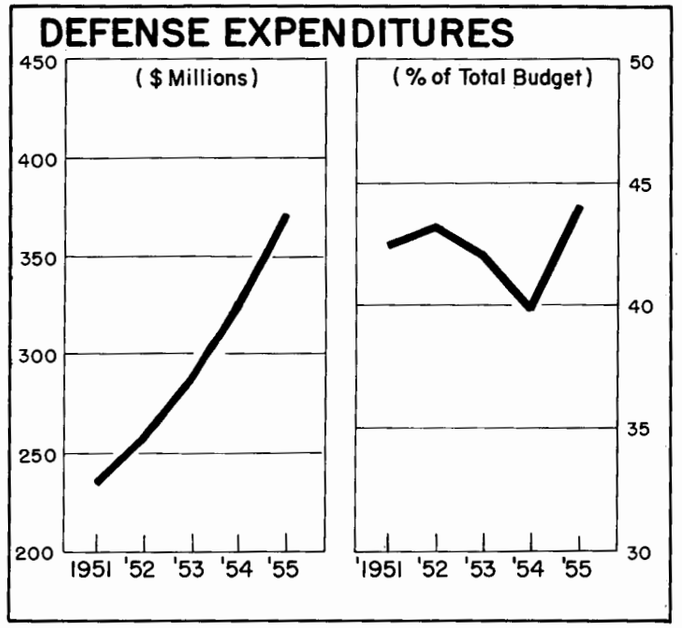
FINANCES

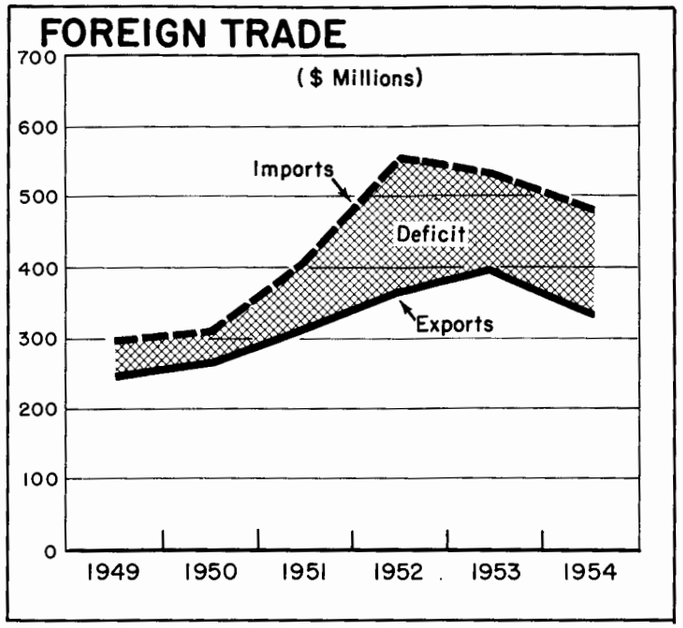
Central government budget - year ending February 28	1951	1952	1953[g]	1954[g]	1955[g]
		(millions of US $)			
Revenue, excl. counterpart.....		506	596	707	843
Expenditure.....		598	684	820	843
Defense.....		258	287	327	371
Capital outlay.....		117	142	176	211
Other non-defense.....		223	255	317	261
Surplus or deficit (-) before counterpart.....		-92	-87	-113	-
Counterpart funds.....		92	46	48	n.a.
Surplus or deficit (-) after counterpart.....		-	-41	-65	
As % of total revenue.....		-	6%	-9%	
Defense expend. as % of budget.....		43%	42%	40%	44%
Defense expend. as % of GNP.....		6.1%	5.7%	5.7%	6.5%
Prices (index 1948=100)					
Wholesale: Istanbul[f]	103	104	107	121	
Cost of living: Istanbul.....	103	109	113	125	

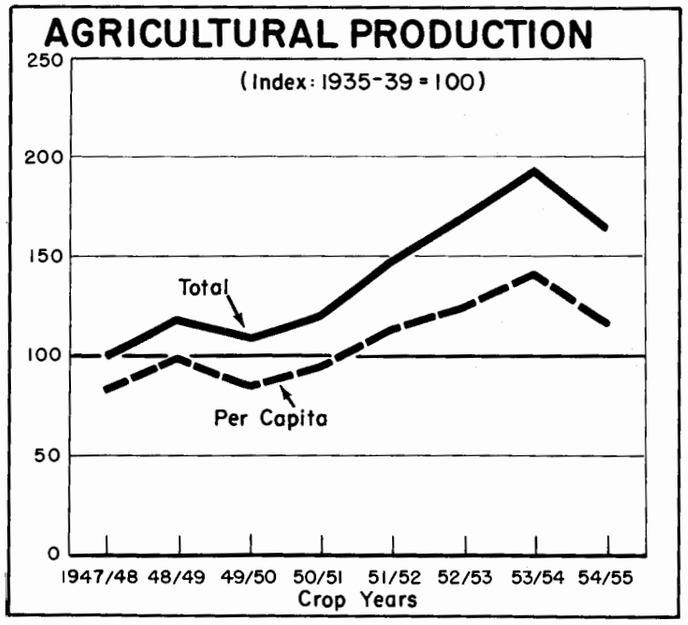
* 1954 data partly preliminary or estimated.
a Balance of payments data for year ended June 30, 1954.
b Undisbursed balance as of December 31, 1954: $6.3 million.
c Undisbursed balance as of December 31, 1954: $36.1 million.
d Central Bank only.
e Prewar average.
f Home consumed goods.
g Budget estimate.

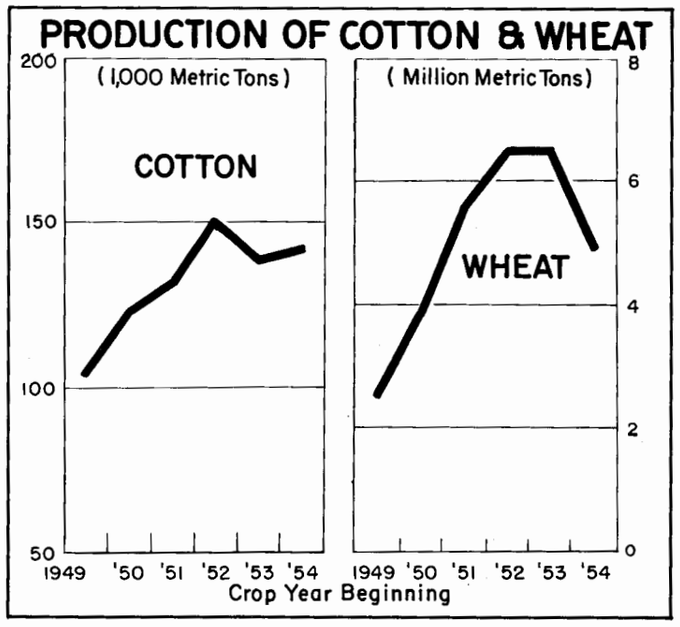
TURKEY

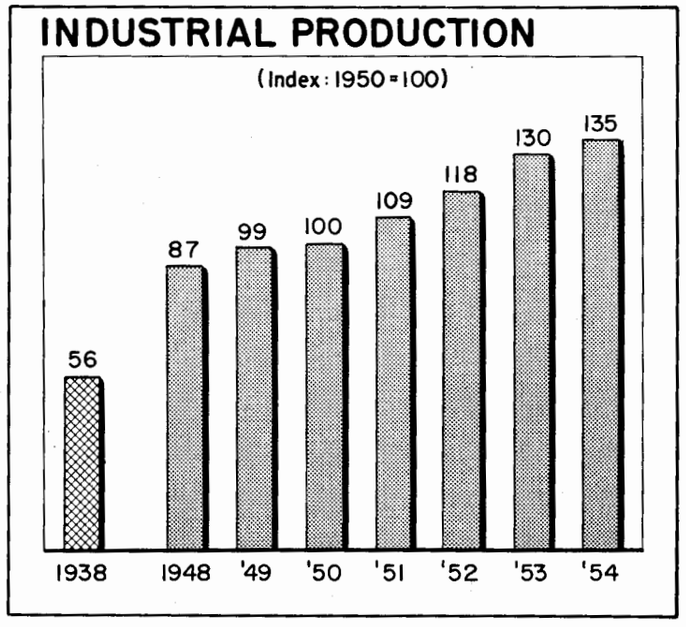

THE PROGRAM
($ Millions)
Technical Cooperation
78.6
2.9
45.1
30.6
70.7
1.7
44.0
25.0
72.5
2.5
50.0
20.0
Defense Support
Direct Forces Support
1954
1955
1956
Fiscal Years
(Proposed Program)


DEFENSE EXPENDITURES
($ Millions)
(% of Total Budget)
450
400
350
300
250
200
50
45
40
35
30
1951 '52 '53 '54 '55
1951 '52 '53 '54 '55


FOREIGN TRADE
($ Millions)
700
600
500
400
300
200
100
0
Imports
Deficit
Exports
1949
1950
1951
1952
1953
1954


AGRICULTURAL PRODUCTION
(Index: 1935-39 = 100)
250
200
150
100
50
0
Total
Per Capita
1947/48 48/49 49/50 50/51 51/52 52/53 53/54 54/55
Crop Years


PRODUCTION OF COTTON & WHEAT
(1,000 Metric Tons)
(Million Metric Tons)
COTTON
WHEAT
200
150
100
50
8
6
4
2
0
1949 '50 '51 '52 '53 '54
1949 '50 '51 '52 '53 '54
Crop Year Beginning


INDUSTRIAL PRODUCTION
(Index: 1950 = 100)
56
87
99
100
109
118
130
135
1938
1948
'49
'50
'51
'52
'53
'54

NEAR EAST AND AFRICA

Country: TURKEY

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Program Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	30,582	25,000	20,000
Defense Support	45,097	44,003	50,000
Technical Cooperation	2,889	1,687	2,500
Total Country Program Other Than Military Assistance	78,568	70,690	72,500
Of Which Financed by Loans:			
Defense Support	-	20,000	-
MSP Sales Surplus Agricultural Commodities			
1. Sales in this country	-	7,700	-
2. Sales Proceeds programmed in this country	-	7,700	-

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

Progress has been made during the past twelve months toward achieving the goals set by NATO for the Turkish defense establishment.

Turkey has made important gains in its economic growth with additions to the development of basic facilities, the production of energy through improved coal and power facilities, expanded rail and highway transportation, port construction, and agricultural productivity. However, Turkey's heavy military commitments and its accelerated development program have placed a strain on the economy which is causing serious concern. The United States is re-examining present military and development assistance in the light of Turkey's present critical economic situation.

Turkey continues to run an annual balance of payments deficit which, before taking U.S. aid into account, ranges from $150 to $200 million. Its money supply is greater, prices are

General Narrative Statement (Continued)

higher and the value of the lira in the free market is lower than a year ago, and first reports in 1955 indicate that the situation continues to deteriorate at an increasing rate. Since Turkey resorted primarily to bilateral trade arrangements in 1954, its average monthly deficit of only $5 million in EPU does not accurately reflect its current indebtedness.

Turkey has overhanging commercial arrearages of well over $150 million, and the Government is negotiating with most of its European trading partners, promising to liquidate certain percentages of its arrears in return for extended credits.

The domestic political situation continues to be stable and is not affected by decreasing supplies and increasing demand for goods. Indeed, a considerable portion of the Government's stability can be attributed to its optimistic development program and the hope engendered for higher living standards, and a feeling of national purpose that seems to reach through all levels of Turkish society. The Government and people continue to be strongly anti-Communist and rebuff overtures on the part of the USSR.

Turkey has taken the initiative in Middle East security arrangements and has succeeded in concluding pacts with Pakistan and Iraq under which these countries agree to cooperate in matters of security and defense. It has also reached military agreements with Greece and Yugoslavia in a Balkan alliance.

By means of these arrangements Turkey becomes a vital link in a security network stretching between Europe and Pakistan at the southern border of the USSR.

Program Objectives

The Unites States is interested in Turkey's continued energetic participation in the collective security arrangements of the Free World. It is in the U.S. interest for Turkey to meet its military commitments as established by NATO at standard levels of training and equipment as rapidly as conditions in the country permit. Turkey is also filling an important political role in the Middle East in organizing and orienting neighboring nations toward defense and security arrangements.

Conscious of the heavy burden the achievement and maintenance of its defense establishment places on Turkey's limited resources, the United States is contributing the difference between the cost of the required defense establishment and what the Turkish budget can afford. It is also the U.S. desire to see the economy develop so that funds will be available to finance an increasing share of its military requirements. To this end, the United States contributes Defense Support funds to assist in capital development and the direct increase of productive capacity.

Specific program objectives are: (1) Continue to assist the military establishment to attain NATO goals at standard levels of training and equipment; (2) Development of those sectors of the economy which will have early practical results in increased production; (3) Give priority to the completion of capital development projects underway rather than the undertaking of new projects; and (4) Continue effort to bring about those internal financial measures which are essential to a stable economy, and which Turkey must adopt if it is to avoid severe economic consequences.

Military Assistance

Military Assistance for Turkey began in 1947 and since that time the efforts of the Turkish Government in the buildup of its armed forces have been outstanding. This buildup can be more fully appreciated when viewed in the light of the condition of the Turkish forces prior to the receipt of military assistance. At that time the Turkish defense establishment consisted of well disciplined personnel with a will to fight but with no modern equipment, and insufficient training, organization, logistic support and funds. As a result of the MDA Program, significant progress has been made toward modernization and mechanization of the Turkish armed forces. The U.S. is continuing to provide assistance so that the Turkish army can be equipped, trained and organized into a modern, compact and relatively mobile force capable of performing its assigned mission. The

General Narrative Statement (Continued)

Turkish navy has been modernized with U.S. vessels and with quantities of spare parts and ammunition. In the Turkish air forces, progress has been slow. However, the conversion and expansion program is now ending and the Turkish air forces is entering a period of consolidation of effort to date.

Although many problems exist, including limited budgetary resources and lack of qualified technical personnel, progress to adequate standards is being made and the strong desire and will to succeed insures continued advancement by the Turkish armed forces. The strength of the Turkish armed forces is the greatest stabilizing factor in the Middle Eastern area and is the pivot of free world defense in both the Balkans and the Middle East. The effective efforts of the Turkish Government in developing collective security agreements with other nations in the area is further stabilizing the situation in this troubled part of the world.

Defense Support and Other Programs

The Defense Support and Direct Forces Support programs are intended to bolster the Turkish economy so that it can, without risking serious internal financial instability, contribute an increasing share of the cost of an adequate military establishment. Lacking the basic facilities for a development program, Turkey had first to build roads, port and rail facilities, and develop sources of energy. With the help of FOA and its predecessors, there has been substantial progress in these economic areas. This progress continues.

The gross national product expressed in current prices has risen from TL 12.4 billion in 1952 to TL 15.1 billion in 1954. A road system is being developed which will have increased the number of kilometers of road from 800 to 23,000. Along with it has been developed an administrative department which will provide the trained management required to maintain the system. The increased availability of energy through the improvement of mechanized coal mining facilities at Zonguldak, which will be completed this year, and electric power developments throughout the country is being turned into industrial production. From now on spare parts and raw materials to keep existing plants operating at capacity will constitute the major share of FOA programs.

Due to various unfortunate circumstances, 1954 was a year of marking time in some aspects of development, particularly in the fields of agriculture and mineral production. There was a levelling off in the sharp upward trend of overall area planting in 1954, accounted for in part by unfavorable weather conditions at seeding time. A serious drought reduced the countrywide average yields per hectare of wheat and other crops except rice and corn, by as much as 40 percent in 1954. Tobacco acreage and yields were both lower than the record crops harvested in 1953. Due to the shortfall in cereals, Turkey is importing 500,000 tons (almost $40 million) of grain under the United States surplus agricultural programs (PL 480) this fiscal year.

The critical economic situation was reflected in declining mineral production during 1954, where the shortage of foreign exchange and consequent insufficient import of technical services and equipment brought production of most ores down somewhat from previous highs. Sharply lower U.S. demand for chrome had a significant effect on export volume. Processing trailed behind production of raw ores as well as behind increased domestic industrial demands for refined minerals. The new legislation enacted during 1954, was intended to encourage private mining interests, Turkish and foreign, to participate in the further development of Turkish mineral resources. If successful, this could provide the solution to the problem of capitalizing the import of much needed technical services and equipment.

Through the Industrial Development Bank, the United States has encouraged private development through grants of $2.5 million to provide foreign exchange for private Turkish mining enterprise. An additional $3.2 million has been made available to the Bank to support other desirable private industrial projects. In addition, FOA has undertaken a training program for young Turks

General Narrative Statement (Continued)

to come to the United States and receive technical training in geology and mining engineering.

Development of Turkey's own educational and technical training institutions include FOA financed assistance by the University of Nebraska in basic organization of the Ataturk University to be established in Eastern Turkey (Erzurum). In addition, U.S. support has been given to the building of an engineering school at Izmir; the improvement of methods of teaching the English language at the Gazi Training Institute; the establishment of an institute of Public Law in Ankara; and the introduction, supervised by New York University, of courses in Public Administration at Ankara University.

As in the past, the counterpart of U.S. aid ($45 million in FY 1955) goes to help the Government of Turkey maintain the heavy local costs of its military establishment, but as Turkey's own defense budget increases each year, the percentage of this contribution to the total defense cost diminishes. It is utilized to finance the cost of such items as the training of military personnel, the construction of military establishments and lines of communication.

During Fiscal Year 1955, $25 million worth of the so-called "common use" items, jet fuel, lubricants, clothing, etc., will be provided, in addition to the Mutual Defense Support Program described above. This materiel which goes directly to the support of the military forces, was reduced somewhat from last year.

The FY 1956 Program

In FY 1956, $50 million in Defense Support is proposed in order to provide machinery and equipment for expanding industrial, agricultural and mining output, exclusive of Technical Cooperation, and to provide adequate counterpart to supplement the Defense Budget. This $50 million will provide the counterpart which finances the difference between what is needed to attain those defense levels set by NATO, and that portion of its budget Turkey is able to assign to defense activities.

Dollars available under Defense Support will be used primarily for trucking, highway, and railway and agricultural equipment and spare parts, and for machinery needed in the development of smaller industrial plants. Funds will also be made available to the Industrial Development Bank to provide dollar exchange for private producers in the industry and mining fields who require imports from the United States.

The Technical Cooperation program, in the amount of $2.5 million, would concentrate on developing training facilities in public administration, agriculture, engineering; in development of water resources, in improving technical facilities in defense production, and introducing techniques of modern business and management practices into other Turkish industrial enterprises, and in the development of trade unions. Training programs in the United States for all of these activities are to be continued.

For Fiscal Year 1956, $20 million worth of Direct Forces Support assistance is proposed for items such as POL, machinery, raw and semi-finished products for direct consumption by the military force.

NEAR EAST AND AFRICA

Country: TURKEY

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	Import of Saleable Commodities	Other Costs
Direct Forces Support											
1954	30,582										30,582
1955	25,000										25,000
1956	20,000										20,000
Defense Support											
1954	45,097									45,097	
1955	44,003									44,003	
1956	50,000									50,000	
Technical Cooperation											
1954	2,889	653	541	157	66	1,290	96				86
1955	1,687	197	443	524	48	150	68				257
1956	2,500	580	386	275	131	578	325				225
Total All Programs											
1954	78,568	653	541	157	66	1,290	96			45,097	30,668
1955	70,690	197	443	524	48	150	68			44,003	25,257
1956	72,500	580	386	275	131	578	325			50,000	20,225

NEAR EAST AND AFRICA

Country: TURKEY

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954	30,582	30,582							
1955	25,000	25,000							
1956	20,000	20,000							
Defense Support									
1954	45,097	41,829			75	3,268			
1955	44,003	42,422			61	1,581			
1956	50,000	48,860			42	1,140			
Technical Cooperation									
1954	2,889	184	65	207 a/	46	1,410	335	1,004	84
1955	1,687	72	70	274 a/	48	870	80	323	148
1956	2,500	40	85	1,017	57	410	195	805	228
Total All Programs									
1954	78,568	72,595	65	207	121	4,678	335	1,004	84
1955	70,690	67,494	70	274	109	2,451	80	323	148
1956	72,500	68,900	85	1,017	99	1,550	195	805	228

a/ Does not represent total costs of technicians employed since amounts shown include only net new funds utilized for this purpose.

NEAR EAST AND AFRICA

Country: TURKEY

INDIVIDUAL COUNTRY DATA
(EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support: For Project Utilization	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Direct Forces Support	FY 1955 Total	FY 1956 Defense Support: For Project Utilization	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains			6,500		6,500				
Fertilizer			1,250		1,250		1,500		1,500
Miscellaneous and Other			575		575		500		500
Ocean Freight			1,650		1,650		200		200
Total Food & Agric. Imports			9,975		9,975		2,200		2,200
Less Sales Proceeds Programmed for Other Countries									
Net U.S. Financed Food & Agr.Imports			9,975		9,975		2,200		2,200
Industrial Imports									
Fuel	7,299			11,000	11,000			12,000	12,000
Raw & Semi-Finished Products	4,959		1,800	3,927	5,727		2,000	3,000	5,000
Machinery & Vehicles	29,923		25,800	2,039	27,839		32,000	2,000	34,000
Miscellaneous & Unclassified	25,510		5,328	5,759	11,087		9,000	1,200	10,200
Ocean Freight	7,988		1,100	2,275	3,375		4,800	1,800	6,600
Total Industrial Imports	75,679		34,028	25,000	59,028		47,800	20,000	67,800
Total Commodity Program	75,679		44,003	25,000	69,003		50,000	20,000	70,000
Transfer of Cash									
Services									
Total Country Program	75,679		44,003	25,000	69,003		50,000	20,000	70,000

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: AFRICAN OVERSEAS TERRITORIES

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	8,000	-	-
Technical Cooperation	3,358	2,352	4,000
Total Country Program	11,358	2,352	4,000
MSP Sales Surplus Agricultural Commodities			
Sales proceeds programmed in OT's	10,300	-	-

General Narrative Statement

Current Situation

The African overseas territories of the United Kingdom, France, Belgium, Portugal and Italy are in varying stages of political and economic development. Since the second World War there has been in most of them growing evidence of accelerated political awakening on the part of the peoples of the African territories resulting from their greater contacts with the Western World and with the idea of progress. Their desire for progress extends not only into the political field but also into the social and economic. While it is difficult to separate the political from the economic in this context, in Africa, as elsewhere, dissatisfaction with the rate of progress in the economic and social fields tends to increase difficulties in the political field. The status of the individual territories varies markedly with respect to the manifest and articulate desire for political, social and economic change. The most striking developments in the past year have been the continuance of the Mau Mau disturbances in Kenya and the nationalist movements in French North Africa, the apparent move toward a solution of the Buganda problem in Uganda through new constitutional arrangements, the movement of the Gold Coast and Nigeria toward self-government and the progress being made by the Central African Federation. The difficulties in Kenya have resulted in a drive on the part of the local government and the United Kingdom to improve social and economic conditions among the native peoples as a prerequisite to a peaceful evolution of a multi-racial society; this drive involves substantial expansion in the programs of improvement of native agriculture, basic education and community development and education, particularly technical and vocational training. The movement toward industrialisation in Uganda resulting from the completion of the Owens Falls Dam has resulted in increased demands for technical and vocational training of the local peoples. The nationalism accompanying the movement toward self-government in the Gold Coast, Nigeria and Sierra Leone has resulted in demands for increased numbers of local peoples trained to take over positions in business and government, which requires a substantial

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General Narrative Statement (Continued)

expansion in facilities in education, particularly technical and vocational, and in agricultural experimentation and demonstration. The French North African situation is still being handled primarily as a political one but if a political solution is achieved it can only be expected to be lasting if there is considerable effort in improving the economic and social well-being of the peoples.

Program Objectives

The African overseas territories of the NATO countries are of economic and strategic importance to the United States and our European allies. North Africa is an essential buttress to western defense positions in Europe, the Mediterranean and the Middle East. Africa is practically the sole source of supply for industrial diamonds and cobalt, and is an important producer of columbite, uranium, chrome, manganese, copper, tin, asbestos, graphite, palm oil and sisal.

Some of the territories are more important than others from the strategic and economic standpoint and some may be thought to have little significance for these reasons. But, what happens in one territory has repercussions in the others. It is for this reason that these territories are treated as a group and not individually.

The orderly evolution of the African territories requires economic as well as social and political progress. Economic development requires improvement in the health and capabilities of the people, as well as large-scale capital investment in transportation, power and production facilities.

This is, of course, the primary responsibility of the territories themselves and the metropoles. U. S. public assistance can be justified only when it is coordinated with and adds significantly to their joint efforts; but when this is the case, it is important that the U. S. participate and thus demonstrate its continued sympathy for these underdeveloped areas and their peoples.

The problems being faced in the African overseas territories, particularly in the fields of agriculture and transportation, are in many cases comparable to those faced in the development of the United States, particularly in the west and the south. Another basic problem in these territories is technical and vocational training in the English-speaking areas of people whose language was not English to begin with and who have had no association with modern technology at all. The U. S. can make a real contribution in helping these areas to develop their human and economic resources through the application of the techniques which we developed and used so successfully. The objective of the program is therefore to demonstrate how the use of U. S. techniques may make it possible through a wiser use of available resources to achieve a more rapid rate of social and economic development.

Progress to Date

Review on-the-spot in the territories by competent U. S. technicians during this period has shown that because there is such a shortage of European technicians and trained local peoples in many fields and because the U. S. has had a unique experience particularly adaptable to African problems in such fields as agriculture, transportation and vocational and technical education, a relatively small U. S. program of technical cooperation could make a substantial contribution to the increased social and economic well-being of the peoples of these territories and thus to political stability.

A series of projects has been approved for the United Kingdom territories in both East and West Africa in the fields of agriculture, vocational education and transportation. Under these projects U. S. technicians will be supplied or people from the territories will be trained in the U. S. and demonstrations of U. S. techniques will be made. In each instance, the territories, with United Kingdom assistance, take the responsibility for the program, bear by far the larger part of the financial cost and will assure the continuation of the programs upon the completion of U. S. assistance. A number of these pro-

General Narrative Statement (Continued)

jects lend themselves to handling under university contracts, two of which are already under negotiation.

A joint fund for agriculture has been established for Italian Somalia. A preliminary contract has been executed with South Dakota State and their representatives, after a visit to Somalia, made a firm proposal to FOA and the Italian authorities for a contract under which Somalia would be trained as a first step in creating a body of trained Somalis capable of moving ahead with agricultural improvements in that territory which is scheduled for independence in 1960.

A series of projects in agriculture has been completed in the Belgian Congo and recommendations made to the Congo authorities as to setting up new divisions for vocational education, extension service and agricultural economics. The Congo authorities have accepted those recommendations and requested assistance in training proposed staff for these new divisions in the U. S.

Small projects have been agreed to with Portugal for agricultural demonstration in the Azores and for coffee rust experimentation in Portugal to serve the whole of the African coffee-producing areas and possibly the Latin American area as well.

No new projects have yet been agreed to in the French territories in FY 1956.

The FY 1956 Program

The proposed technical cooperation program for the African overseas territories in FY 1956 is in the amount of $4 million as compared with a program of $2.4 million in FY 1955. (In FY 1954, $10.3 million of African Overseas Territories funds were used to finance Section 550 transactions under which surplus agricultural commodities were imported into the European metropoles and the local currencies were to be used to support programs in the Overseas Territories. This fund was used in the amount of $5 million, France; $5 million, United Kingdom; and $0.3 million, Italy, of which $8 million was programmed for development assistance activities and $2.3 million was programmed for technical cooperation. These local currencies largely became available in FY 1955 and are being used to implement FY 1954 programs developed for this area.)

The program in FY 1956 will be a continuation of that which is underway in FY 1955 and no substantial changes in direction are anticipated.

NEAR EAST AND AFRICA

Country: AFRICAN OVERSEAS TERRITORIES

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	All Other
Development Assistance									
1954	8,000	4,800		300		2,900			
1955									
1956									
Technical Cooperation									
1954	3,358	989	20	22		10	17		2,300
1955	2,352	1,280	19	154	139	620		140	
1956	4,000	1,960	133	220	260	1,187	90	150	
Total All Programs									
1954	11,358	5,789	20	322		2,910	17		2,300
1955	2,352	1,280	19	154	139	620		140	
1956	4,000	1,960	133	220	260	1,187	90	150	

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

Country: AFRICAN OVERSEAS TERRITORIES

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954	8,000	5,100							2,900
1955									
1956									
Technical Cooperation									
1954	3,358	2,864	15	127	14	182	17	35	150
1955	2,352	293	15	186	76	1,685	53	158	30
1956	4,000	1,027	25	224	95	2,143	87	276	330
Total All Programs									
1954	11,358	7,964	15	127	14	182	17	35	3,050
1955	2,352	293	15	186	76	1,685	53	158	30
1956	4,000	1,027	25	224	95	2,143	87	276	330

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Technical Cooperation	327	1,719	2,200
Total Country Program	327	1,719	2,200

General Narrative Statement

Program Objectives

The objective of this program is to help the countries in the NEA Region to undertake or participate in technical assistance projects that can be carried out more efficiently on a regional basis. Many of the problems common to these countries lend themselves to inter-country cooperation not only for reasons of economy and effectiveness, but through joint action, the projects serve as a basis for harnessing and developing regionwide mutual interests, reinforcing the values which accrue through individual USOM country programs.

Progress to Date

To date, the principal programs which have permitted successful cooperation in basic regional problems are: insect control, certain water development and conservation techniques, land problems, and training in many fields of work.

The establishment of a regional training program and appointment of a Regional Training Office provides for effective coordination of training programs in the NEA area, facilitating the full use of existing training facilities on a region-wide basis and the development of needed facilities as required for the training of nationals as technicians. A contract with the American University of Beirut will contribute substantially to meeting the professional and semi-professional training needs of the area and eliminate possible duplication of effort.

Economic losses due to locust and other insect infestations in FY 1955 have been kept at a minimum level through insect control programs involving 22 crops. Forty pilots have been trained in the techniques of aerial spraying, and two countries - Iran and Iraq, are establishing their own insect control programs.

Eighteen technicians from six countries were trained in FY 1955 in an intensive course on the installation of waterspreading systems and improved range practices. This impact program continues to be an important means of accelerating country efforts in the improvement of livestock-carrying capacities of desert and semi-desert areas.

Through a regional community development expert, the self-help principle in country community development programs in FY 1955 received a substantial impetus, particularly in the non-Arab countries, with the launching of a number of new programs.

REGIONAL PROJECTS

General Narrative Statement (Continued)

The Program for FY 1956

Plans for FY 1956 call for continuing projects in the major activities indicated above: insect control, water development and conservation, community development and training. It is expected that in FY 1956, a regional approach will be initiated toward stimulation of country participation in the fields of transportation and industry. There is a growing recognition of the need for accelerating industrial development in the region; technical cooperation, through the regional approach, is expected to enlist an increasing degree of regional cooperation and interest in the fields of transportation and industry with appropriate coordinated planning emphasis. This will include projects in Civil Aviation Training, Electronics Training and study of the regional highway needs which will constitute the first critical step in the regional development of a road system.

In the field of agriculture, a Land Problems Conference and Training Course sponsored by the Government of Iraq, FOA and FAO in September, 1956 should rival, in importance and value to all the participating countries, and other international effort in the region in assisting the countries in their aspirations to solve pressing land problems.

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development, Social Welfare and Housing	Import Saleable Commodities	All Other
Technical Cooperation											
1954	853	560	86	19		33	68		87		
Less Savings Prior Year Obligations	526	361	50	10		20	35		50		
Net New Funds	327	199	36	9		13	33		37		
1955	1,719	570	116	357		32	576		68		
1956	2,200	490	160	439		182	803		126		

NEAR EAST AND AFRICA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	853	230	35	284	19	183			156
Less Savings Prior Year Obligations	526	150		204		103			69
Net New Funds	327	80	35	80	19	80			87
1955	1,719	101	35	321	10	1,197*	48*	12*	88
1956	2,200	54	27	429	21	1,517*	48*	12*	188

*Shown under Contract Services is $550,000 for FY 1955 and $775,000 for FY 1956 for Regional Training Project Contract. Approximately 250 trainees for FY 1955 and 300 trainees for FY 1956 are provided for on a full-time basis by this contract.

Comparative Summary of U. S. Contributions

(In thousands of dollars)

Function	FY 1953	FY 1954	FY 1955	Proposed FY 1956
Palestine Refugees in the Near East				
Relief Program	16,000	15,000	16,700	16,500
Reintegration Program	20,000			48,500
Total Program	36,000	15,000	16,700	65,000

General Narrative Statement

The Situation

Seven years ago as a result of the Palestine conflict nearly a million Arabs left their homes in what is now Israel. For reasons which remain points of bitter dispute, they sought shelter in the remainder of Palestine and the four neighboring Arab States -- some of which were already overpopulated and all of which faced serious problems of unemployment and low living standards. Their places have been taken by close to a million Jewish people. The Arab refugees have not been compensated for their property. Some of the refugees returned to Israel, and others found employment in Arab countries. However, 887,000 refugees are today receiving rations from the United Nations Relief and Works Agency.

Approximately 486,000 are in Jordan, where they comprise well over one-third of the population. Another 212,000 are in the Gaza Strip, a coastal area now under Egyptian Military Government, which supported 70,000 people when it was part of the Palestine Mandate. Some 101,636 are in Lebanon and 86,191 are in Syria. Generally speaking, they are restless and bitter. Continuation of a relief program is considered essential to prevent complete catastrophe.

The magnitude of the problem is so great and rehabilitation programs so time consuming that the life of UNRWA was extended for another five years by the UN General Assembly at its last session. The Agency is currently re-examining ways and means of improving refugee incentives toward rehabilitation, and of working out major projects. It is seeking closer cooperation of the host governments in the removal of non-bona fide relief recipients from relief roles. It is giving greater attention to the refugee youths (50 percent of the refugees are under 16 years of age) by expanding programs of vocational education. Education and major rehabilitation projects are the keys to the problem of the refugees.

Its solution is of great importance to U. S. interests in the Near East. The presence of the refugees aggravates the instability and insecurity of the region, blocks any effort to establish normal relations between Israel and her neighbors, and is an invitation to Communist agitation.

General Narrative Statement (Continued)

The Relief Program

Insofar as the welfare of the refugees is concerned, 834,000 daily rations of about 1600 calories are being distributed among a total of 887,000 refugees as of June 30, 1954, no significant change having occurred in this total for the past three years. The cost of this ration is about $3 per ration per annum. It is considered just adequate for the requirements of the refugee group, and more often than not UNRWA is criticized by observers from abroad for not providing enough. Many of the refugees, however, are able to supplement their rations by occasional work available to them. Any significant increase in rations may result in some cases in placing a premium on idleness, and in other cases in creating a willingness to work at cut-rate wages, thus intensifying the already serious pressure of refugee labor in the local labor market and resulting in still further hardship on the settled population, particularly in Jordan and in Lebanon. Serious social problems have arisen because of the competition of refugee labor in these countries.

The conduct of this program is on an orderly basis. UNRWA purchases on world markets, and substantial quantities of flour and other foodstuffs are being secured in the United States.

Great advances have been made in the past years in providing shelter, and at the present time, only about 10 percent of the refugees are housed in tents. This indicates that more substantial housing has been found for no less than 200,000 people since March 1951. Two-thirds of the refugees have found shelter otherwise than through UNRWA. The health and welfare programs have been well conducted, and especially significant for the future has been the initiation of an anti-malaria campaign in the Jordan Valley. This measure, along with engineering surveys now completed, is preparatory to the proposed extension of irrigation in the Jordan Valley. The clothing of the refugees has been provided by voluntary donations, UNRWA having paid freight and distribution charges on clothing which has originated in about equal quantities in the United States and in Great Britain. It may be necessary for UNRWA to supplement this source by providing cotton cloth or cotton yarn to be woven in refugee centers.

The cost of the relief program approximates $25 million annually, and this figure is not likely to be reduced until substantial employment occurs on the projects for rehabilitation. While substantial numbers of refugees are finding their way quietly into useful employment, their places on the ration rolls are claimed by the natural increase in the population of the refugees which amounts to about 20,000 people annually.

Rehabilitation Program

Substantial progress has been made in two major projects for which funds have been reserved in prior years. Engineering examination of the project in Sinai is well advanced, and the possible outlines of the undertaking are now becoming clear. This project is estimated to involve the irrigation of 50,000 acres, to provide a living for 70 or 80,000 refugees, and may cost as much as $50 million. It involves increasing the capacity of the present sweet water canal which leads from the Nile to the Suez Canal; a siphon to convey water under the canal; a pumping operation to raise the waters a few meters to an appropriate height to permit gravity flows to agricultural lands; land reclamation operations similar to those practiced in the Nile Valley; establishment of farms and necessary community centers. Much of the work can be done by the refugees themselves, thus reducing the relief burden in Gaza.

This project has substantial support in the Egyptian Government, and has been actively pushed as a result of the initiative of the Egyptians. A feasibility report, prepared by the Egyptian authorities in collaboration with American engineers, provided by UNRWA, is scheduled for completion in April 1955; this will enable UNRWA to enter on final negotiations with Egypt, looking to a commitment to carry out the project. The construction of the major irrigation works involved need not require more

General Narrative Statement (Continued)

than two years to complete, and settlement resulting from the construction can be well under way within the third and fourth year following the beginnings of construction. Provision is proposed for substantial support of this project in appropriations for FY 1956.

The second major project which has attracted widespread attention and which has been the subject for negotiations conducted by Ambassador Eric Johnston as Special Representative of the President of the United States involves the rational development of the waters of the Jordan River to benefit both Israel and the interested Arab states of Lebanon, Syria and Jordan. Agreement on this project will result in important economic benefits in the area, including the perennial irrigation of approximately 125,000 acres in Jordan of which approximately 40,000 acres are now irrigated part of the year. From this development it is estimated that at least 150,000 refugees, including farming population and those benefiting from secondary employment, could benefit and in the course of time become fully self-sustaining. The cost of principal and secondary irrigation works, and of community facilities, is estimated to be of the order of $90 million. While this program will undoubtedly be carried out in phases, it will be necessary to make a sizable commitment once agreement has been reached by riparian states with Ambassador Johnston; the first stage will inevitably require commitments on reservoir control works and canals as well as certain other elements of the entire project through the farm and community centers. It is considered appropriate to make provision for initiating substantial segments of this project with fiscal year 1956 funds, although completion of the project would take a number of years, and will require a still longer period before its full effects are manifest.

In addition to these major projects, UNRWA has financed several smaller resettlement programs and is also devoting rehabilitation funds to education and training. The educational program now affects no fewer than 154,000 refugees or 17 percent of the total refugee population. The cost of this program, including elementary and vocational training and a certain amount of advance study, was $2.5 million in fiscal year 1954, charged to rehabilitation funds. It is intended to expand the educational program.

Finances

The Executive Branch in past years has stated that U. S. contributions to UNRWA would not exceed 70 percent of contributions from all sources. It has been possible so far to maintain this position. The $65 million is the first requirement for new appropriations since FY 1953 because of the difficulties of moving ahead with the resettlement program. The $30 million authorization contained in the Mutual Security Act of 1954 has not been used to seek appropriations since reappropriation of prior year funds has to date made possible adequate contributions to UNRWA. The table below indicates an outline of UNRWA's financial position and provides the basis for the request for authorization and appropriation of $65,000,000 for fiscal year 1956; it is assumed that other governments will find funds for 30 percent of the total requirement.

UNRWA CASH REQUIREMENTS - FISCAL YEAR 1956

Estimate of Assets July 1, 1955		
Balance July 1, 1954	$39,500,000	
Estimated receipts FY 1955	24,500,000	
	64,000,000	
Estimated expenditures FY 1955	34,000,000	$30,000,000
Estimate of Expenditures FY 1956		
Relief	27,800,000	
Education and related activities	7,600,000	
Miscellaneous rehabilitation projects	8,500,000	
Required for commitment, major projects:		
Jordan Valley	35,000,000	
Sinai	26,500,000	
Required for working balance, close of fiscal year	20,000,000	125,400,000
Total requirements, less assets July 1, 1955		95,400,000
Proposed contribution from U.S.	65,000,000	
Proposed contributions from others	30,400,000	95,400,000

UNITED NATIONS RELIEF AND WORKS AGENCY

Comparative Summary of Receipts and Obligations

(In thousands of dollars)

	Program		
	FY 1954	FY 1955	Proposed FY 1956
Receipts			
Working Capital	45,200	39,600	30,000
Contributions and Miscellaneous Receipts			
U. S. Contribution	15,000	16,700	65,000
Other Contributions	8,600	8,500	30,400
Total	68,800	64,800	125,400
Obligations and Expenditures			
Relief	23,900	25,100 (Est.)	27,800
Reintegration	5,300	9,700 (Est.)	77,600
Working Capital	39,600	30,000	20,000
Total	68,800	64,800	125,400

ASIA

EXCERPT FROM PRESIDENT'S MESSAGE

"....But the immediate threats to world security and stability are now centered in Asia. The preponderance of funds requested of the Congress will be used to meet the threat there. Within the vast arc of free Asia, which extends from the Republic of Korea and Japan to the Middle East, 770 million people, one-third of the world's population, reside. Most of them are citizens of newly independent states. Some have been engaged in recent war against the Communists. All are threatened. Capital is very scarce. Technical and administrative skill is limited. Within the area, however, abundant resources and fertile lands are ready for development.

Now is the time for accelerated development of the nations along the arc. The major responsibility must necessarily lie with the countries themselves. At best, foreign capital as well as foreign aid can only launch or stimulate the process of creating dynamic economies. In this light, the United States has the capacity, the desire, the concern to take the lead in friendly help for free Asia.

For example, we can assist in providing and mobilizing capital for useful and constructive development. We can encourage our successful private industry to join with the people of free Asia in building their private industry and facilitate the way. We can consult and advise on the means by which a free nation builds upon the initiative of independent farmers to achieve a steady advance toward better standards of living, in contrast to the mounting failures of collectivist agriculture.

It is clear that most of the nations of free Asia prefer to quicken their cooperative march toward these objectives through the Colombo Plan Consultative Group which was established in 1950 to promote mutual economic development. We welcome this initiative. As a member of the Group, we shall continue to work in strengthening its cooperative efforts.

The varied nature of national situations requires that our cooperation be essentially bilateral. Some of the nations are members of the Manila Pact and their treaty obligations give rise to special economic problems. Most are members of the Colombo Plan. Most, except for Japan, have very little industrial capacity.

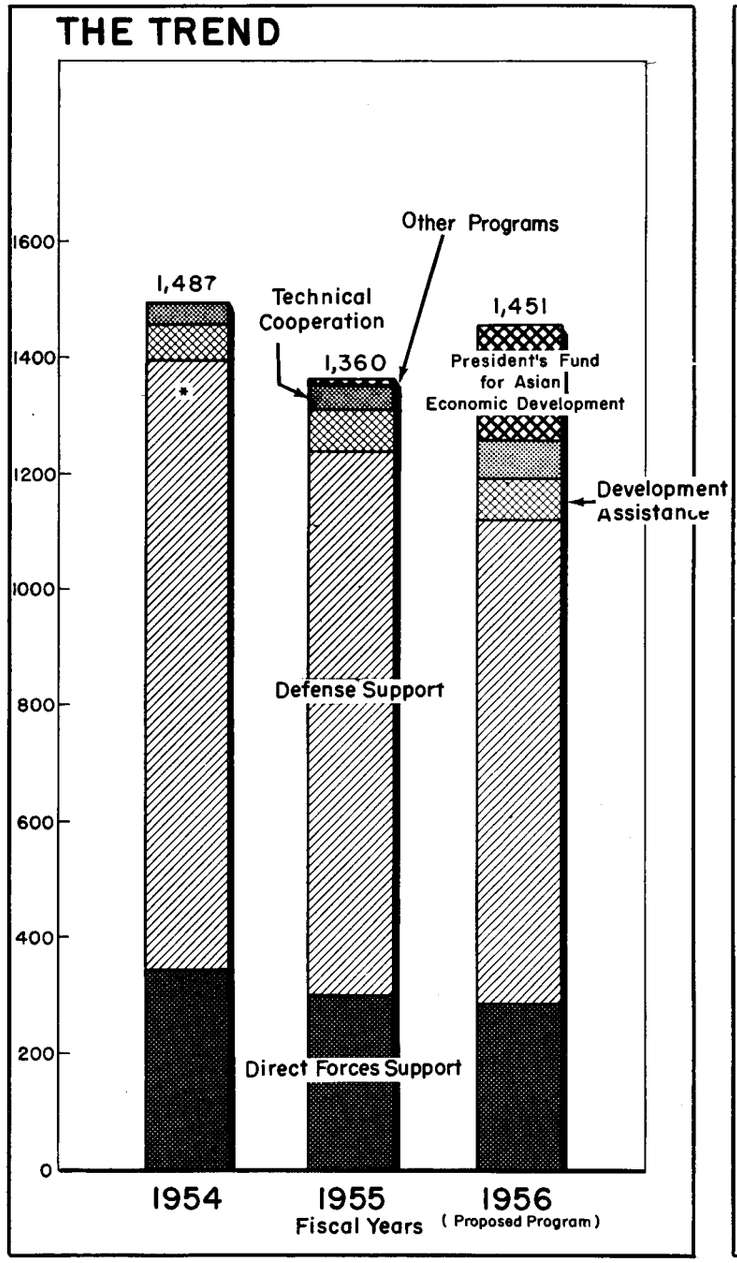
The requested authorization includes substantial funds to further our mutual objectives in this area. Of these funds I suggest that we can achieve the maximum return if $200 million is set aside for the establishment of a President's Fund for Asian Economic Development, with broad rules enacted by Congress for its use through loans and grants, and with adequate latitude to meet changing circumstances and to take advantage of constructive opportunities.

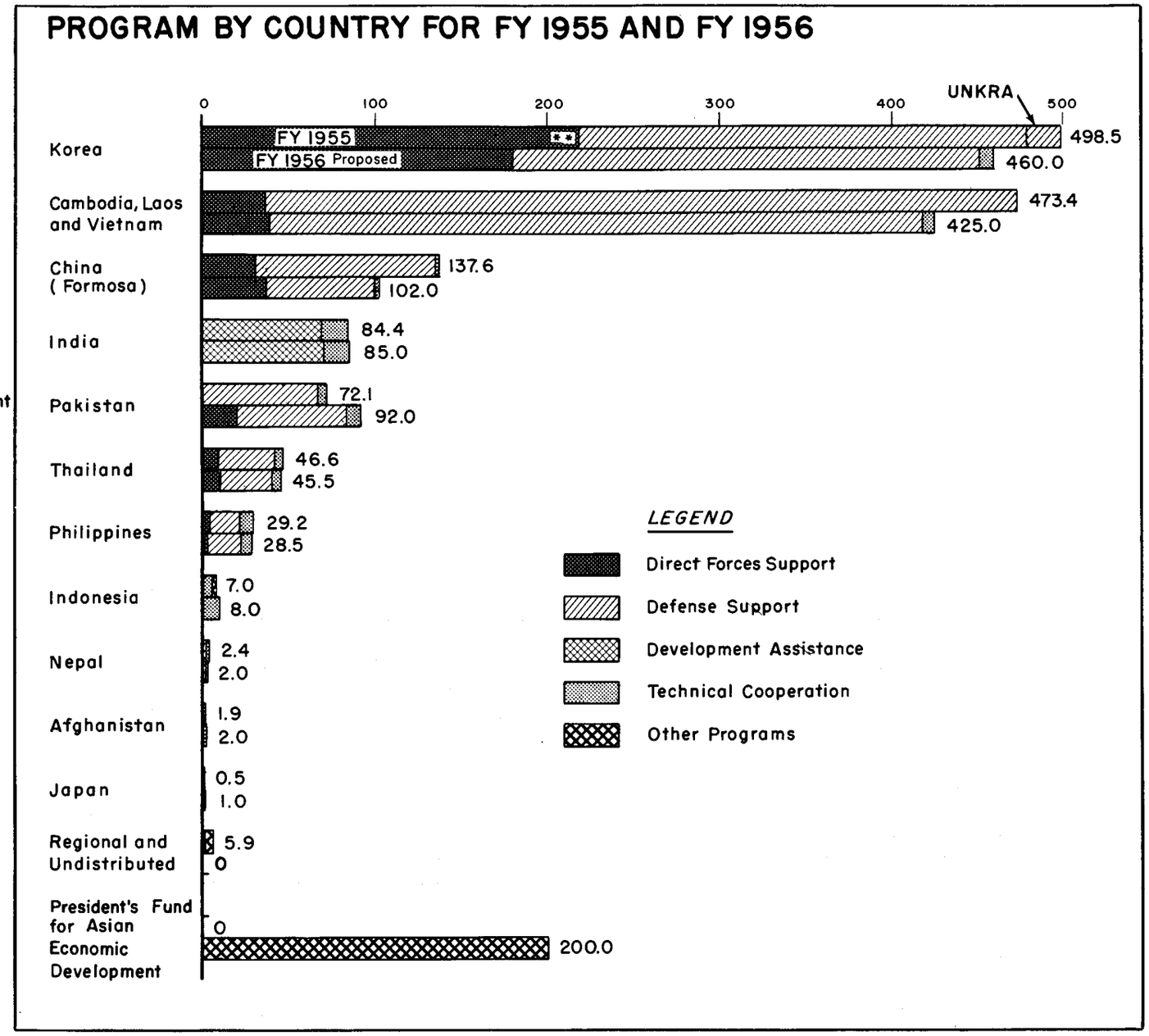
To help assure the most effective use of these funds, this appropriation should be available for use over a period of years. Wisdom and economy in their use cannot be achieved through speed. A small, firm, annual commitment out of this $200 million may prove in many instances to be the most fruitful method.

Because of the continuing threat of aggression and subversion in Asia, a large part of the amounts requested for military assistance and direct forces support is to build and maintain the defensive forces of our allies there. This includes the substantial costs of maintaining and improving the defenses of the Nationalist Government of China in Formosa and provides for military equipment and supplies for Korea. ...."

ASIA

($ Millions)





*Includes $65.9 million Korean Civilian Relief (CRIK) program funded from Dept. of Defense appropriations.

**Direct Forces Support for Korea estimated at $172.0 million in FY 1954 and $218.5 million in FY 1955, of which all the FY 1954 program and $189.6 million of the FY 1955 program were funded from Dept. of Defense appropriations.

ASIA

REGIONAL COMPARATIVE SUMMARY OF PROGRAMS BY FUNCTIONS

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	329,633 b/	296,460 b/	285,700
Defense Support	1,059,569 c/	940,738 e/	827,800 e/
Development Assistance	61,649	70,935	71,000
Technical Cooperation	35,856	45,516	66,500
Other Programs		5,900	200,000
Total Programs Other Than Military Assistance	1,486,707	1,359,549 d/ f/	1,451,000 f/
Of Which Financed by Loan			
Defense Support		40,000	
Development Assistance		45,000	
Total		85,000	
MSP Sales Surplus Agricultural Commodities			
1. Sales in This Area	61,215	90,900	130,000
2. Sales Proceeds Programmed in This Area - Total	16,215	140,900	130,000
Direct Forces Support		4,800	10,000
Defense Support	15,000	110,100	90,000
Development Assistance	1,215	26,000	30,000

a/ Data included in separate submission on Military Assistance.

b/ Includes, for comparability purposes, non-Mutual Security funds (Department of Defense appropriations) totaling $172,033,000 in FY 1954 and $189,600,000 in FY 1955 programmed in Korea for Direct Forces Support.

c/ Includes, for comparability purposes, $65,926,459 of non-Mutual Security funds (Department of Defense appropriations) programmed in Korea for Civilian Relief (CRIK) Program.

d/ Includes $29,958,000 programmed in this area from savings in the prior year program for support of forces in Cambodia, Laos, and Vietnam.

e/ Obligations estimated at $915,738 in FY 1955 and $852,800 in FY 1956; adjustment affects Cambodia-Laos-Vietnam.

f/ Obligations estimated at $1,334,549 in FY 1955 and $1,476,000 in FY 1956; adjustment affects Cambodia-Laos-Vietnam.

ASIA

REGIONAL DISTRIBUTION OF FY 1956 PROGRAM

By Function and Country

(In thousands of dollars)

Country	Military Assistance	Direct Forces Support	Defense Support	Development Assistance	Technical Cooperation	Other Programs	Total
South Asia							
Afghanistan					2,000		2,000
India				70,000	15,000		85,000
Nepal				1,000	1,000		2,000
Pakistan		20,000	63,000		9,000		92,000
Undistributed by country							
Subtotal		20,000	63,000	71,000	27,000		181,000
Far East							
China (Formosa)		37,000	62,000		3,000		102,000
Indonesia					8,000		8,000
Japan					1,000		1,000
Korea		180,000	272,000		8,000		460,000
Philippines		2,300	19,700		6,500		28,500
Thailand		8,200	31,800		5,500		45,500
Cambodia, Laos, Viet Nam		38,200	379,300 a/		7,500		425,000 a/
Subtotal		265,700	764,800		39,500		1,070,000
President's Fund for Asian Economic Development						200,000	200,000
TOTAL PROGRAM		285,700	827,800 a/	71,000	66,500	200,000	1,451,000 a/

a/ Obligations for Cambodia, Laos, Vietnam estimated at $404,300 for Defense Support due to estimated carryover of $25,000,000 from FY 1955.

ASIA

Regional Narrative Statement

THE REGION

This region extends from Afghanistan on the West through South and Southeast Asia to Japan on the East. It has a population of about 770 million persons (45 percent of the Free World total), and an area of 3.7 million square miles (9 percent of the Free World). The independent countries in the area in which the Mutual Security Program may operate are Afghanistan, Pakistan, India, Ceylon, Burma, Nepal, Indonesia, free Viet Nam, Cambodia, Laos, Thailand, the Philippines, Formosa, the Republic of Korea and Japan. Two of these countries, Ceylon and Burma, are not participating in the program at the present time. The region has within it the Asian members of two important Free World associations concerned on the one hand with the security and, on the other, with the economic progress of South and Southeast Asia: the Manila Pact Countries and the Colombo Plan organization.

IMPORTANCE OF THE AREA TO THE UNITED STATES AND THE FREE WORLD

This group of countries is a most vulnerable and important area of United States security interests. The military-strategic significance of these countries, apart from the large populations and resources involved, is derived from their location as a great arc of freedom around the center of Communist power in Asia. They include the new states of Asia which are particularly accessible to Communist expansion, either by overt aggression or by internal subversion. They include also the island chain which constitutes our defense line in the Pacific, and the mainland and islands which lie athwart Free World air and sea communications between the Pacific, South Asia and Europe. The denial of Free World access to this route would make immeasurably more difficult the task of stemming Communist advance elsewhere in Asia by peaceful intercourse among free nations, or if the necessity arose, by military undertakings to meet Communist aggression. A loss of any significant segment of this arc would make it infinitely more difficult to fulfill our mutual engagements through the Manila Pact, ANZUS and bilateral defense pacts with Asian countries.

For political and psychological reasons, it is also in the interests of the United States that the economies of these free nations be developed to the degree that these responsible governments can maintain themselves against forces of subversion and fragmentation. To accomplish this objective, it is in our interest to assist the free nations of Asia, even though in some cases their foreign policies may not coincide with ours, if it is their firm policy to remain free. We can be certain that these countries and their governments value their recently acquired independence and that substantial elements in all these countries realize the threat to progress and freedom which the Communist Parties in the area constitute. In most of these countries the fight being waged against these Parties is vigorous and unrelenting. Furthermore, they, like us, are dedicated to peace, stability and security. They need assistance in this critical period while attempting, within a democratic framework, to achieve the economic progress required to help assure their political independence.

The psychological impact of further dramatic Communist successes in South and Southeast Asia would be particularly serious in other areas of Asia and the Near East which are striving to attain economic advancement and to maintain and further political stability under democratic institutions. The spurious claim of Communist China to possess and be practicing the only effective formula for rapidly improving the material well-being of underdeveloped and densely populated countries, would be greatly strengthened. Undesirable consequences to political systems in other parts of the Free World might be expected to follow. The results of Communist inroads among the countries of the area would be damaging to our position in the U.N. and other international forums, even though their posture in some cases is now one of non-commitment rather than active partisanship in the Free World struggle.

Our economic interests in this situation arise principally in three ways. These countries are sources of vital raw

Regional Narrative Statement (Continued)

materials required by Western world defense and civilian goods industries; they furnish important markets for some of the products of our highly industrialized economy though, with their present low incomes, they purchase only 10 to 12 percent of our exports; and they make an important contribution to a well balanced distribution of world trade and investment. In respect to sources of raw materials, over 90 percent of the Free World natural rubber, tea and jute and over 85 percent of its rice comes from South and Southeast Asia. Tin, mica, manganese, chrome and tungsten are other strategic items on which our dependence is very substantial. In addition, Japan relies on Southeast Asia for its oil, bauxite and iron ore supplies as well as for large amounts of food and textile raw materials. To Japan, trade with this area is one possible alternative to trade with Communist China. 39 percent of her exports now go to Southeast Asia as compared with 23 percent before the war. In return for the strategic and other materials furnished to the U.S. and Japan, the area imports large quantities of industrial equipment and consumer goods from these countries and from Western Europe. This trade adds substantially to the dollar earnings with which Europe can pay for its excess imports from the dollar area. The severance of this trade would have a very injurious effect on the strength of European currencies and consequently Free World economic health generally.

SITUATION AND OUTLOOK

1. Communist Offensive

At the present juncture the military forces of Communist aggression have been checked in the Far East. However, these forces are poised for action and remain a constant threat to world peace. Very substantial Communist forces threaten to invade Korea from the North, Formosa from the Mainland, and South VietNam, Laos, and other countries on the periphery of Russia and China. This has necessitated a large mutual security program. Since the U.S. considers the military forces of these countries essential to their protection as well as to its own security, and since these forces are in many instances far larger than the countries can support, it has been necessary for the U.S. to extend considerable assistance not only in the form of training and modern equipment, but also in the form of economic support to underwrite the defense effort.

In addition to the threat from without, internal subversion remains a serious problem, particularly in free VietNam. It is a smoldering menace in Malaya, Indonesia and to a lesser extent in the Philippines. In countries more remote from the threat of an armed Communist offensive, strenuous efforts are being made by the Soviet Bloc to cultivate and intensify anti-Western, and particularly anti-American propaganda and sentiments. This offensive is taking the form, among others, of propaganda disseminated within the countries by disaffected groups such as unemployed intellectuals. Realizing the appeal of technical assistance and the subversive use that can be made of Soviet Bloc technicians, Russia has increased sharply her proffers of technical aid, and even capital equipment, with the outwardly expressed purpose of contributing to economic development programs. In Afghanistan, Russia has undertaken a series of economic development projects, with some technicians from the iron curtain countries. If its vigorous efforts result in tying this strategically important country into the Southern reaches of Soviet power, preservation of the security of Asia will be made more difficult. Offers through the Economic Commission for Asia and the Far East of expenses paid "observation" trips to Russia and Communist Chinese programs of "education" for overseas Chinese, are recent examples which have met with some positive responses. Russia has made a particularly significant offer of a 1,000,000 ton steel mill to India. Tentative agreement has been reached providing for its financing on a long term, low interest basis. A point strongly emphasized in Soviet propaganda surrounding these projects is the claim that Western countries such as the U.K. and the U.S. do not want heavy industry in underdeveloped countries. They falsely represent that what they call our Wall Street monopolies are not willing to undergo the competition in U.S. export markets which an industrialized Asia might present. This propaganda line, feeding on basic anti-colonial and pro-industrialization sentiments of free Asian countries, can be very effective.

Regional Narrative Statement (Continued)

Many persons in Asia believe that by the "redistribution" of existing property and stepping up the rate of capital formation, Red-China is in the vanguard of economic development. At the same time, most Asian leaders now realize that the tyranny, anti-religious ideology and police state methods of Peking are some of the prices paid for such advancement under Communism. Thus, we find in important Asian countries a reaction to Communism which takes the form of strengthening measures against subversive influences within, even while they have a mixture of respect and fear for alleged Communist accomplishments outside their borders.

In those countries but recently wracked by a Communist military onslaught, the Republic of Korea and Viet Nam, priority attention must be paid to reconstruction, as well as economic development, at the same time defense forces must be strengthened to help cope with a possible renewed attack. In Formosa a special problem has arisen from the aggressive posture of Red China. The Manila Pact powers, Pakistan, Thailand and the Philippines are steadfast in their determination to maximize their military contributions to Asian security even while carrying forward programs related to the economic and anti-subversion provisions of that treaty.

2. Political and Economic Situations

A characteristic common to nearly all the countries of South and Southeast Asia is their recent acquisition of sovereignty. In some of these countries the reins of authority are firmly held by stable, democratic governments, but in others a considerable degree of political instability obtains. Independence has stimulated a desire for rapid economic advancement beyond the capacities of their economies to provide, or their institutional and administrative arrangements to properly manage.

Greatly aggravating their political problems is the heavy and growing pressure of population on resources in most of them and the fact that the most vulnerable of these countries have made only limited progress in improving living standards over prewar levels. In some cases living conditions are even inferior to those before the war. Internal savings and investment have not been sufficient to accomplish a perceptible economic growth even when supplemented by the trickle of private foreign investment which has entered the area in recent years. Security, economic, and administrative considerations are limiting this flow. The difficulty of securing sufficient resources to carry out development programs through normal sources of public or private investment has been accentuated by the reduced levels of foreign exchange income from the high levels of the Korean war period. While in some Asian countries, there is not an excessive pressure of population on potentially exploitable natural wealth, including agricultural lands, the need for improvement in technical capacities and skills, and for mechanical equipment to increase productivity and tap underdeveloped resources, is felt everywhere.

Contrary to general experience elsewhere the physical volume of international trade of the area is generally at or below prewar levels. Thus, while the recent increase in food production has made it possible to meet minimum consumption levels, clearly discernible advances are not being achieved in the over-all productivity of these economies. With 10 percent of the world's production to distribute among over a third of its population, the mere maintenance of the status quo is not enough to allay political discontent or counter the appeal or radical solutions.

Free Asian leaders recognize that the reports of economic advances in Communist China disregard the human cost of whatever progress is being achieved, but such reports do intensify their strong belief in the possibilities of economic progress, even in these countries with large populations and limited natural resources. At the same time a feeling of uncertainty flows from the excessive dependence of their own economies on a few export crops or raw materials sold in fluctuating world markets. These price fluctuations are a hampering factor in the orderly execution of development programs since both internal revenues and external income are largely responsive to them. Many of the imports purchased with their unstable foreign exchange earnings

Regional Narrative Statement (Continued)

could be produced internally, given a modest degree of industrialization. There exists a real fear in the area that income from these external sources will not be adequate or sufficiently stable to meet consumption demands, and at the same time provide a surplus required either to purchase capital equipment or to service foreign debts incurred for such purchases. For example, the aggregate trade balance of the countries of the arc of free Asia (excluding Japan) decreased between 1951 and 1954 from a surplus of about $900 million to an estimated deficit of $580 million.

3. Relation of Military and Economic Programs.

Only very productive, flexible and diversified economies such as the United States are able to expand and develop while undertaking a major military effort. Serious inflation, endangering social, political, as well as economic progress, may be expected to result from an unsupported attempt to carry out such a dual program in nearly all Asian countries. A possible alternative to such inflation is a degree of regimentation associated only with Communist dictatorship. To avoid confronting our Allies in Asia with the difficult choice of letting down their defenses and thus inviting attack, or foregoing economic advance and thus paving the way for internal disruption, both economic and defense assistance is proposed in this program.

The extent of the defense burden and particularly the portion thereof which is not offset by U.S. defense support or direct forces support programs, varies considerably among the countries of the region. This variation, and the level of U.S. assistance itself, depends principally on the varying capacities of the different countries to commit their resources to defense programs without excessive sacrifice of living standards and vital development programs.

Our economic support of the defense efforts of the Asian Manila Pact Powers -- the Philippines, Thailand, and Pakistan -- is relatively small and they have used 18 to 37 percent of their own budget expenditures and an even larger percentage of their national budgetary revenues for defense programs. In Formosa, despite the very substantial budgetary support afforded its defense effort by the U.S. program, it has been necessary to scale down the economic development program to meet urgent military needs. In Korea, Viet Nam, Cambodia and Laos, the United States is compelled to carry the major portion of internal defense costs owing to the relatively large forces and the meager resources, in relation to immediate consumption needs, available in those countries. Even with the saleable goods imports we are providing Korea for budget support, inflation associated with deficit financing continues at an undesirably high rate.

4. Problems

The economic factors of principal concern to the governments and peoples of free Asia may be summarized as follows:

a. The burden of military establishments which may be a substantial handicap to the attainment of economic objectives even when allowing for U.S. economic assistance.

b. A lack of sufficient tangible evidences of economic betterment coming from present economic programs, most of which contemplate a level of capital formation and improvement above that now being attained.

c. Unemployment, growing with the expansion of the labor force even in countries such as India and the Philippines, which have had relatively successful programs.

d. Concern over the instability, actual or feared, of a foreign market for staple exports on which better internal stability, as well as capacity to augment productive plants, largely depends.

e. High cost of internal credit (10-20 percent annually even on secured loans) for new enterprises in the private sector of the economies.

f. Generally low foreign exchange reserves, with consequent lack of means to increase imports rapidly enough to

Regional Narrative Statement (Continued)

control internal inflationary pressures. Reserves of Far East countries were about $250 million lower at the end of 1954 than at the end of 1952.

g. Economic, political and social weaknesses stemming in part from war, colonialism and isolation from economic or people-to-people contacts with their neighbors. These weaknesses have impeded investment, led to the retention of obsolete and inequitable systems of land ownership, and slowed down improvements in governmental and private administrations.

5. Evidences of Progress

While the average person in free Asia lives on less than 5 percent of the income of his U.S. counterpart, and in several countries the standard is even lower, opportunities for, and evidences of progress, rather than absolute levels of livelihood are the more important. While pressures for immediate amelioration of consumption deficiencies are felt everywhere and are reflected in expanding social services, minimum wages and other devices to better the peoples' lot, economic development programs looking to basic capital formation and eventually higher productivity are also recording some advances. Having concentrated their programs first on food, the most optimistic aspect of free Asian economies is the attainment in 1954 of the highest level of agricultural output in this century, and the conversion in recent years of South and Southeast Asia from a large deficit immediately after the war, to a more nearly self-sufficient region in this respect. A healthy expansion of intra-regional trade involving Japan and Southeast Asia has been one result.

Other heartening developments are:

a. The success of development efforts in India, Burma and the Philippines, though short of their initial development program goals.

b. The moves (including successful culmination of an agreement with Burma) towards settling Japanese reparations which, if settlements are also reached with Indonesia and the Philippines, would open new avenues for intra-regional trade and investment and provide much needed equipment which Japan is peculiarly fitted to provide.

c. The generally favorable attitude of these countries to utilizing technical assistance from the Free World, and the expanding exchange of technical assistance, both in the number of countries furnishing it and the range of projects involved.

REGIONAL OBJECTIVES

The central objective of the Mutual Security Program is to advance interests which the U.S. shares with the countries of free Asia. These mutual interests are:

1. To strengthen the will and ability of Asian countries to maintain their independence in the face of threats of further Communist expansion and to reduce the general effectiveness of Communism.

2. To give the peoples of the area a sense of present material progress and future hope for improved living conditions.

3. To encourage and support a wider participation in Asian development by private capital, domestic and foreign.

4. To develop a greater degree of unity and cohesion among the countries of the region.

THE PROGRAM

The program proposed for the region in fiscal year 1956 is designed to attack more forcefully than heretofore, these security and related economic problems which confront the United States and the Free World on the periphery of Communist power in Asia. It is a balanced program to:

Regional Narrative Statement (Continued)

1. Supplement the military resources and otherwise improve the defense effectiveness of countries which, in our mutual interests, are maintaining forces which are beyond their economic capacities, without such strain as would defeat our objectives, and to

2. Help these and other countries of free Asia demonstrate to their peoples that free societies, in cooperation with the United States, are capable of economic progress even under the difficult conditions described above.

As indicated above the first of these goals of the fiscal year 1956 program requires relatively large amounts of direct forces and defense support assistance in Korea, Formosa, Viet Nam, Cambodia and Laos and lesser amounts for the Asian Manila Pact powers. This aid will either provide for or increase the production of resources, including financial support, required for defense programs. In addition the maintenance or build-up of defense forces in certain of these countries will continue to require end-items and training which these countries cannot produce or acquire from other sources.

During the past year through the Military Assistance Program, the United States has worked closely and actively with other interested free nations on measures to strengthen the security structure in the Far East and in Pakistan. Because of the cessation of hostilities in the Indochina area and intensified Communist threat elsewhere, greater emphasis has been placed on the military build-up of the entire Asian area.

Free World security arrangements in the area grew in strength and number. Existing security pacts with Australia, New Zealand, Philippines, and Japan were supplemented by the exchange of ratifications on the Mutual Defense Treaty with the Republic of Korea, by the conclusion of the Defense Treaty with the Republic of China on Formosa, and by the new arrangements under the Southeast Asia Collective Defense Treaty. This latter Treaty which includes Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom, and the United States provides that in the case of aggression by armed attack each of the countries will act to meet the common danger in accordance with its constitutional processes.

With the cease fire in the Indochina region shipments of military equipment to that area were halted except for the provision of maintenance and spare parts for the ships and planes needed to assist in the evacuation of North Vietnam. The military supplies originally earmarked for the Indochina area are either being diverted or reprogrammed to assist the build-up in other countries receiving military assistance.

In FY 1955, provision of support for Korean forces, formerly provided by the budgets of the U.S. military services, was taken over as a part of the Military Assistance Program. Since the Mutual Defense Assistance Agreement was signed with Japan in 1954, the U.S. has established a Military Assistance Advisory Group in Japan and commenced shipment of equipment under the Military Assistance Program.

Progress in building new military strength has been slow, but by comparison with forces in being prior to the Military Assistance Program and in view of the problems faced in the area, the results have been significant. The independent governments of the Far East are laboring under handicaps of insufficient financial resources, heavy defense costs, and technical and professional shortages everywhere.

A major obstacle to rapid military build-up in the area is a lack of mechanical background of the people. They must be taught to operate and maintain the complex military equipment required for present-day warfare. The Military Assistance Program, therefore, places great emphasis on training of the armed forces. The soldiers, sailors, and airmen are all eager to learn and once trained they are excellent military men.

To date $2.6 billion has been programmed for military assistance to the Far East and the Pacific. Of this amount $1.9

Regional Narrative Statement (Continued)

billion had been delivered by December 31, 1954. Because of the direct threat of aggression in the Formosan area, high priorities have been placed on deliveries of equipment to the Nationalist Government of China.

In fiscal year 1956, Formosa, facing the threat of Communist invasion and Korea, where the Republic of Korea forces are taking over increased defense responsibilities, will require greater support in the form of both equipment and training. Very substantial military progress has been achieved in both these countries. In Korea the 20-division army is supplemented by small but efficient marine, air and naval components and effective para-military forces for internal security purposes. In Formosa, with the objective of resisting a possible invasion, the former ill-equipped forces have been moulded into an effective military machine. The Formosan Government has faithfully lived up to all its commitments in respect to its armed forces. In the Philippines and Thailand increased equipment and training are necessary for maintaining internal security and for the reorganization of their forces in a manner to make them more effective members of the Manila Pact Organization. Equipment is also needed to assist Japan to contribute more to free world strength in the Pacific. The training of the forces of Viet Nam, Cambodia and Laos is being undertaken jointly by France and the United States.

While much of our aid for free Asia is used for defense, the second function of our program mentioned above requires that we, in combination with other Free World countries, help to provide the knowledge, skills and supplemental capital resources which are needed for self-development. As the majority of the people of the area live off the land and its products are the first essentials of life, primary emphasis has been placed on agricultural projects in the earlier stages of economic development programs. United States technicians have, and are continuing to train local teachers, village workers and government personnel who are the key to community development and extension service programs. U.S. equipment, supplies and know-how now at work, are also concentrated on such fields as water resources development, fertilizer utilization and crop diversification.

For the future it is contemplated that the improvement of transport and communications, and some assistance to medium and small-scale industry, will occupy a more prominent place in our programs. Two of the most pressing immediate economic problems of the area, shortage of foreign exchange income and chronic unemployment, require more production for home consumption and interchange within the region. This has been recognized by the Philippines, India, Korea and other countries which are giving increasing attention to economically sound industrial projects in their economic development programs.

In addition to military end-items and training, $1.451 billion is programmed for the arc of free Asia in fiscal year 1956. $285.7 million of this is for Direct Forces Support, $827.8 million for Defense Support, $71 million for Development Assistance and $66.5 million for Technical Cooperation. The President's Special Fund for Asian Economic Development of $200 million is discussed in detail below.

The interrelationships between these categories of aid is illustrated specifically in the country-by-country presentations. A secure and expanding economic base is essential to successful self-help required to sustain defense programs in these resource-deficient countries. Therefore, in a practical sense, sharp lines should not be drawn between these categories of assistance designed to accomplish our objectives in the area. Some forms of technical assistance, for example, by strengthening public administration in the fiscal field contributes directly to both defense and economic objectives. By the same token, Direct Forces and Defense Support funds have economic by-products since they enable countries to utilize for development projects a more nearly adequate proportion of their scarce foreign exchange and internal resources. The Development Assistance being requested for the India and Nepal programs is designed to provide further economic strength to the Free World in these vital areas.

The Asian Economic Development Fund will be used on a flexible basis under the President's direction to provide a new element of cohesion, by contributing to the promotion of greater economic development of the area as a whole.

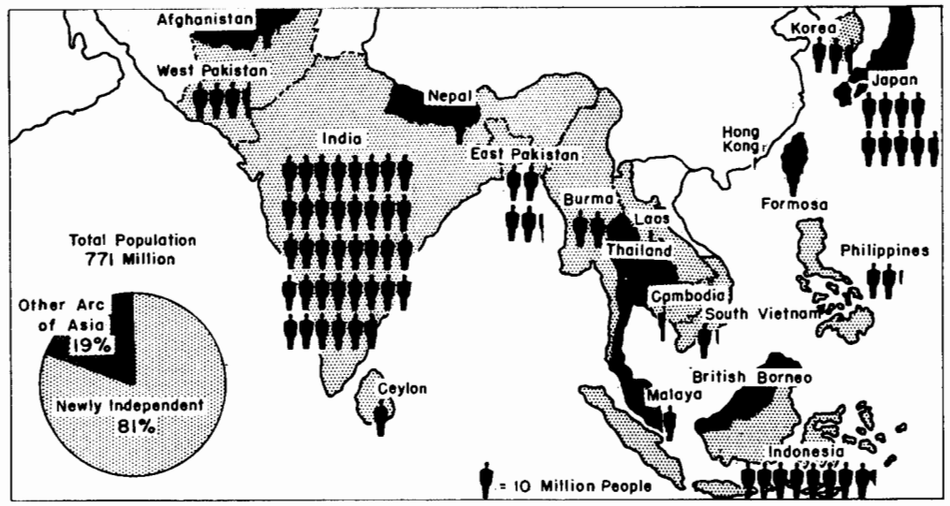
Regional Narrative Statement (Continued)

As in the previous year's program, a major portion of assistance in fiscal year 1956 is planned for the countries which have been subject to direct Communist military attack, Korea and the former Associated States of Viet Nam, Cambodia and Laos. $885 million or about 60 percent of the total non-Military Assistance Program funds for the Asian Arc are programmed for these two areas. This assistance is directed simultaneously at the maintenance and build-up of defense forces and at reconstruction and development required to increase defensive strength. Increased technical assistance, particularly in the basic services of government, is also planned for Viet Nam, Cambodia and Laos.

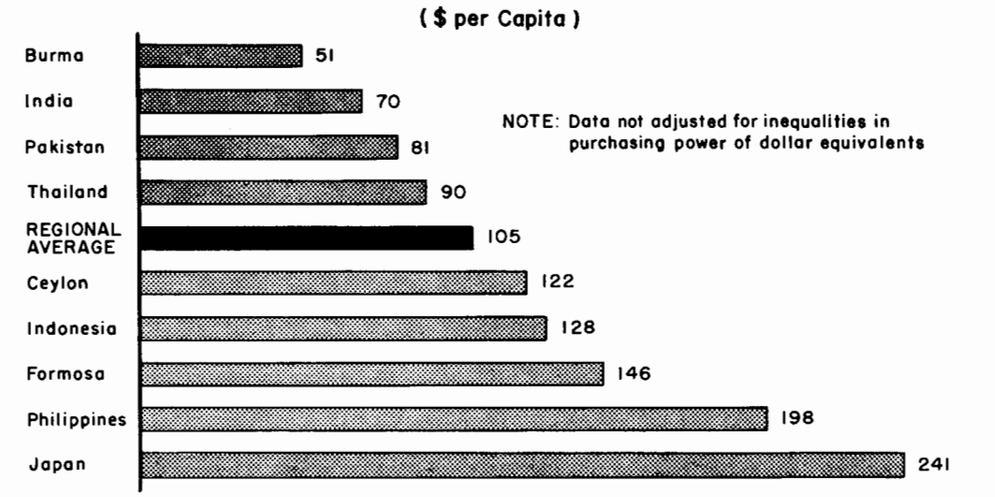
The achievement of U.S. objectives in Formosa, Thailand and Pakistan requires funds not only for their defense efforts but also for technical cooperation and for help in building up their economies, so that they can better carry their heavy military burdens. The same is true to a somewhat lesser extent in the Philippines. $268 million or about 18 percent of the non-Military Assistance program in fiscal year 1956 is planned for these countries with which we have such close mutual defense ties. The remaining 21 percent of the program will include $98 million for Technical Cooperation in India, Nepal, Afghanistan, Indonesia and Japan, and Development Assistance for the first two of these countries, and $200 million for the President's Special Fund for Asian Economic Development.

ASIA - REGIONAL SUMMARY

NEWLY INDEPENDENT COUNTRIES

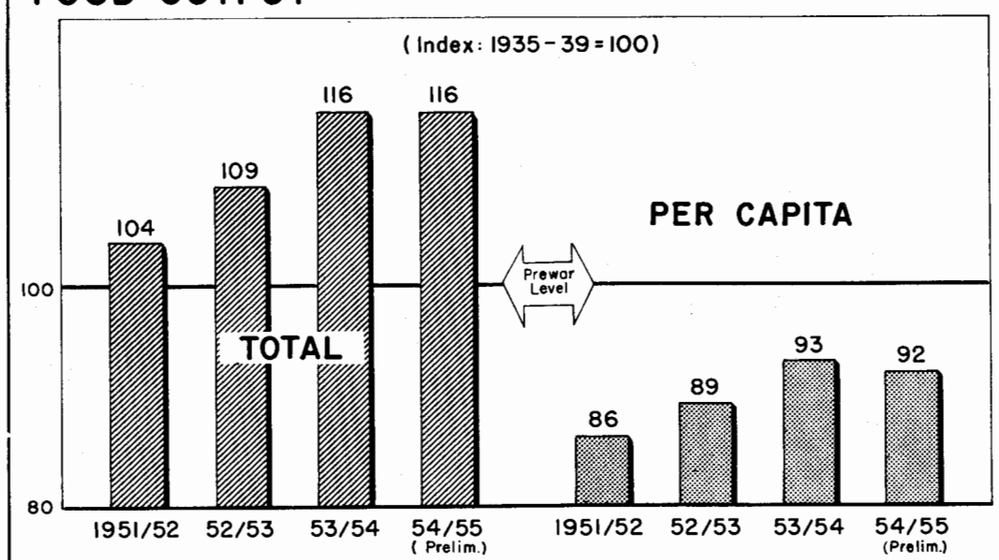


PER CAPITA GNP *

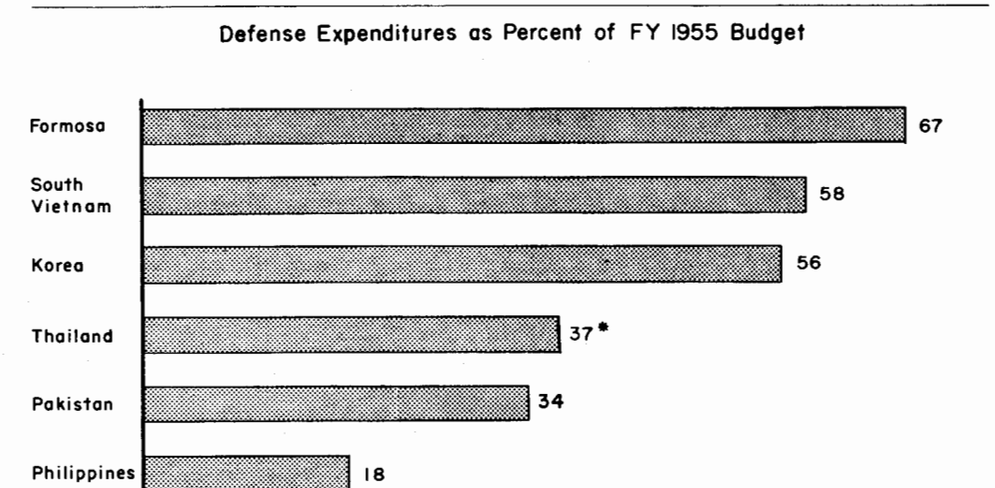


* 1954 FOA estimates

FOOD OUTPUT



DEFENSE EFFORT



*FY 1954

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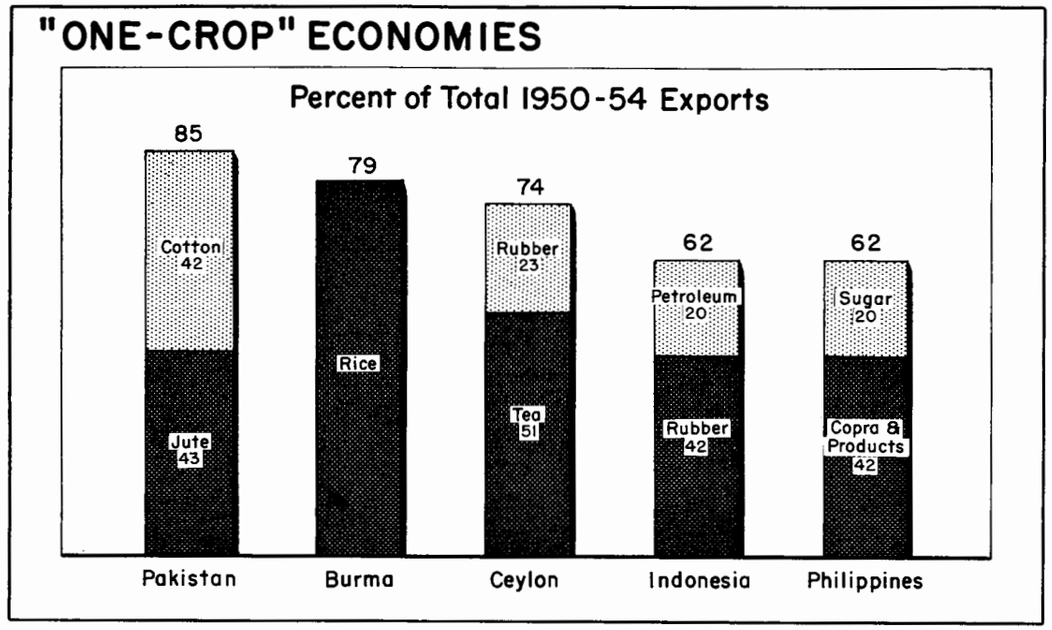
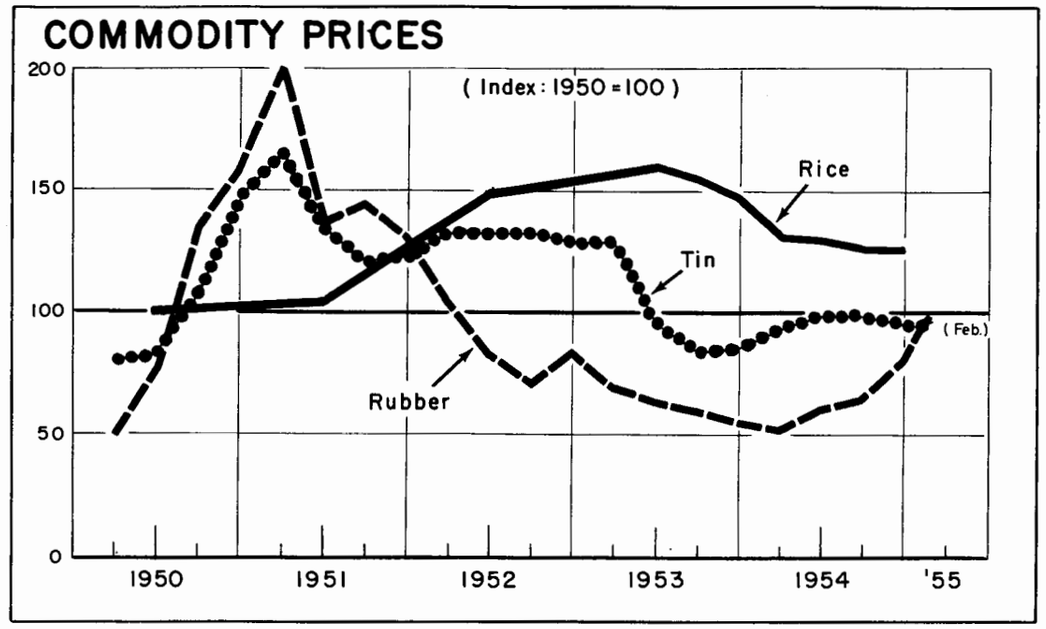
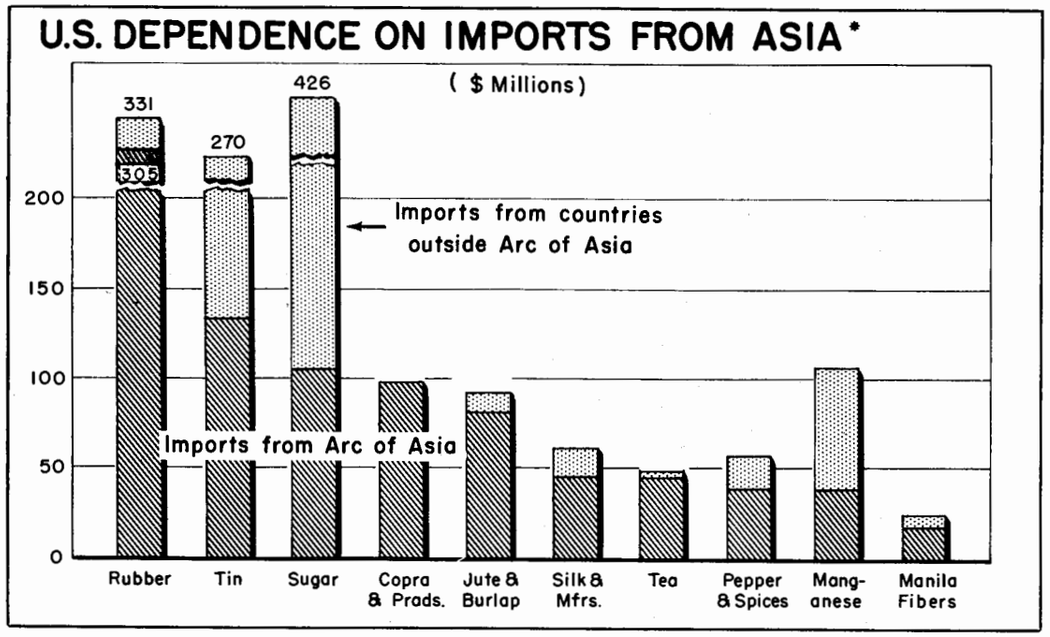
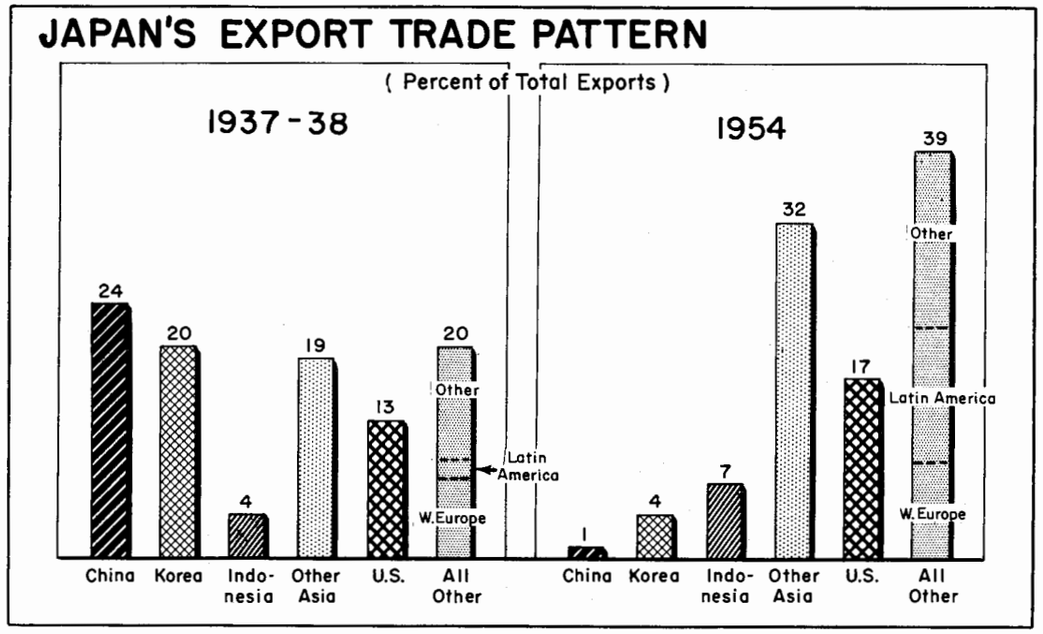
ASIA-REGIONAL SUMMARY



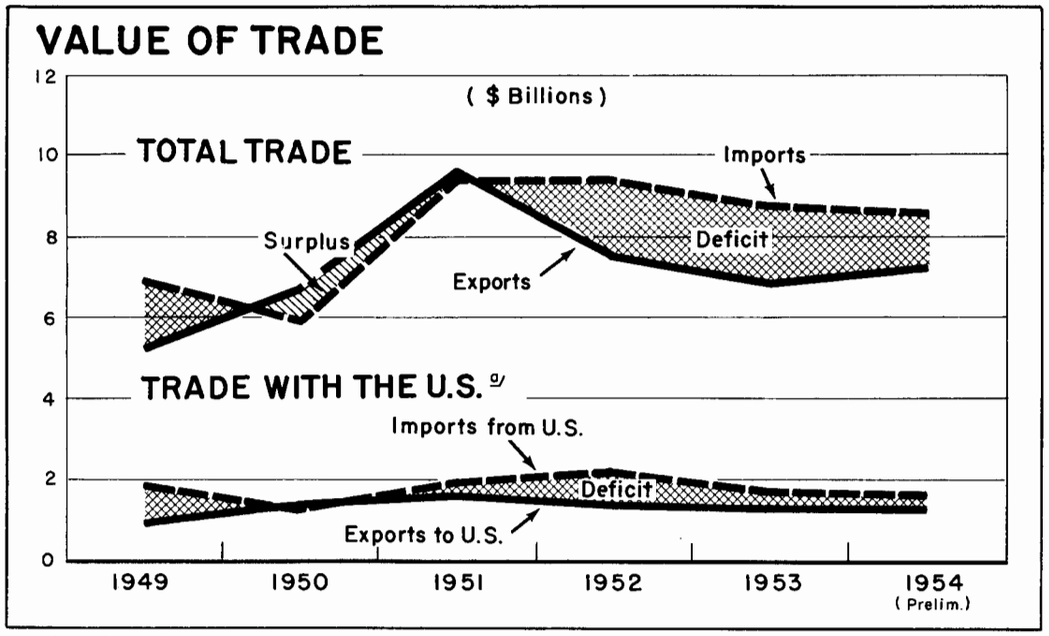






* 1953 U.S. Customs data

ASIA - REGIONAL SUMMARY



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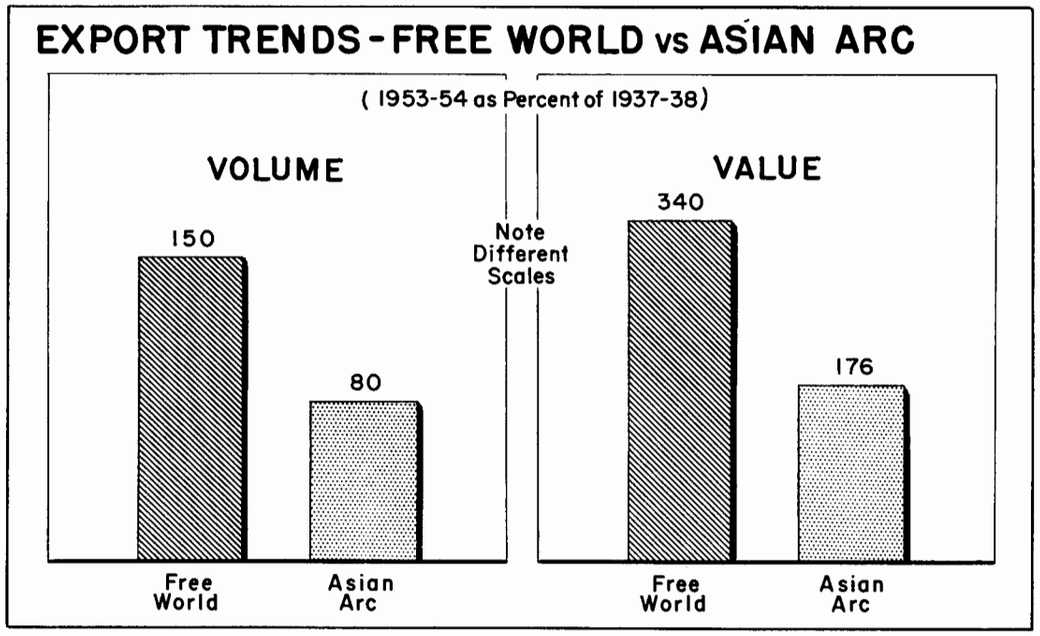

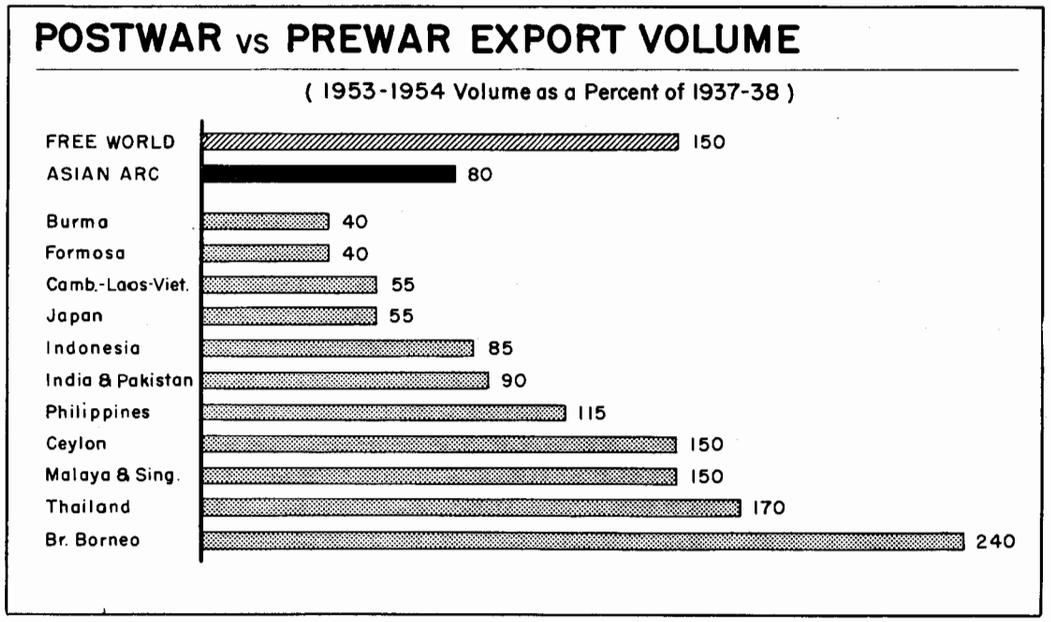

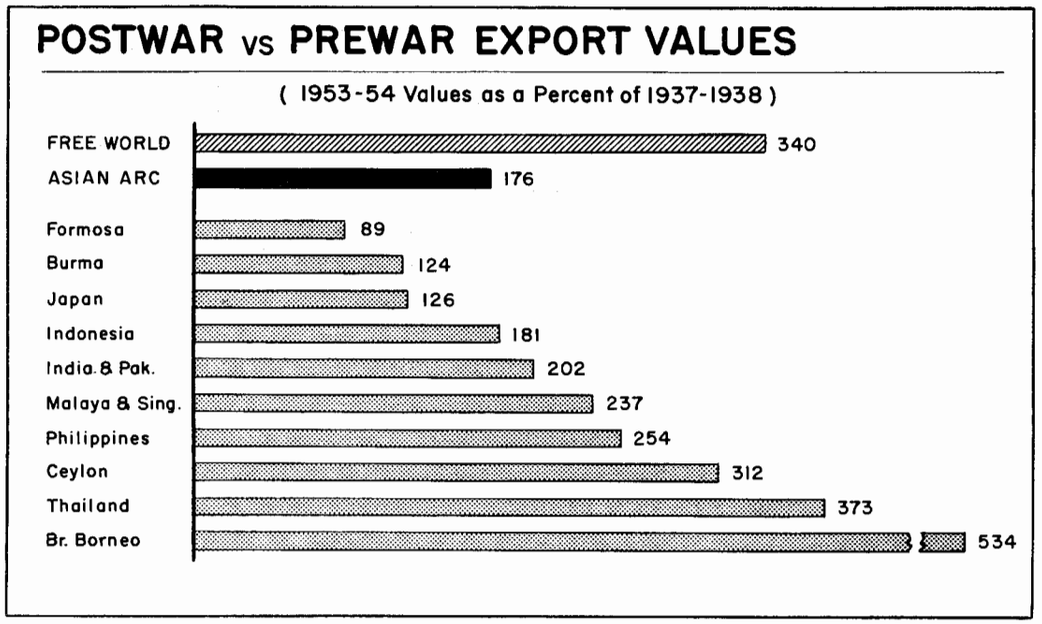

ASIA FACT SHEET

ITEM	DATE	UNIT	FREE WORLD TOTAL	ASIA (Countries Listed) TOTAL	ASIA (Countries Listed) PERCENT OF FREE WORLD	AFGHANISTAN	BRITISH BORNEO	BURMA	CEYLON	FORMOSA	INDIA	CAMBODIA-LAOS-VIETNAM TOTAL	CAMBODIA	LAOS	VIETNAM (SOUTH)	INDONESIA	JAPAN	KOREA (SOUTH)	MALAYA AND SINGAPORE	NEPAL	PAKISTAN	PHILIPPINES	THAILAND	PERCENT OF U.S. SUPPLY FROM REGION
POPULATION	1954	Millions	1,730	771[a]	45	12	1	19	8	10	377	17	4	2	11	81	88	22	7	7	78	21	20	--
LAND AREA	--	1000 Sq.mi.	38,700	3,665[a]	9	251	79	261	25	14	1,270	224	67	91	66	576	142	38	51	54	366	116	198	--
GNP†																								
Total	1954[E]	$ Millions	770,200	81,635[a]	11	650	400	980	1,025	1,480	26,410	1,450	n.a.	n.a.	n.a.	10,400	21,225	1,905	2,150	375	6,345	4,245	1,795	--
Per capita	"	U.S. $	442	105[a]	--	54	400	51	122	146	70	88	n.a.	n.a.	n.a.	128	241	87	303	54	61	198	90	--
AGRICULTURAL OUTPUT																								
Abaca	1954[P]	1000 M.T.	114	105	92	--	2	--	--	--	--	--	--	--	--	2	--	--	--	--	--	101	--	76
Copra and coconut oil[b]	1953[P]	"	1,800	1,470	82	--	10[E]	--	140	--	140	--	--	--	--	550	--	--	100	--	--	520	10	65
Cotton, raw	1954[P]	"	7,240	1,148	16	9	--	20	--	1	835	*	n.a.	n.a.	n.a.	*	--	17	--	--	266	*	*	61[c]
Jute	"	"	1,420	1,352	95	--	--	--	--	10	572	--	--	--	--	--	1	--	--	7[E]	762	*	--	100[c]
Palm oil	1953	"	1,060	211	20	--	--	--	--	--	--	--	--	--	--	161	--	--	50	--	--	--	--	27
Pepper	"	"	36	36	100	--	9	--	--	--	22	*	*	--	*	5	--	--	*	--	--	--	--	100
Rice, rough	1954[P]	"	118,700	101,025	85	n.a.	150[E]	6,700	650	2,220	38,560	3,565	1,100	480	1,985	10,400	11,340	3,270	700	n.a.	13,380	3,060	7,030	--
Rubber, natural	1954	"	1,830	1,719	94	--	40[E]	14[P]	95	--	22	75	24	--	51	757	--	--	594	--	--	2	120[E]	95
Sugar[d]	1953[P]	"	30,800	4,012	13	--	--	23	--	700	1,200	6	--	--	6	620	44	--	--	--	83	1,300	36	23[c]
Tea	"	"	590[E]	555	94	--	--	--	160	12	275	--	--	--	--	37	45	--	2	--	24	--	--	96
MINERAL OUTPUT																								
Bauxite	1953	1000 M.T.	13,000	377	3	--	--	--	--	--	72	--	--	--	--	150	--	--	155	--	--	--	--	*
Chromite	"	"	3,150	688	22	--	--	--	--	--	66	--	--	--	--	--	38	--	--	--	24	560	--	32
Coal[e]	1954	"	1,080,000[E]	85,275	8	15[E]	--	--	--	2,120	37,360	--	--	--	--	890[P]	43,200	890	80[E]	--	560	160[E]	--	--
Graphite	1953	"	120	33	28	--	--	--	7	--	1	--	--	--	--	--	4	21	--	--	--	--	--	(f)
Iron ore	1954	"	226,000[E]	8,235[d]	4	--	--	--	--	--	3,930	--	--	--	--	--	1,510	30	1,230	--	--	1,435	10[E]	--
Manganese ore	1953	"	5,800[E]	2,156	37	--	--	--	--	--	1,930	--	--	--	--	17	184	3	--	--	--	22	--	37[E]
Petroleum, crude	1954	"	621,400	16,643	3	--	4,850[E]	180	--	3	300[E]	--	--	--	--	10,750[E]	300	--	--	--	260	--	--	--
Tin, in concentrates	"	"	169	110	65	--	--	1	--	--	--	*	--	*	--	36	1	--	62	--	--	--	10	69
Titanium	1953	"	1,030	247	24	--	--	--	--	--	220	--	--	--	--	--	--	--	27	--	--	--	--	--
Tungsten	1952	"	34	6	18		--	--	--	--	*	--	--	--	--	--	*	4	*	--	--	--	2	22
INDUSTRIAL OUTPUT																								
Crude steel	1954	1000 M.T.	166,500	9,472	6	--	--	--	--	25	1,700	--	--	--	--	--	7,740	--	--	--	--	2[E]	5[E]	--
Electric power	"	Mill. KWH	1,135,000	73,750[a]	6	--	10[E]	70[E]	160[P]	1,800	7,490	157[E]	16[E]	1[E]	140[E]	500[E]	59,770	900	1,190[P]	--	380[P]	700	130[E]	--
Cement	"	1000 M.T.	159,000	17,615[a]	11	--	--	--	70[E]	540	4,460	--	--	--	--	150[E]	10,680	60	90	--	685	400[P]	380	--
Cotton fabrics	"	Mill. Mtr.	n.a.	7,920	n.a.	--	--	1[E]	9[E]	160	4,590	--	--	--	--	--	2,700[E]	120	--	--	320	20	--	--
TRADE AND FINANCE																								
Total foreign trade	1954	$ Millions	149,400	15,880[a]	11	80[E]	310[E]	450	675	305	2,410	521	120	16	385	1,485	4,030	315	2,040	15	685	945	590[E]	--
Gold and foreign exchange	12/31/54	"	49,200[g]	6,050[a]	12	49[E]	(h)	142	200	n.a.	1,782	78	n.a.	n.a.	n.a.	299	1,237[E]	115	850[h,E]	6[E]	328[i]	285	273	--
Gold & dollars	"	"	*41,850*[g]	*2,150*[a]	*5*	*44*[E]	(h)	*28*	*15*	n.a.	*331*	*6*	n.a.	n.a.	n.a.	*179*	*837*[E]	*108*	—	*6*[E]	*39*[i]	*285*	*226*	--
Sterling	"	"	*7,350*[g]	*3,550*[a]	*53*	*2*[E]	(h)	*109*	*185*	n.a.	*1,451*	—	n.a.	n.a.	n.a.	*30*	*208*	*7*	*850*[h,E]	—	*289*[i]	--	*47*	--
Other exchange	"	"		*350*[a]		*3*[E]	(h)	*5*	—	n.a.	—	*72*	n.a.	n.a.	n.a.	*90*	*192*	—	—	—	—	—	—	--

P-Preliminary. E-Estimate. *-Less than one-half the unit. -- Nil or negligible. n.a. -Not available. †Data not adjusted for inequalities in purchasing power of dollar equivalents.

[a]Including Hong Kong. [b]Oil equivalent. [c]Percent of U.S. 1953 imports. [d]Centrifugal sugar; India and Pakistan also produce substantial quantities of non-centrigual sugar for domestic consumption.

[e]Including hard coal equivalent of lignite. [f]Ceylon supplied 100% of U.S. supply of strategic grades of amorphous graphite in 1952. [g]Holdings of official government institutions only; excludes holdings of international institutions.

[h]British Borneo included with Mayaya and Singapore. [i]Holdings of Issue Dept. of the State Bank only.

ASIA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary of Programs by Country

(In thousands of dollars)

Country	Program FY 1954	Program FY 1955	Proposed FY 1956
South Asia			
Afghanistan	2,510	1,946	2,000
India	86,846	84,428	85,000
Nepal	744	2,447	2,000
Pakistan	22,734	72,120	92,000
Undistributed by country	130	300	
Subtotal	112,964	161,241 a/	181,000
Far East			
Burma	-10,094 b/		
China (Formosa)	108,454	137,648	102,000
Indonesia	3,906	7,000	8,000
Japan	10,000	500	1,000
Korea (including UNKRA)	469,373 c/	498,500 c/	460,000
Philippines	14,450	29,150	28,500
Thailand	8,734	46,550	45,500
Cambodia, Laos, Vietnam	769,445 d/	473,400 f/	425,000 f/
Undistributed by country	-525	5,560	
Subtotal	1,373,743	1,198,308 e/ g/	1,070,000 g/
President's Fund for Asian Economic Development			200,000
TOTAL PROGRAMS	1,486,707	1,359,549 h/	1,451,000 h/

a/ Includes $10,735,000 programmed in this area from savings in the prior year program for support of forces in Cambodia, Laos, and Vietnam.
b/ Deobligation of U.S. assistance provided prior to FY 1954.
c/ Includes, for comparability purposes, non-Mutual Security funds (Dept. of Defense Appropriations) programmed in Korea as follows: in FY 1954 $65,926,459 for Civilian Relief (CRIK) program and $172,033,000 for Direct Forces Support; in FY 1955 $189,600,000 for Direct Forces Support.
d/ Includes $400 million U.S. contribution to support of French Expeditionary Corps.
e/ Includes $19,223,000 programmed in this area from savings in the prior year program for the support of forces in Cambodia, Laos, and Vietnam.
f/ Obligations are estimated at $448,400 in FY 1955 and $450,000 in FY 1956.
g/ Cambodia - Laos - Vietnam adjustment results in obligation estimates of $1,173,308 in FY 1955 and $1,095,000 in FY 1956.
h/ Cambodia - Laos - Vietnam adjustment results in obligation estimates of $1,334,549 in FY 1955 and $1,476,000 in FY 1956.

ASIA

REGIONAL SUMMARY FOR ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import Saleable Commodities	Common Use Items	Other Costs
Direct Forces Support													
1954	329,633											329,633	
1955	296,460											265,560	30,900
1956	285,700											285,700	
Defense Support													
1954	1,059,569	20,166	98,618	40,291	365	6,463	4,024	3,444	33,879	797	419,969		431,553
1955	940,738	25,093	54,661	47,662	10	9,882	1,875	2,760	39,520	14,302	522,573		222,400
1956	827,800	28,125	74,255	56,325		10,065	1,175	695	14,025	14,830	501,905		126,400
Development Assistance													
1954	61,649	9,649	32,000	20,000									
1955	70,935		15,800	18,500		4,700					30,000		1,935
1956	71,000	6,300	20,200	6,500		4,000					34,000		
Technical Cooperation													
1954	35,856	15,641	5,880	2,329	47	7,824	4,568	1,296	6,206	(9,637)			1,702
1955	45,516	14,885	4,379	1,577	1,315	8,081	6,824	3,178	1,565	1,140			2,572
1956	66,500	18,672	8,904	1,540	1,410	9,196	12,670	7,695	3,973	2,080			360
Other Programs													
1954													
1955	5,900					1,300							4,600
1956	200,000												200,000
Total All Programs													
1954	1,486,707	45,456	136,498	62,620	412	14,287	8,592	4,740	40,085	(8,840)	419,969	329,633	433,255
1955	1,359,549	39,978	74,840	67,739	1,325	23,963	8,699	5,938	41,085	15,442	552,573	265,560	262,407
1956	1,451,000	53,097	103,359	64,365	1,410	23,261	13,845	8,390	17,998	16,910	535,905	285,700	326,760

ASIA

REGIONAL SUMMARY FOR ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954	329,633	329,633							
1955	296,460	265,560							30,900
1956	285,700	285,700							
Defense Support									
1954	1,059,569	594,415	550	3,240	103	17,677	629	2,684	441,553
1955	940,738	709,253	397	3,305	221	10,661	373	1,649	215,870
1956	827,800	683,415	192	2,920	439	14,340	170	825	126,300
Development Assistance									
1954	61,649	61,649							
1955	70,935	70,915	6	20					
1956	71,000	71,000							
Technical Cooperation									
1954	35,856	17,106	295	4,432	219	10,005	701	2,731	1,582
1955	45,516	16,978	572	7,648	432	12,781	1,411	6,026	2,083
1956	66,500	26,408	848	13,292	599	17,122	2,050	8,899	779
Other Programs									
1954									
1955	5,900	1,300							4,600
1956	200,000								200,000
Total All Programs									
1954	1,486,707	1,002,803	845	7,672	322	27,682	1,330	5,415	443.135
1955	1,359,549	1,064,006	975	10,973	653	23,442	1,784	7,675	253,453
1956	1,451,000	1,066,523	1,040	16,212	1,038	31,462	2,220	9,724	327,079

AFGHANISTAN

BASIC DATA

Population (1954).....millions	12
Annual growth ..... percent	3
Area..... 1,000 sq.mi.	251
Agricultural land..... percent	46
Potentially productive land ..... percent	5
Agricultural land per capita..... acres	6

Gross national product#	Afghanistan	Asian Arc	U.S.
Total (1954 est.) mill $	650	-	-
Per capita ..... $	54	105	2,200
Literacy rate.... percent	4	32	97
Road miles per 1,000 sq.mi.	24	220	1,100

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954
		(millions of US $)			
Exports, f.o.b.a/			37	31	
Imports, c.i.f.a/			28	26	
Trade balancea/			9	5	
Principal Exports					
Karakul skins e/ ..... mill. $		15	8	4	8
Fruits, nuts, cotton and wool			Not available		
Trade with U.S. (U.S. Customs data)					
Exports to U.S.		23	15	15	14
Imports from U.S.		5	4	3	3
Balance		18	11	12	11
Gold and foreign exchange reserves - Mar. 31		59	53	49	49

PRODUCTION

	1938	1951	1952	1953	1954
Agricultural products: cotton, wool, karakul skins, wheat, sugar beets, fruits, oilseeds		Not available			
Major industries: cotton gins, textile mills, sugar refinery, boot factory, slaughter house, coal mining		Not available			

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years)	-	0.1	0.3	2.2	2.5	1.9	2.0
			(calendar years)				
Ex-Im Bank disbursements	-	10.8	6.0	2.1	1.6b/		
IBRD disbursements	-	-	-	-	-		

FINANCES

	1951	1952	1953	1954	1955c
			(millions of US $)		
Central government budget - years ending March 20					
Revenue	22.5	26.1	29.2	35.0	36.5
Expenditure.....	31.9	34.0	39.5	39.9	49.3
Defense	5.8	6.3	7.9	8.1	9.6
Surplus or deficit (-)	-9.4	-7.9	-10.3	-4.9	-12.8
As % of total revenue	-42%	-30%	-35%	-14%	-35%
Defense expend. as % of budget	18%	19%	20%	20%	19%
Prices (Index Jan. 1952=100)					
Cost of living			109d/		

\# Estimated in U.S. dollars by FOA.
a/ Excludes trade with U.S.S.R.
b/ Undisbursed balance as of December 31, 1954: $19 million.
c/ Estimate.
d/ July 15, 1953.
e/ Estimated data. 1951 figure average for earlier years.

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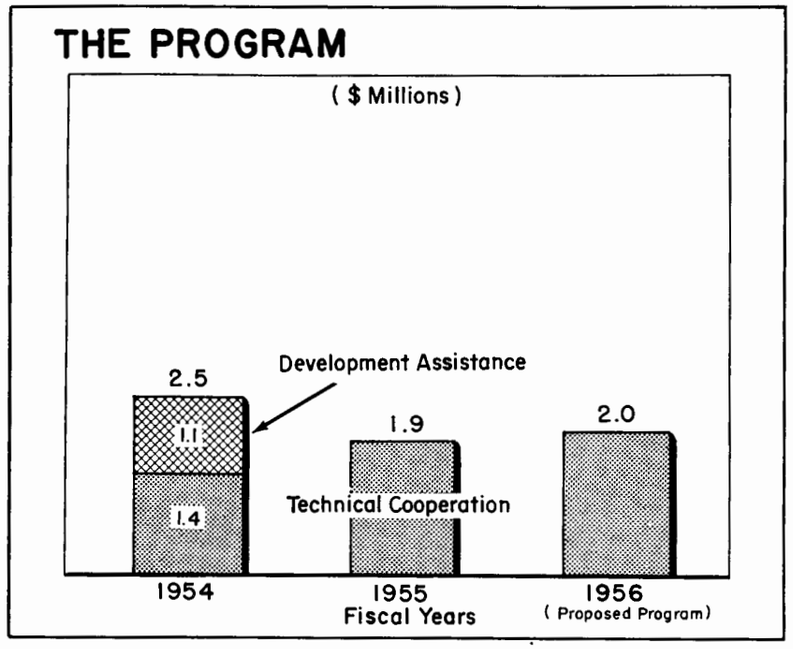
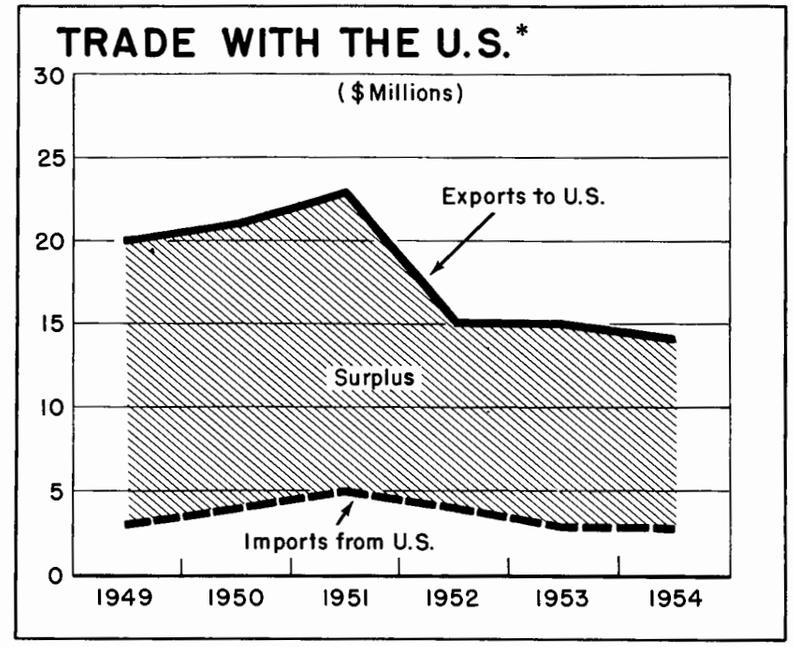
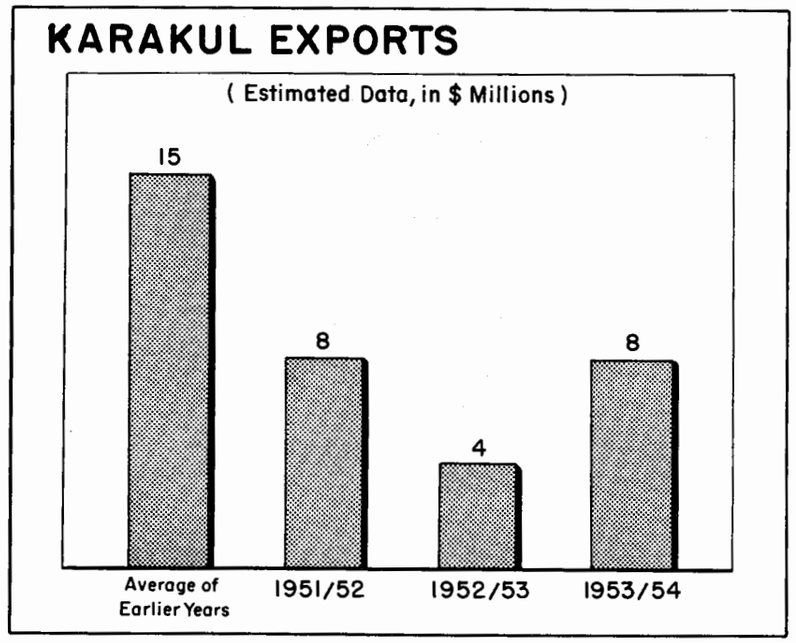
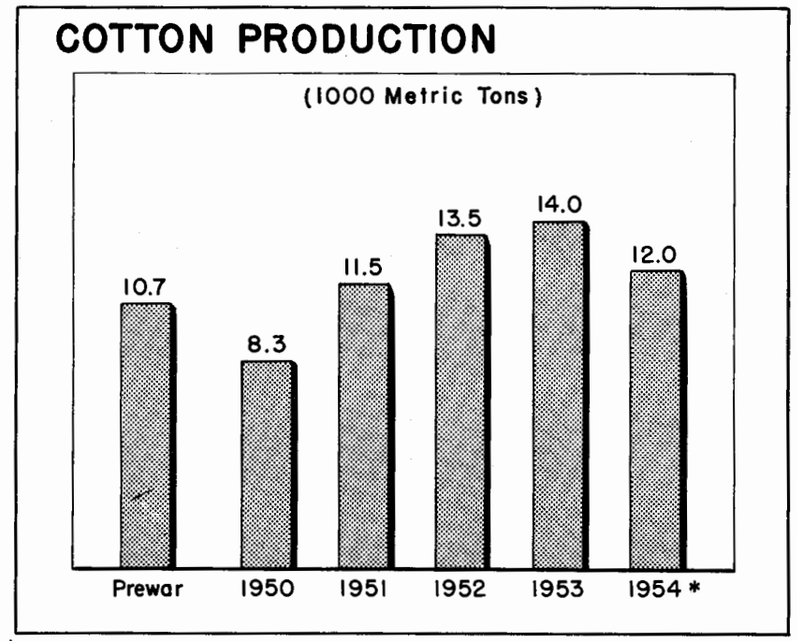
AFGHANISTAN





* Value at U.S. ports





* Excludes short-staple cotton exported to the U.S.S.R

SOUTH ASIA

INDIVIDUAL COUNTRY DATA

Country: AFGHANISTAN

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	FY 1955	Proposed FY 1956
Development Assistance	1,149		
Technical Cooperation	1,361	1,946	2,000
Total Country Program	2,510	1,946	2,000
MSP Sales Surplus Agricultural Commodities			
1. Sales to This Country	1,215	-	-
2. Sales Proceeds Programmed in This Country	1,215	-	-

General Narrative Statement

Current Situation

Afghanistan, a constitutional monarchy with a bi-cameral parliamentary system, is dominated by its royal family which holds the premiership and several key ministries of the Government. This ruling group has demonstrated a sincere dedication to economic and social development.

Afghanistan, situated on the southern borders of the USSR, with people in its north of the same racial origin as those of the Soviet side of the border, has maintained friendly relations with the nations of the Free World. Recent developments indicate greatly increased Soviet Bloc economic activity in Afghanistan. Afghanistan's relations with her southern neighbor, Pakistan, have been marred by a dispute arising out of Afghanistan's claims concerning the status of the Pushtu tribesmen living in the northwest of Pakistan. This dispute is particularly unfortunate, for land-locked Afghanistan's trade route with the free world lies through the seaport of Karachi in Pakistan.

In general, Afghanistan's foreign policy has been directed toward insuring its continued independence and reflects the desire to develop its resources and improve the standard of living of its people.

The economy of the country, like that of other underdeveloped nations of the area, is mainly agricultural; its per capita income is extremely low by U. S. standards. A recent estimate is that the per capita income of its 12 million people is an equivalent of only about fifty-four dollars. Economic conditions generally have not improved in the last twelve months,

General Narrative Statement (Continued)

inflationary pressures are increasing and the standard of living of Afghanistan's small but important middle class has gone down. Only about four percent of the population is literate.

Economic development continues to be hampered by limited primitive communications systems. Economic development and development of more effective communications and other links with the rest of the free world would be beneficial to Afghanistan's total economic situation.

Program Objectives

U. S. aid to Afghanistan is based on the policy of the United States (1) to encourage the strengthening of a stable responsible Government which will resist ideologies inimical to the growth of freedom and democracy, and (2) to encourage the development of a firmer basic economy in which aspirations of the people are met through improvement in their living standards.

In Fiscal Year 1956, the Technical Cooperation Program will remain at approximately the same level as in FY 1955, and will continue the modest beginnings made in previous years.

In carrying out the overall policy of strengthening the economy, primary emphasis has been placed on technical assistance in the development of the Helmand Valley. This is a project of great importance as a long range development on which the Afghan Government has spent millions of its own funds and for which it has recently concluded an additional loan with the Export-Import Bank.

At the same time, U. S. technical assistance has been given to other long term projects which are designed to bring about a higher standard of living. Projects have been designed to strengthen the education system, to improve agriculture through assistance to the Afghan Ministry of Agriculture and the Vocational-Agricultural School, and to increase coal production. These projects are of great importance, but it has become apparent that while progress is being made in attaining long term objectives there are more immediate objectives which must be given attention in order not to jeopardize overall development plans.

Thus in FY 1956, to the extent possible in view of limited funds and prior commitments to long term projects, U. S. technical assistance objectives will also include (1) the extension of the program to other geographic areas in order to bring U. S. assistance to a larger proportion of Afghan people, (2) the development of projects which will show immediate results and give encouragement to the people.

Projects to meet these objectives will grow out of activities already underway and will be expanded in scope and direction as circumstances indicate. It is anticipated that as these projects develop there will be increased need and opportunity for effective use of development funds to assure and accelerate achievement of overall objectives. An increasingly important consideration in the promotion of Afghanistan's economic stability, is the need for improved communications and trade development. The country's landlocked position stresses the need for improved communications and other facilities which will promote trade with the free world. Such trade facilities would increase the immediate economic return from current development efforts and, thereby, contribute to a cumulative base for further economic progress. Present indications are that Afghanistan's economic development in the coming year may, with the resolution of certain other basis problems, make feasible a program for such development in addition to the proposed technical assistance.

The great need for general improvement in areas other than the Helmand Valley justifies an increasing effort to aid the Afghans in such areas.

General Narrative Statement (Continued)

Progress to Date

This program did not begin until late in 1952 and the total of U. S. annual programs for Technical Cooperation since that time amount to $4,174,000. This total, broken down by years, is as follows: $248,000 in FY 1952; $639,000 in FY 1953; $1,361,000 in FY 1954; and $1,946,000 in FY 1955.

The Afghan Government has been putting into joint U. S.-Afghan projects the equivalent of more than $12 million per year, in local currency and foreign exchange, in connection with Technical Cooperation and Export-Import Bank Loan projects. The first Export-Import Bank Loan was for $21 million in 1950 and was increased by $18.5 million in 1954.

The main emphasis in Afghanistan has been directed to the technical assistance needed in the Helmand Valley Development program which is intended to increase the irrigated land areas and settle as many nomad people as possible in more permanent agricultural communities. An Afghan organization for administration of the Helmand Valley was created, and there is now also an American technical advisory group, called the Helmand Valley Advisory Service, advising the Afghan organization. This group of U. S. technicians is advising the Afghan organization in all phases of engineering, agriculture, health and sanitation, community development, public administration, and training. A Community Development Training School and Demonstration Farms have been established in the Helmand Valley.

Considerable progress has been made in the field of education. This is an important development in view of the great need for trained administrative and technical personnel. In addition, approximately forty Afghans have come to the United States for technical training under the program.

Under contracts with FOA, Wyoming University and Columbia Teachers' College personnel are working in the country. Agreement has now been reached between the U. S. Mission, Wyoming University and the Afghan Government to establish an Institute of Applied Science by combining the School of Vocational Agriculture and the Institute of Technology.

In the field of community development, a contract has been negotiated with the Near East Foundation under which this Foundation will cooperate with the U. S. Mission, the United Nations Mission, and the Afghan Government in training village level workers in all phases of community development for work in villages close to Kabul.

Some progress has been made in assisting the Government in its efforts to increase coal production and improve safety measures and living conditions for miners at small coal mines north of Kabul.

In FY 1954, 12,000 tons of wheat were made available to the Government under Section 550 of the Mutual Security Act of 1951, as amended. It is estimated that approximately twenty-five million afghanis will be derived from the sale of this wheat and will be available in 1955 for economic development on projects mutually agreed upon by the two governments.

The FY 1956 Program

Fiscal Year 1956 technical assistance funds will be used primarily on continuing programs. On the basis of progress in 1954 and 1955, it will be possible to accelerate technical assistance in the fields and on projects which are already underway. These are the Helmand Valley Development program, including Health and Sanitation, the Coal Resources project, the Education program, and the Community Development program near Kabul.

In addition, assistance will be given in the field of Public Administration and in the development of small business. Efforts will be made to extend improved farm practices to additional areas, especially those plagued by famine, and possibilities will be explored to improve communications and transportation within Afghanistan and between Afghanistan and the other countries of the free world.

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing
Development Assistance								
1954	1,149	1,149						
1955								
1956								
Technical Cooperation								
1954	1,361	781	89	7	120	364		
1955	1,946	843	79		86	851	9	78
1956	2,000	862	64		139	693	80	162
Total All Programs								
1954	2,510	1,930	89	7	120	364		
1955	1,946	843	79		86	851	9	78
1956	2,000	862	64		139	693	80	162

SOUTH ASIA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Country: AFGHANISTAN

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954	1,149	1,149							
1955									
1956									
Technical Cooperation									
1954	1,361	340	29	282	16	306	43	153	280
1955	1,946	208	33	547	26	920	21	100	171
1956	2,000	208	38	671	35	820	22	115	186
TOTAL All Programs									
1954	2,510	1,489	29	282	16	306	43	153	280
1955	1,946	208	33	547	26	920	21	100	171
1956	2,000	208	38	671	35	820	22	115	186

INDIA

BASIC DATA

Population (1954).....millions	377
Annual growth..... percent	1.4
Area.....1,000 square miles	1,270
Agricultural land.....percent	40
Potentially productive land.....percent	12
Agricultural land per capita..... acres	0.9

	India	Asian Arc	U.S.
Caloric intake	1,950	2,035	3,120
% Grains & starches	78	79	29
Literacy rate.....percent	20	32	97
Life expectancy.....years	32	35	68
Road miles per 1,000 sq.mi.	228	220	1,100
Elec. power per capita ..... KWH per yr.	20	117	3,165

USE OF RESOURCES - 1954

		%
Gross national product (million U.S. dollars).....	26,410	
Consumption.....	22,435	85.0
Gross investment (public and private)	2,100	8.0
Government non-defense expenditure.....	1,330	5.0
Government defense expenditure.....	457	1.7
Net foreign balance.....	88	0.3
Per capita GNP (dollars).....	70	

(FOA estimates; converted at 4.762 rupees per U.S. dollar)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.		1,611	1,295	1,116	1,180
Imports, c.i.f.		1,793	1,695	1,197	1,231
Trade balance		-182	-400	-81	-51
Principal exports[a]					
Jute manufactures: Quantity... 1,000 MT	971	820	720	790	830
Value... $ millions	110	550	265	235	255
Tea: Quantity..... 1,000 MT	152	193	194	213	200
Value ..... $ millions	91	196	169	215	284
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	58	297	272	230	200
Imports from U.S.	33	463	381	152	161
Balance	+25	-166	-109	+78	+39
					Jan-June
Balance of payments					
Balance on goods & Services		-152	-57	51	-3
Net capital		155	71	39	49
Private		23	31	13	9
Official and banking		132	40	26	40
Government grants		3	25	37	10
Long-term capital		75	104	-2	6
Short-term capital		54	-89	-9	24
Change in gold & exch. reserves		-103	-134	+59	+32
Gold and foreign exchange reserves[b] (end of yr.)		1,888	1,729	1,765	1,782

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Industrial production.....	1948=100	89	108	118	124	133
Agricultural production.....	1935-39=100	100[d]	106	110	121	116
Major crops:						
Jute.....	1,000 MT	363[d]	849	836	568	572
Cotton.....	1,000 MT	700[d]	686	648	806	835
Rice, milled.....	1,000 MT	22,582[d]	22,450	25,150	27,390	25,700
Other food grains.....	1,000 MT	21,581[d]	22,667	23,168	25,958	26,182
Major industries:						
Jute manufactures.....	1,000 MT	-	889	967	883	930
Cotton cloth.....	mill. yds.	-	4,076	4,598	4,890	4,989
Steel ingots.....	1,000 MT	-	1,500	1,575	1,530	1,720

FINANCES

	1951	1952	1953	1954[e]	1955[e]
			(millions of US $)		
Central government budget - year ending March 31					
Revenue.....	1,163	1,417	1,265	1,166	1,285
Expenditure.....	1,265	1,433	1,458	1,727	2,223
Defense.....	374	389	396	436	465
Capital outlay	205	226	190	269	460
Other non-defense.....	686	818	872	1,022	1,298
Surplus or deficit (-)	-102	-16	-193	-561	-938
As % of total revenue	-9%	-8%	15%	48%	76%
Defense expend. as % of budget..	30%	27%	27%	25%	21%
Defense expend. as % of GNP.....	1.6%	1.7%	1.7%	1.8%	1.8%
Prices (Index 1948=100)					
Wholesale.....	120	105	107	105	98 (Feb.)
Cost of living.....	107	105	108	104	

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	5.1	52.8	44.3	86.8	84.4	85.0
U.S. special program allotments (fiscal years)	-	190.0	-	-	-		
			(calendar years)				
Ex-Im Bank disbursements	-	-	-	-	-		
IBRD disbursements	20.1	10.2	5.7	3.6	1.8[c]		
U.S. private investment (net)							
New direct investment	10	7	9	2			
Reinvested subsidiary earnings	1	4	5	3			
Book value of U.S. direct private investment	38	49	63	68			

* 1954 data partly preliminary or estimated.
a Years beginning April 1 of year stated.
b Reserve Bank only.
c Undisbursed balance as of December 31, 1954: $60.6 million.
d Prewar average.
e Revised budget estimates.

Revised May 18, 1955

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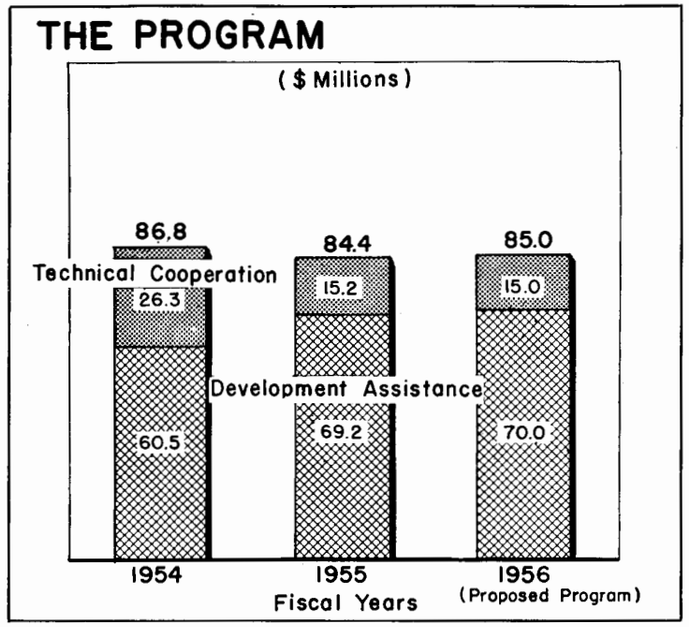
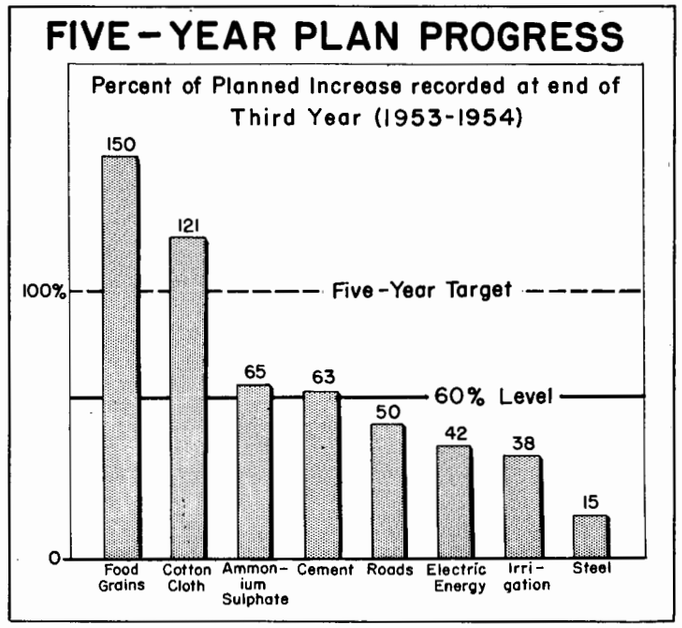
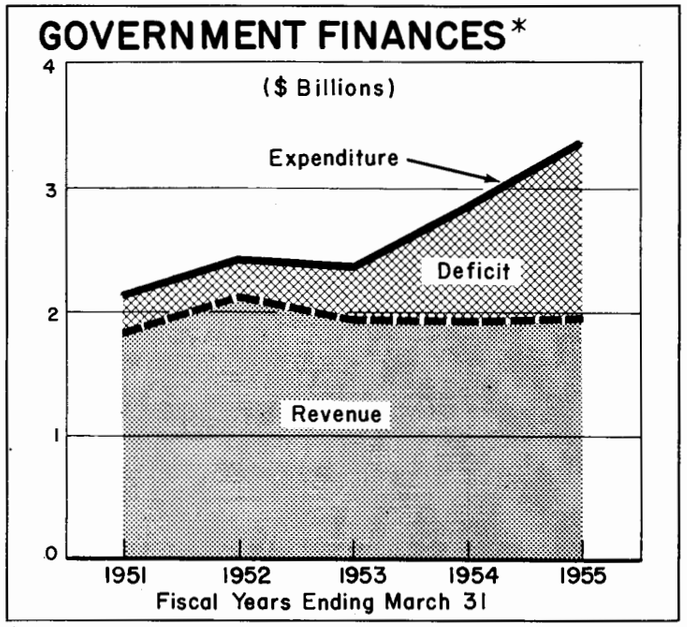
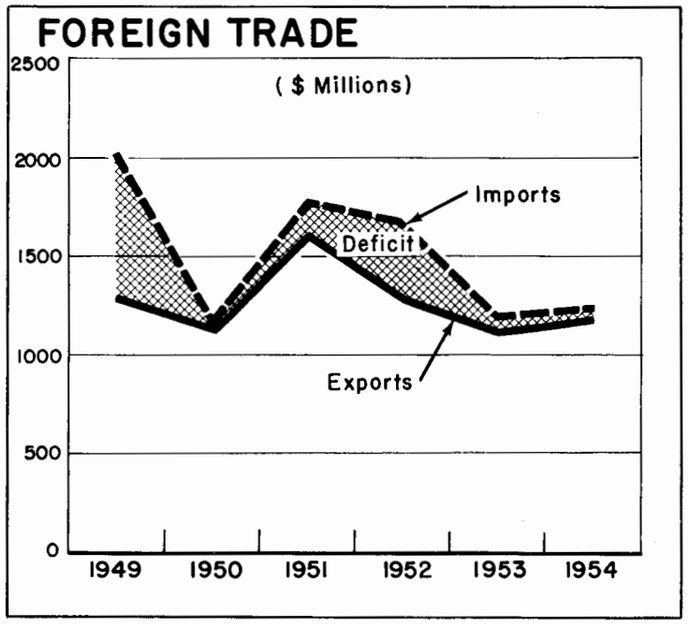
INDIA

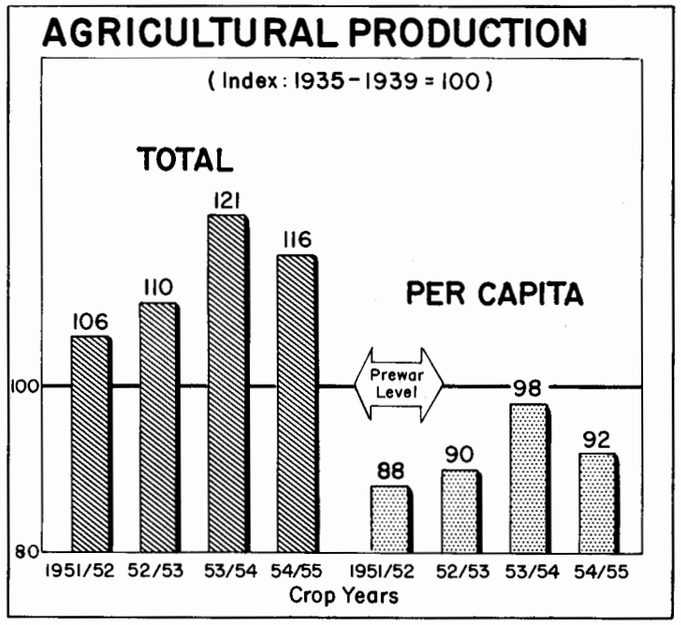


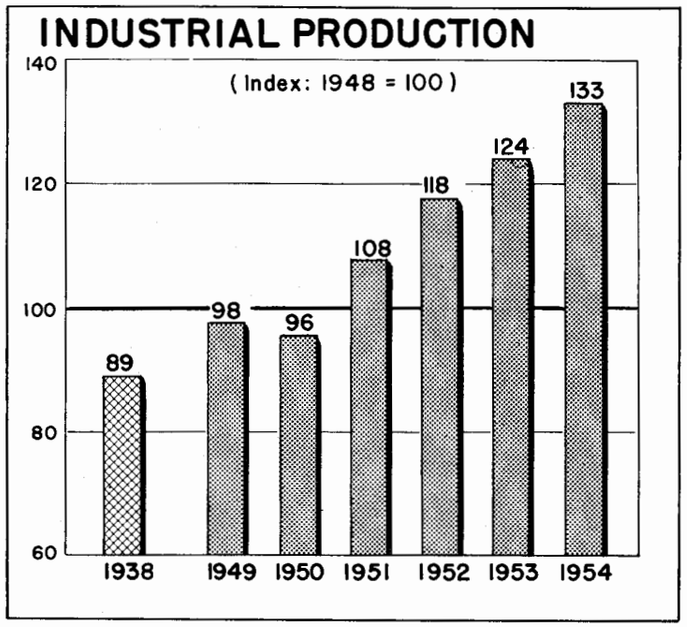




*CENTRAL AND STATE GOVERNMENT BUDGETS COMBINED.







SOUTH ASIA

Country: INDIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	60,500	69,260	70,000
Technical Cooperation	26,346	15,168	15,000
Total Country Program	86,846	84,428	85,000
Of Which Financed by Loan:			
Development Assistance	-	45,000	-
MSP Sales Surplus Agricultural Commodities			
1. Sales to this country	-	26,000	30,000
2. Sales proceeds programmed to this country	-	26,000	30,000

General Narrative Statement

Current Situation

India is a major country in the key South Asian sector of free Asia. As the largest democracy in Asia and the world, with substantial political, cultural, and economic ties with the free Western world, the stability and economic progress of India are of great importance to the future of Asia and the rest of the free world.

Economic development, although small in comparison with the ultimate goals, is steady, and this, together with relative political stability, characterize the situation in India today. At the close of the fourth year of India's First Five Year Plan of national economic development, India's efforts have resulted in real progress. Among the most important gains is the improvement in the food situation. Industrial output has been rising at about 5 percent a year. Per capita food consumption, however, remains at among the lowest levels in the world, and India is still faced with the serious problems of unemployment and underemployment. It has been estimated that at least 20 million people are unemployed; and perhaps half of the rural population is unemployed except during the four-or five month growing season.

General Narrative Statement (Continued)

Thus, although genuine progress has been made in a number of important economic areas, India's major problems remain to be solved, in the process of which difficult decisions will have to be made, involving considerable economic risks. The very great effort entailed in the development program which is now about to enter the critical final year has been able so far to raise standards of living only minutely. This effort has been backed by a bold financing program despite the inherent threat of inflation. The Indian Government incurred a budget deficit estimated at $450 million equivalent in 1954-55, and the government plans to borrow about $670 million from the Central Bank in 1955-56 in order to help finance economic development. Tentative planning for the Second Five Year Plan contemplates development expenditure at the rate of about $2 billion a year, of which $400-500 million annually is expected to be in the form of foreign exchange. These amounts are modest in terms of the need to create employment opportunities and to provide a moderate rise in the standard of living for the Indian people; but investment at this rate may place severe strains on India's internal as well as external resources. Without substantial foreign aid plus success in its own efforts to improve agricultural and industrial production, India's development plans may prove to be considerably beyond its capacity.

The Communist Party within India has made little progress within recent years. This is partly because of a growing awareness within India of its threat to present free institutions, and partly because living conditions have improved slightly under the present non-Communist democratic leadership. The Congress Party recently defeated the Communists in free elections in the state of Andhra. The coming fiscal year will be especially crucial in this connection since general elections will be held again in nearly all of the states of India in late 1956.

Program Objectives

India has a strong and stable democratic government, which has opposed domestic Communist influence very effectively. We desire to see it remain a strong democratic state. India's ability to continue to do so rests in large part on the ability of its government to meet the demands of its people for perceptible rises in their standard of living, under democratic institutions and procedures. The U.S. program in India is designed to stimulate economic progress and thus strengthen the people's faith in democratic government. These are fundamental goals on which the U.S. and India fully agree.

The Indian Government is striving to double present per capita income of $56 by 1977. The first step in this process is the First Five Year Plan, ending in 1956, to be followed by a Second Five Year Plan, 1956-61, considerably more ambitious than the present Plan. India's rate of economic development depends largely upon its own efforts; foreign aid has been and can be only a small, although important, element in the total picture. India has so far financed 85 percent of all development expenditure.

Asians everywhere are watching India's economic progress, achieved through democratic means, and frequently compare it to Communist China's achieved by totalitarian methods and aid from the Soviet Union. It is important to our national interests that India, which has made so promising a start, should not fail now in its race with Communist China to show practical results in economic development and improved living standards. Therefore, we are extending both technical and developmental aid to India, supplementing India's own efforts.

1956 is a key year in India. It is an election year in which the people will pass on the progress which their government hopes to have achieved during the preceding five years. The continuation of aid to India in FY 1956 can assist the Indian Government towards meeting its goals as well as demonstrate that U.S. policy in Asia is based upon a desire to help free peoples meet their urgent economic problems.

The U.S.-India aid program is designed to assist India through joint projects in the achievement, insofar as possible, of the targets of the Five Year development program of the

General Narrative Statement (Continued)

Government of India. The first target of the Indo-American technical cooperation program was to assist in increasing the food supply. In the first two years of this program, more than 90 percent of American assistance was earmarked for this purpose. The very good progress made and in prospect permitted greater attention during the third year to the acute problem of unemployment and in the addition of a second target, the speeding up of India's industrialization. Greater assistance was extended to other sectors of the economy such as electric power, transport, and industry, to improve the facilities for industrial growth, and to provide materials to make possible fuller utilization of the very considerable existing industrial capacity.

Without neglecting food output, the program in the current fiscal year reflects even greater emphasis on transport and industry. Steel and fertilizers, materials which are in short supply in India, have continued to be supplied. They strengthen the private sector of the economy and enhance India's capacity to accelerate economic development, and their use helps increase employment. Assistance is provided, as before, for the control of malaria, one of the most serious health hazards in India; for the improvement of educational standards; and the spread of rural community development projects. Other projects have been added to improve sanitation, provide pure water supplies and combat other serious diseases such as filariasis. Each of these projects is undertaken after joint agreement between the Government of India and the U.S. regarding the highest priority for assistance available from the U.S. This assistance has supplemented and complemented both the technical and financial resources available to the Government of India and as a result economic development has been accelerated more rapidly than would otherwise have been possible.

Progress to Date

Food production, a primary target of the program, shows encouraging progress; cereals production has (recently, at least) increased faster than the population. Although good weather was a major factor, improved farming methods, the use of over 200,000 long tons of fertilizer supplied by the U.S., greater irrigated acreage and the use of improved implements, have played important parts in increased food production.

The Community Development Program is a bold attempt by India to meet the problems of the village through self-help in the fields of agricultural extension, cottage industry, basic education, and improved health and sanitation practices. Village and extension workers trained during the past two years have begun to reach 47 million of India's people.

Through contracts with universities in the U.S., eight agricultural and engineering schools in India are being helped to re-orient their knowledge to the task at hand. Significant progress has been made in fisheries, insect control, minor irrigation, soil conservation and land reclamation.

Major progress is being made on irrigation through the construction, mostly under private contract, of 3,000 deep wells for the Ganges Plain. Of these 1,150 have been drilled and 850 completed. When all are completed they will irrigate more than 1,000,000 acres. Construction equipment and technical assistance have been supplied to speed the building of a number of water storage dams which will provide irrigation on over 4,000,000 acres. Among these dams are Hirakud, Kakrapar, Mahi, Chataprabha, Jawi, Tunga Anicut, and Gangapur. These will increase food grain production by over 2 million tons annually when completed.

The U.S. has contributed to several projects which help India accelerate its industrial development. Steel has been supplied for the production of farm machinery and to help industry operate at increased levels of production. Some of the steel has gone to transport rehabilitation. During FY 1954 the United States assisted in the rehabilitation of the Indian railways by undertaking to procure 100 locomotives and 5,000 freight cars. $10 million of FY 1955 funds are being used to purchase additional freight cars.

Seventy-five million rupees ($15 million equivalent) from the proceeds of FOA-financed steel have been made available to augment the capital of the Industrial Credit and Investment Corporation of India, Ltd., a privately-managed corporation recently established in India; it will assist in private industrial development, by making long-term loans, supplying other types of capital, rendering advisory technical and management assistance, and encouraging investment of foreign private capital, along with Indian private capital.

General Narrative Statement (Continued)

Advances have also been made in health. The national malaria control program, for example, for which FOA supplied DDT and sprayers for the first three years of operations, is currently providing protection for well over 130 million persons.

The FY 1956 Program

The total program proposed for India in FY 1956 is $85 million. Of this amount, $70 million is for development assistance. The maximum amount possible of the development assistance program will be made available on terms of repayment.

Technical Cooperation

In general, the distribution of technical cooperation funds parallels that of previous years. Principal emphasis continues to be in fields of agriculture, health and sanitation, and industry and mining. A somewhat smaller proportionate contribution will be made in the field of community development than in the early years of the program, principally as a result of a reduction in the funds for supplies and equipment. This reflects the fact that significant progress has already been made in establishing training centers and other facilities needed to carry out the program. It is anticipated that significant progress can be made in the labor program, although it will still remain as a small part of the total. The same is true of public administration, for which inter-university contracts will undoubtedly provide the best approach. In the field of education, it is anticipated that a modest increase will take place in inter-university contract activities.

Development Assistance

The FY 1956 development assistance program for India totals $70 million. It is proposed to devote a total of $10 million to the field of agriculture and natural resources, including: $4 million for fertilizer to meet the rising demand before the completion of additional manufacturing facilities; $4 million for additional deep irrigation wells in the areas shown by the exploratory program to justify the drilling of production wells; and $2 million for river valley development to assist in further expansion of irrigation.

To meet the expanding demand for power as industrial development progresses, $5 million assistance in the construction of electric power facilities is proposed. Further support for industrial development is expected to take the form of steel in the amount of $15 million, to help meet the shortage in India. Some part of this may be used, however, for aid to small rural industries by supplying equipment and making possible increased employment in rural areas.

Assistance in the field of transportation is proposed in the amount of $6 million; this will support agriculture, mineral and industrial development as well as foreign trade. This would represent a continuation of the program to rehabilitate the Indian railways. It is planned that steel for fabrication of railway rolling stock in India and equipment to expand freight car fabrication in India will be supplied.

$4 million is to be used to further extend the area of malaria control during FY 1956.

Assistance in the form of agricultural surplus commodities is proposed in the amount of $30 million. The sales proceeds of these commodities are expected to be used for agreed economic development purposes such as local costs of irrigation, flood control, and power.

COUNTRY INDIA

SOUTH ASIA

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development, Social Welfare and Housing	Import Saleable Commodities	All Other
Technical Cooperation											
1954	26,346	8,850	3,329	1,965	101	5,009	860	8	5,740		484
1955	15,168	7,796	1,624	55	700	3,025	727	43	279		919
1956	15,000	4,035	3,185	150	275	3,912	1,620	145	1,428		250
Development Assistance											
1954	60,500	8,500	32,000	20,000							
1955	69,260		15,800	18,500		4,700				30,000	260
1956	70,000	6,000	20,000	6,000		4,000				34,000	
Total All Programs											
1954	86,846	17,350	35,329	21,965	101	5,009	860	8	5,740		484
1955	84,428	7,796	17,424	18,555	700	7,725	727	43	279	30,000	1,179
1956	85,000	10,035	23,185	6,150	275	7,912	1,620	145	1,428	34,000	250

SOUTH ASIA

INDIVIDUAL COUNTRY DATA

Country: INDIA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	26,346	19,666	82	1,682	109	4,351	137	612	35
1955	15,168	8,536	109	1,476	115	4,347	153	765	44
1956	15,000	9,271	130	2,076	68	2,470	227	1,135	48
Development Assistance									
1954	60,500	60,500							
1955	69,260	69,260							
1956	70,000	70,000							
Total All Programs									
1954	86,846	80,166	82	1,682	109	4,351	137	612	35
1955	84,428	77,796	109	1,476	115	4.347	153	765	44
1956	85,000	79,271	130	2,076	68	2,470	227	1,135	48

SOUTH ASIA

Country: INDIA

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Development Assistance: For Project Use	FY 1955 Development Assistance: For Consumption	FY 1955 Development Assistance: Total	FY 1956 Development Assistance: For Project Use	FY 1956 Development Assistance: For Consumption	FY 1956 Development Assistance: Total
Commodities							
Food and Agricultural Imports							
Fertilizer			4,000	4,000		4,000	4,000
Wheat			14,000	14,000		30,000	30,000
Cotton			12,000	12,000			
Other Agricultural products		4,500		4,500	4,000		4,000
Total Food and Agricultural Imports		4,500	30,000	34,500	4,000	34,000	38,000
Industrial Imports							
Industrial Raw Materials Semi-finished products	29,500	15,800		15,800	28,000		28,000
Capital Equipment (Machinery and Vehicles)	30,000	18,700		18,700	4,000		4,000
Other Manufactures	1,000	260		260			
Total Industrial Program	60,500	34,760		34,760	32,000		32,000
Total Commodity Program	60,500	39,260	30,000	69,260	36,000	34,000	70,000
Transfer of Cash							
Services							
Total Country Program	60,500	39,260	30,000	69,260	36,000	34,000	70,000

NEPAL

BASIC DATA

			Nepal	Asian Arc	U.S.
Population (1954)..... millions	7				
Area..... 1,000 sq.mi.	54				
Agricultural land..... percent	22	Gross national product#			
Agricultural land per capita..... acre	1	Total(1954 est.) Mill $..	375		
		Per capita..... $..	54	105	2,200
		Road miles per 1,000 sq.mi.	4	220	1,100

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954
		(millions of US $)			
Exports, f.o.b.			7.2[a]		
Imports, c.i.f.			4.0[a]		
Trade balance.....			3.2[a]		
Trade with U.S. (U.S. Customs data)					
Exports to U.S. ..... Thous. US $			609	103	120
Imports from U.S. ..... Thous. US $			b	3	4
Balance..... Thous. US $			+609	+100	+116

PRODUCTION

	Unit	1938	1951	1952	1953	1954
Major crops:						
Jute.....	1,000 MT	9.9[c]	7.0	7.0	7.0	
Food grains.....	1,000 MT		2,500			
Major industries:						
Factories producing consumer goods for local consumption; textiles, flour and sugar mills, etc.		NOT	AVAILABLE			

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.1	0.2	0.5	0.7	2.4	2.0
			(calendar years)				
Ex-Im Bank disbursements.....	-	-	-	-	-		
IBRD disbursements.....	-	-	-	-	-		

FINANCES

Central government budget - year ending	1951	1952	1953	1954	1955
		(millions of US $)			
Revenue.....	3.6	3.8	4.8		
Expenditure.....	3.0	6.5	6.3		
Defense.....	1.3	2.2	2.2		
Non-defense.....	1.7	4.3	4.1		
Surplus or Deficit (-).....	0.6	-2.7	-1.5		
As % of total revenue.....	16%	-71%	-31%		
Defense expend. as % of budget.....	43%	34%	35%		

[a] April-December. Converted at rate of 8.096 Nepalese rupees per U.S. dollar.

[b] Less than $500.

[c] Prewar average.

Estimated in U.S. dollars by FOA.

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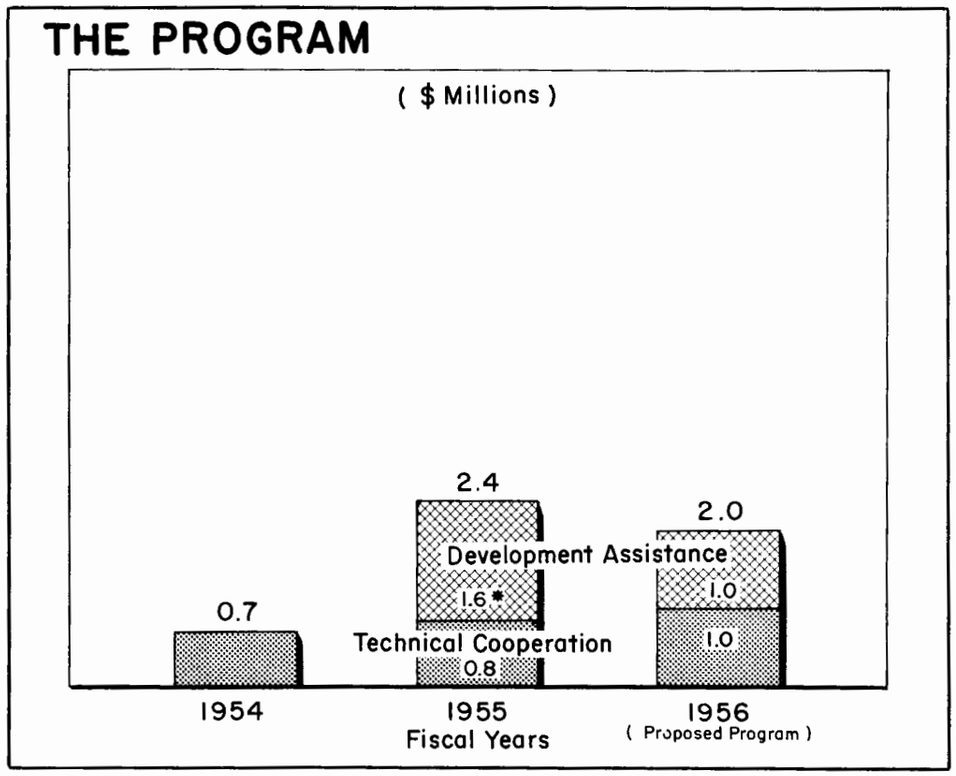
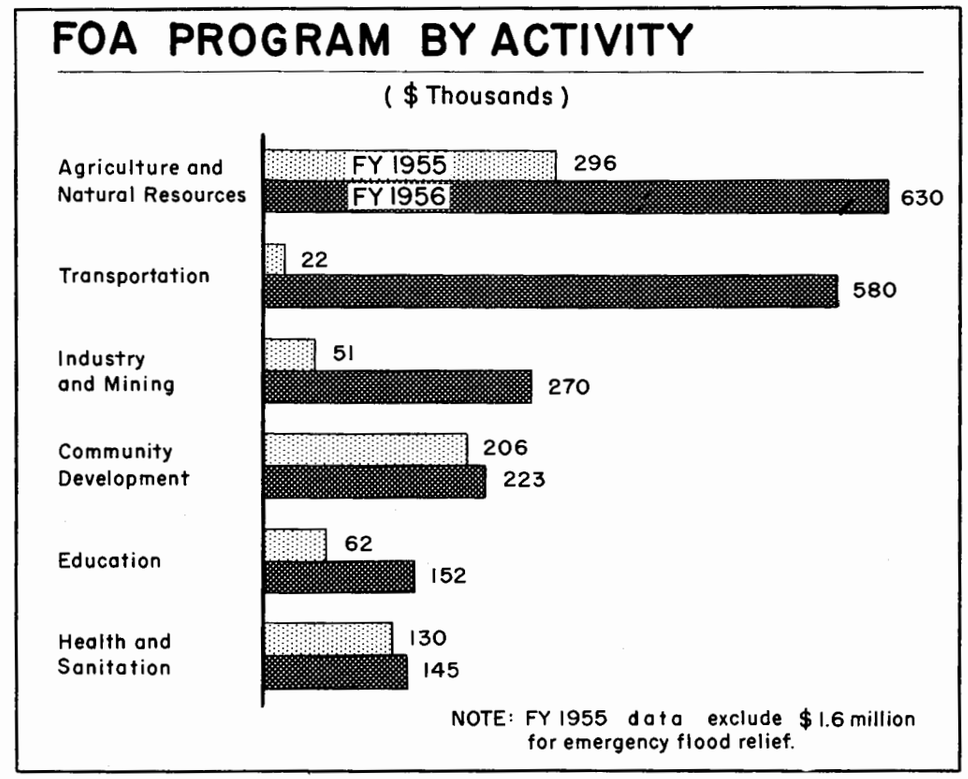
NEPAL



*Flood relief



SOUTH ASIA

Country: NEPAL

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Development Assistance	-	1,675	1,000
Technical Cooperation	744	772	1,000
Total Country Program	744	2,447	2,000

General Narrative Statement

Current Situation

Nepal is a mountainous state approximately the size of Arkansas, with an estimated population of eight million people, located between Tibet and China on the north, and India on the south. During the past four years a new regime in Nepal has been attempting to develop a democratic government. These attempts at political reform have been accompanied by efforts to improve living standards and institute social change. At the same time it has been faced with problems in maintaining the internal security of the country against subversion and in resisting influence by Communist China. In its efforts to meet its problems Nepal is handicapped by the absence of adequate administrative machinery or trained personnel, by still inexperienced politicians and by a small but growing Communist movement. As a result Nepal today is in a state of political flux, and its economy is so vulnerable that the country presents a fertile ground for Communist infiltration.

India has pledged its support to Nepal's development and to the maintenance of its territorial integrity. Nepal accepts Indian administrative, military and financial assistance.

The Cabinet which had been administering Nepal's affairs since June 1953 resigned recently because of inter- and intra-party difficulties; the country is now ruled directly by King Mahendra who succeeded to the throne on March 14, 1955, following the death of his father. The initial steps taken by the new king provide hope that the experiment in democracy and development started by his father will be continued and expanded.

The economy of Nepal is almost entirely agricultural. The rough mountainous topography of the country and the poor lines of communications, both internal and external, and the fact that the Terai and other areas are malaria-ridden, have constricted much of the population into relatively small areas such as Katmandu Valley. There are practically no roads except in the small Katmandu Valley and in the Terai. Of necessity, much in the way of new road building has to be

General Narrative Statement (Continued)

accomplished before the country can be linked together as an economic entity. Whole areas, which potentially are a source of additional food supply and other resources, have been denied the people because of acute malarial conditions. Power facilities outside Katmandu are practically nonexistent; only a few small scale industries are in operation, almost entirely in Katmandu and the Terai. The backwardness of the economy is suggested by the fact that wagons and draft animals are little used; transportation of goods is mainly accomplished over poor trails and footpaths on human backs.

The already low standard of living of the people was last year adversely affected by high prices, a decline in export earnings and the consequent restriction of imports to meet the severe strain on Nepal's limited foreign exchange resources.

Further aggravating Nepal's unfavorable economic situation were the serious floods in the fall of 1954, which destroyed roads and villages, made over 125,000 people homeless, and caused a grave set-back to the country's economic development efforts. The U.S. extended emergency assistance to Nepal to assist the country in meeting this devastation.

The year 1956 may well be one of critical importance to Nepal since it may be determined during this period whether economic development can be maintained at a rate satisfactory enough to assure political stability and at the same time inflation kept within reasonable bounds.

Program Objectives

The U.S. desires a strong stable Nepal, friendly to the U.S., and having the will and ability to resist communist infiltration. This depends in large measure on economic and social progress of the people of Nepal and on a stability of the Nepalese economy which furthers the success of democratic political institutions.

The U.S., in furtherance of its objectives, is assisting the Nepalese in their firm desire to improve the country's low standard of living through a somewhat limited technical cooperation program. However, this alone is insufficient to the need. In cooperation with Nepalese, programs are being developed to utilize the country's natural resources and to supply some impetus to the development of small industries. In furtherance of this objective it is proposed to add a small development assistance program.

Progress to Date

For the past three years the U.S. has participated with Nepal in a technical cooperation program. Cooperative Services have been instituted for the advancement of village improvement, education, public health, agriculture, irrigation and mining. Technical advisers from the U. S. have pointed the way toward improvements in agriculture, living conditions, the beginnings of an educational system, and the utilization of Nepal's resources. Village level workers are being trained in three schools and 174 graduates are now manning six village improvement centers. Villagers are being taught the importance of sanitation and public health measures to reduce communicable diseases. An extensive program is being conducted to reduce the incidence of malaria and other insect-borne diseases. Village schools are being opened; a teachers' training college has been started, providing the first formal training for teachers and laying the groundwork for standards of instruction. A program is under way to increase the yield of indigenous crops and over 500 types of seeds and plants from outside Nepal have been introduced for experimentation. Improved farming methods, the use of simple improved farm tools and the use of insecticides and fertilizers are being demonstrated to the villagers. An agricultural experiment station is being instituted. An iron ore deposit which Nepalese believe to be promising is being studied. Geologic explorations and a mining code developed by a U. S. technical adviser encourage the development of private mining which heretofore has been practically non-existent.

General Narrative Statement (Continued)

The FY 1956 Program

In FY 1956, $1 million is proposed for the Technical Cooperation program to extend the village improvement, health and agricultural program into additional areas; to expand the eductional program through the medium of a second university contract with a U. S. institution, and to provide additional technical assistance in the fields of mining and industry.

To begin meeting the needs for the development of the Rapti Valley and other isolated areas, and for better communication and transportation facilities, it is proposed that development assistance be extended to Nepal to the extent of $1 million; of which approximately $300,000 would be for irrigation, land reclamation and other agricultural development programs; $500,000 for transportation and communication equipment and materials needed from outside Nepal, and $200,000 for the development of hydro-electric power on a very small scale, and aid to small industries.

SOUTH ASIA

Country: NEPAL

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Program by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Development Assistance											
1954											
1955	1675										1675
1956	1000	300	200	500							
Technical Cooperation											
1954	744	239	34	4		94	224	13	136		
1955	772	296	51	22		130	62	5	206		
1956	1000	330	70	80		145	152		223		
Total All Programs											
1954	744	239	34	4		94	224	13	136		
1955	2447	296	51	22		130	62	5	206		1675
1956	2000	630	270	580		145	152		223		

SOUTH ASIA

Country: NEPAL

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Development Assistance									
1954									
1955	1,675	1,655	6	20					
1956	1,000	1,000							
Technical Cooperation									
1954	744	261	9	157	2	220	37	78	28
1955	772	480	11	183	2	17	16	64	28
1956	1,000	458	17	290	3	134	17	85	33
Total All Programs									
1954	744	261	9	157	2	220	37	78	28
1955	2,447	2,135	17	203	2	17	16	64	28
1956	2,000	1,458	17	290	3	134	17	85	33

PAKISTAN

BASIC DATA

Population (1954).....millions	78.3
Annual growth.....percent	1.1
Area.....1,000 sq. mi.	366
Agricultural land.....percent	21
Potentially productive land.....percent	9
Agricultural land per capita .....acres	0.7

	Pakistan	Asian Arc	U.S.
Caloric intake.....	2,044	2,035	3,120
% Grains & starches.....	81	79	29
Literacy rate.....percent	14	32	97
Infant mortality per 1,000 births.....	125	n.a.	28
Road miles per 1,000 sq.mi.	158	220	1,100
Elec. power per capita.....KWH per yr.	6	117	3,165

USE OF RESOURCES - 1954

		%
Gross national product (million U.S. dollars).....	$6,345	
Consumption.....	5,155	81.2
Gross investment (public and private)	490	7.7
Government non-defense expenditure.....	555	8.8
Government defense expenditure.....	235	3.7
Net foreign balance.....	-90	-1.4
Per Capita GNP(dollars).....	$81	

(FOA estimates; converted at rate of 3.309 rupees per U.S. dollar)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.[a]		763	532	439	359
Imports, c.i.f.[a]		530	611	349	324
Trade balance.....		+233	-79	+90	+35
Principal exports[b]					
Jute: Quantity .....1,000 MT			886	957	916
Value.....$ millions			301	171	168
Cotton: Quantity 1,000 MT			199	274	209
Value $ millions			235	210	150
Trade with U.S. (U.S. Customs data)					
Exports to U.S.....		44	23	26	23
Imports from U.S.		38	55	98	33
Balance		+ 6	-32	-72	-10
					Jan-June
Balance of payments					
Balance on goods & services.....		167	-235	-41	-36
Net capital.....		-154	65	73	14
Private.....		-	-19	-12	- 3
Official and banking.....		-154	84	85	17
Government grants.....		- 1	-	82	12
Long-term capital.....		-149	83	4	5
Short-term capital.....		- 4	1	- 1	-
Change in gold and exchange reserves.....		+14	-174	+33	-23
Gold and foreign exchange reserves[c] (end of yr.)		505	295	296	328

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	0.4	10.6	42.0	22.7	72.1	92.0
U.S. special program allotments (fiscal years)	-	-	-	66.0	-		
			(calendar years)				
Ex-Im Bank disbursements.....	-	-	-	-	-		
IBRD disbursements.....	-	-	5.7	4.8	13.9[d]		
Book value of U.S. direct private investment..	8	8	9	8			

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production[e].....	1935-39=100	100[f]	101	101	103	102
Major crops[e]						
Jute.....	1,000 MT	1,154[f]	1,149	1,230	450	760
Cotton.....	" "	460[f]	292	346	276	266
Wheat.....	" "	3,184[f]	4,015	3,109	2,858	3,740
Rice, milled.....	" "	7,353[f]	7,870	8,278	9,305	8,900
Major industries:						
Cotton and jute mills, foods, paper			not available			
Cotton cloth.....	mill. yds.		128	174	252	342
Electric power	mill. KWH		223	306	408	500

FINANCES

Central government budget - year ending March 31	1951	1952	1953	1954[g]	1955[g]
			(millions of US $)		
Revenue, excl. counterpart.....	451	520	451	496	451
Expenditure.....	388	548	675	671	686
Defense.....	204	259	290	236	234
Capital outlay.....	25	95	83	108	139
Other non-defense.....	159	194	302	327	313
Surplus or deficit (-) before counterpart.....	+63	-28	-224	-175	-235
Counterpart receipts.....	-	-	-	-	10
Surplus or deficit (-) after counterpart.....	+63	-28	-224	-175	-225
As % of total revenue.....	14%	-5%	-49%	-35%	-50
Defense expend. as % of budget.....	50%	47%	43%	35%	34%
Defense expend. as % of GNP.....	3.6%	4.4%	4.8%	3.8%	3.7%
Prices (index 1950=100)					
Wholesale: Jute.....	159	98	82	91	
Cotton.....	171	120	85	91	
Cost of living: Karachi.....	104	106	118	116	113(Jan.)

* 1954 data partly preliminary or estimated.
a Data adjusted to January-December year.
b Years ending June 30.
c Holdings of Issue Department of State Bank.
d Undisbursed balance as of December 31, 1954: $20.0 million.
e Crop year beginning in year stated.
f Prewar average.
g Budget estimates.

Revised May 18, 1955

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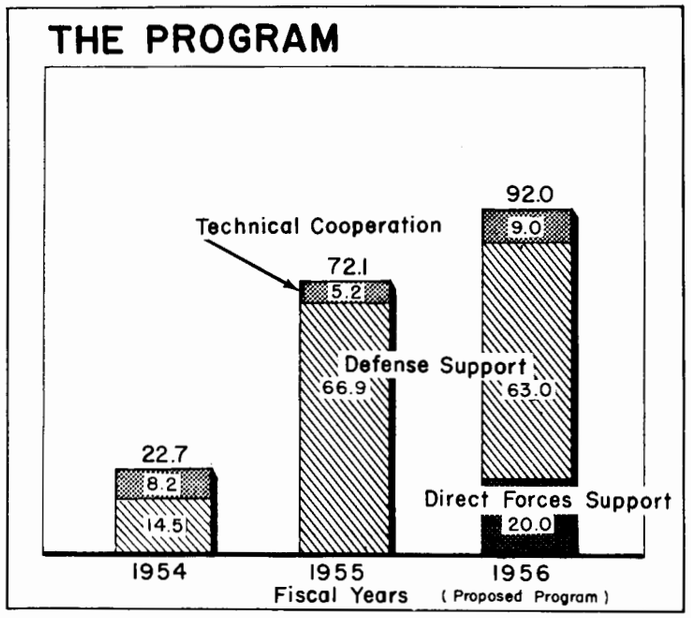
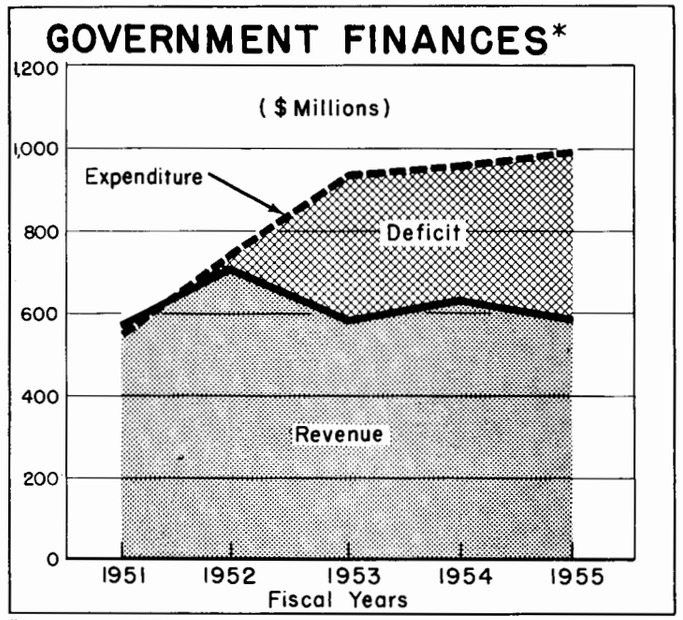
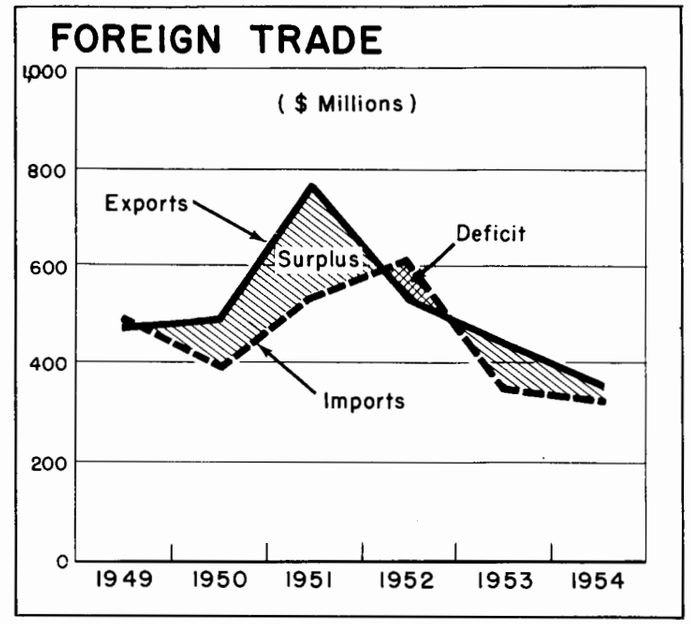
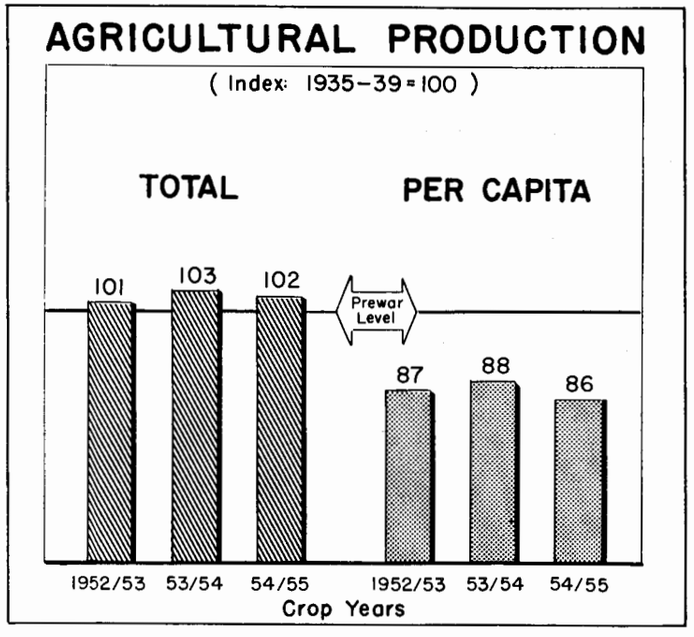
PAKISTAN

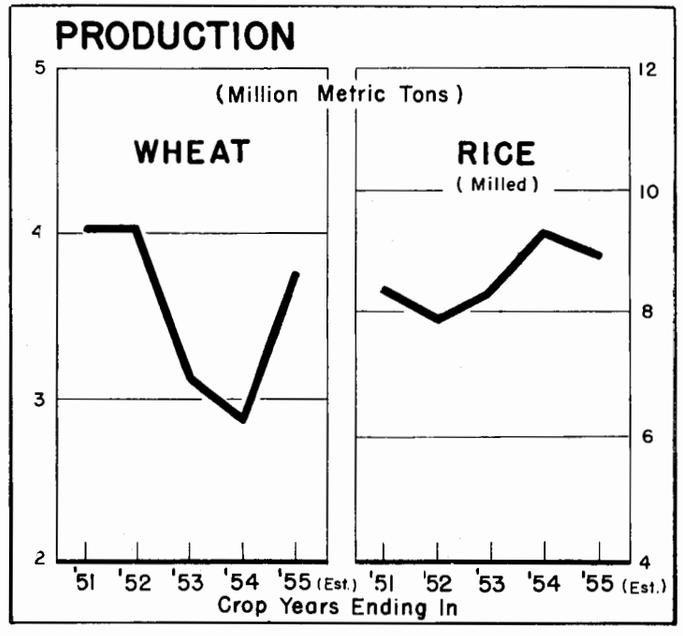


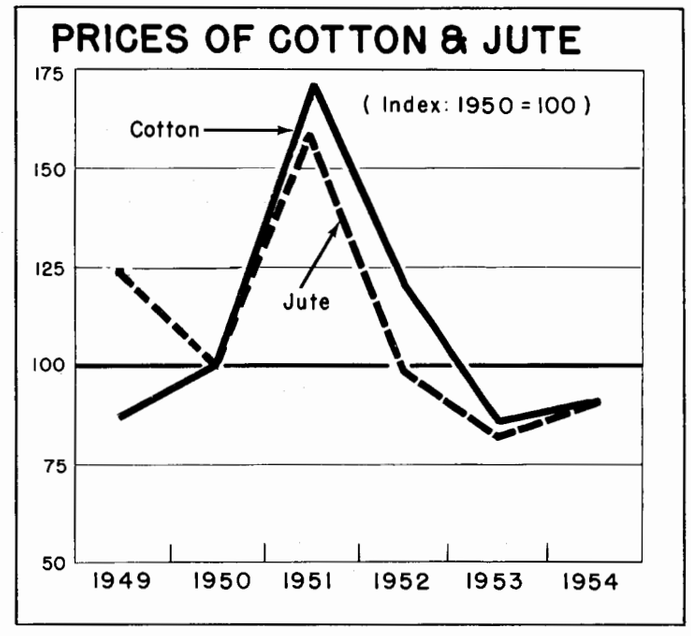


*CENTRAL AND STATE GOVERNMENT BUDGETS COMBINED.









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SOUTH ASIA

INDIVIDUAL COUNTRY DATA

Country: PAKISTAN

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Program Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	-	-	20,000
Defense Support	14,500	66,900	63,000
Technical Cooperation	8,234	5,220	9,000
Total Country Program Other Than Military Assistance	22,734	72,120	92,000
Of Which Financed by Loan:			
Defense Support	-	20,000	-
MSP Sales Surplus Agricultural Commodities	-		
1. Sales to this country	-	900	-
2. Sales proceeds programmed in this country	-	900	-

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

Pakistan has taken a clear stand at the side of the United States in unconditional opposition to Communist aggression. The leaders of its Government are dedicated and determined men. Under their guidance, Pakistan joined with other freedom loving nations to form the Manila Pact. It is united with Turkey to strengthen defenses of the Middle East. However, it has great economic problems which arise from the poverty of the masses of the people, low productivity and a critical budgetary and foreign exchange situation.

Pakistan is also confronted with serious political problems which are aggravated by these economic problems. Its political difficulties encompass the problems arising from the framing of a new constitution, maintenance of a stable central government, a greater political cohesion of the two geographically separated parts of the country, the settlement of critical issues with neighboring nations, and the need to act effectively with other countries against the common danger of Communist imperialism.

General Narrative Statement (Continued)

The efforts of Government leaders are devoted to the maintenance of political stability, the maintenance of adequate military strength for defense of the country and the development of Pakistan's economic potential. It is their major premise that political stability and a capacity to maintain a satisfactory defense effort may be obtained only through enhancement of the fundamental strength of the economy and the betterment of living levels of the populace at large. To this end, total expenditures on development have risen in each year of the past several years at the expense of consumers' goods expenditures.

The precarious economic situation of Pakistan, characterized since the formation of the country by extremely low standards of living and per capita production, was critically disturbed in 1954 by a combination of natural disasters and unfavorable market developments which has taxed the resources of the Government to the limit. In the circumstances, the Government felt it necessary to request emergency aid from the United States over and above the amount originally programmed; and this was extended. Even without these unfavorable developments, the economy of Pakistan was having difficulty - despite forceful action - making headway against serious internal and external economic problems involving shortages of consumer goods, inflationary pressures, a courageously pushed but faltering development program, and deficits in budgets and balances of payments. Fortunately, the food situation is reasonably favorable. Harvests in 1954 were good and current crop prospects are about normal.

One of the chief characteristics of the economy of Pakistan is its reliance on favorable conditions of foreign trade in a few commodities and terms of trade in order to insure stability in the internal economic situation. Sales abroad of cotton and jute normally account for about 90 per cent of the country's foreign exchange earnings which are needed to procure the consumer and capital goods which the country is unable to produce on an adequate scale. Since 1951, however, the terms of trade and balance of payments position of Pakistan have been consistently unfavorable, so that the liquid foreign exchange reserves have fallen to a minimal level.

Internally, the economy of Pakistan is beset by inflationary increases in currency circulation, rising consumers goods prices, and consequent pressures on standards of living. It is clear that substantial foreign assistance is a vital supplement to Pakistan's own resources. The resources of the country, although being bolstered by a multiform capital investment program, both in the public and private sectors, are not sufficient in themselves to turn the tide. With a substantial amount of foreign aid, there are excellent prospects that in time the country should be in a position to cope better with its internal and external problems.

Program Objectives

The primary U. S. objectives in Pakistan are (1) to assist the Pakistan Government in development of an expanding economy conducive to the maintenance of political stability and (2) to assist also in the strengthening of Pakistan's defenses both for preservation of its own security and so that it can realize the common desire to contribute to free world defenses in the area.

The United States supports the efforts of Pakistan in the economic objectives which immediately underlie these primary objectives. Pakistan has begun a vigorous campaign of economic development with a two-fold purpose: first, the furtherance of political stability, which depends on improvement of living conditions, and second, the improvement of Pakistan's future capacities to carry its military burden - in that the present heavy burden of the nation's own defense expenditures can be lightened only if national income - and consequently the ability to carry the burden - is increased. Government expenditures constitute the major share of the development effort in these early years. It is the Pakistan Government's intent and practice, however, to foster private enterprise - both domestic and foreign, in every way possible.

To support these objectives, the United States is providing technical, economic and military assistance, the specific aims of which are:

General Narrative Statement (Continued)

a. Increase agricultural production through improved methods and expansion of cultivable area.

b. Accelerate development of natural resources, e.g., mineral and forest exploitation.

c. Stimulate new industries and new investment - both domestic and foreign.

d. Supply critical raw materials and consumer goods.

The total effort required in developing the economy while maintaining an adequate defense establishment and adequate living standards exceeds Pakistan's present capacities. Initiation of a self-generating process of economic growth which will increase national income markedly depends on aggressive private and public investment. Public funds from revenues and borrowings, together with private investment funds, are not adequate for the purpose of raising income at a sufficiently rapid rate.

On the foreign exchange side, export earnings have been disappointingly low and over the past three years have reduced Pakistan's ability to buy needed foreign capital goods and a steady flow of raw materials for established industries. Low exports (and consequent low imports) reduce domestic revenues which depend heavily on export and import duties and sales taxes. So long as this situation persists in Pakistan, its strength in the free world is lessened.

In FY 1955, the United States provided Defense Support assistance to Pakistan. Also, direct military assistance was begun. Defense Support was based on a calculation of needs, recommended by a special survey team. In FY 1956, the prospects continue to be unfavorable, so that this same type of assistance is called for.

Pakistan needs technical assistance in many fields. Lack of technical experts continue to obstruct or to slow development. The long range prosecution of a Technical Cooperation program is the best feasible measure to assist in removing this obstacle to realization of U. S. objectives in Pakistan.

Progress to Date

Military Assistance

On February 24, 1954, the President of the United States determined that Pakistan was eligible to receive grant of military assistance. Subsequently, a program to supply Pakistan with equipment to strengthen their armed forces was begun. To date, one shipment of Army equipment consisting of tanks and signal equipment has been delivered. The effect of these deliveries cannot yet be evaluated, because of the short time this equipment has been in the country. The MDA Naval Program is in the formative stage with one former United States vessel having been delivered. Presently scheduled equipment for the Pakistan Air Force is for conversion to jet fighters and includes necessary supply, maintenance and training. Perhaps the greatest influence which MDAP has exerted on the country to date is its effect on morale. The fact of United States support in the development of its armed forces serves as an incentive for the country to accomplish the maximum within its own economic capabilities.

Defense Support

Under the Defense Support program, industry is developing and expanding. Railway operations system has and is being improved through the establishment of machine shop training centers and diesel locomotive training schools. A fertilizer factory is under construction. U. S. assistance in small industries is improving methods of operation at minimum increase in cost as well as improving design and quality of products manufactured. Construction of irrigation dams with U. S. aid is being rapidly accomplished. These will not only increase cultivable lands for increased production but will also provide sizeable areas of inhabitable land for the resettlement of great numbers of refugees from congested areas. They will also serve to control flood waters and to store it for use during the dry season.

General Narrative Statement (Continued)

The United States responded to an urgent appeal in the summer of 1954 for special financial assistance to import essential consumer goods and raw materials. Commodities being provided include iron and steel, POL products, commercial vehicles, industrial chemicals, spare parts for agricultural and other machinery, drugs and medicines and sugar financed with MSP funds. In addition, substantial amounts of surplus items are programmed as sales and grants under Public Law 480. This aid serves the dual purpose of reducing threats of inflation and preventing stoppages in critical industries in the first instance.

Local currencies (counterpart and sales proceeds) are to be used for economic development and defense - the latter in conjunction with the MDA program of end item assistance.

Technical Cooperation

Projects which were initiated in the 1952, 1953, 1954 programs and are currently underway in 1955 are primarily of a long range nature. These programs have touched nearly every sector of the Pakistan economy and are operating in all of the provinces and territories of that country. In the field of agriculture, U. S. assistance has helped to stabilize the food situation.

Under the Technical Cooperation program, demonstration of the application of fertilizer has had its effect in increased production of foodstuffs. Through cooperatives and agricultural extension work, introduction of better seed and livestock is improving the strains and management paactices. There are 20 seed multiplication farms being organized and developed. The Government is using test relief work to build farm roads, irrigation canals and flood control funds to afford employment as well as to get public works projects accomplished at minimum cost. The U. S. provides technical guidance in planning such work and in coordinating the results with agricultural projects. The last timber reserve, one of the major factors in the East Pakistan economy, is being better protected and is being extracted more systematically under the technical direction of a U. S. logging engineer and with a minimum of proper equipment provided by the U. S. The buildings for a forest research laboratory are almost completed and expected to be in operation within six months. Improved plant protection methods are further helping to increase crop production. In the field of education, contracts have been entered into between five major U. S. educational institutions and provincial educational institutions in Pakistan. In the field of health and sanitation, anti-malarial programs, T. B. eradication programs and environmental sanitation have been started, the latter primarily through the village development program. In the field of village development, the U. S. has assisted in the creation of village training centers in each of the major provinces of Pakistan and village workers are being trained in the fields of agriculture, health and sanitation, education, and cottage industries. The Government of Pakistan is instituting, with great emphasis, a country-wide village aid program with a large staff of workers in each province.

Other Programs

Two additional successful programs were the 1953 U. S. Wheat Grant amounting to more than 600,000 tons and the East and West Pakistan Flood Relief programs in FY 1955. These programs were instrumental in alleviating great suffering and avoided widespread starvation and disease which would have resulted in the absence of such assistance. An important collateral achievement to date has been the development of understanding, mutual respect and faith between Pakistani technicians and administrative officials and their U. S. counterparts. This has contributed greatly to the feeling of friendship between the peoples of the two countries.

The FY 1956 Program

Direct Forces Support

The Direct Forces Support program of $20 million for Pakistan will provide to the military forces such items as tools,

General Narrative Statement (Continued)

spare parts and cordage; textiles for uniforms, construction material, including structural steel and steel sheets; dockyard equipment and machinery; and aviation gas and lubricants to:

a. Assist in provision of goods required for training in the use and utilization of MDAP materiel

b. Assist in the development and rehabilitation of essential defense facilities required for adequate maintenance and support of MDAP and related materiel.

Defense Support

The proposed Defense Support program of $63 million is aimed at sustaining current consumption and industrial production levels and increasing the rate of development required by Pakistan to attain a stronger more diversified economy consistent with economic development goals and defense commitments.

By comparison with the FY 1955 program, U. S. aid to development will concentrate far more on industry and mining and transportation. A new long term development plan drawn up by the Government of Pakistan with the help of the Ford Foundation will provide a comprehensive framework for future industrial and investment projects. FOA will strive to activate key parts of this plan by providing expert guidance in investment, starting pilot plant and industrial development centers. A start will be made on an industrial investment bank to encourage expansion of private capital development.

Counterpart derived from U. S. aid in the FY 1956 program will be used to supplement Pakistan's defense and economic development efforts.

Technical Cooperation

The proposed FY 1956 program is for $9 million. This expansion over FY 1955 is required in order to stimulate an overall increase in productivity throughout the economy. Major increases of expenditures, compared with FY 1955, are contemplated in the fields of education, health and sanitation, agriculture and natural resource development.

SOUTH ASIA

Country: PAKISTAN

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Administration	Community Development Social Welfare and Housing	Import Saleable Commodities	All Other
Direct Forces Support											
1954											
1955											
1956	20,000										20,000
Defense Support											
1954	14,500	12,720	280						1,500		
1955	66,900	8,700	5,000	1,000		3,800				40,000	8,400
1956	63,000	13,200	13,900	3,100		1,400				30,000	1,400
Development Assistance											
1954											
1955											
1956											
Technical Cooperation											
1954	8,234	3,904	946	74	-	138	1,681	18	330		1,143
1955	5,220	1,230	300	785	-	840	654	131	887		393
1956	9,000	3,700	200	50	20	1,600	2,100	120	1,100		110
Total All Programs											
1954	22,734	16,624	1,226	74	-	138	1,681	18	1,830	-	1,143
1955	72,120	9,930	5,300	1,785	-	4,640	654	131	887	40,000	8,793
1956	92,000	16,900	14,100	3,150	20	3,000	2,100	120	1,100	30,000	21,510

SOUTH ASIA

Country: PAKISTAN

INDIVIDUAL COUNTRY DATA

ALL PROGRAMS, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954									
1955									
1956	20,000	20,000							
Defense Support									
1954	14,500	14,500							
1955	66,900	64,543	13	260	3	131	23	36	1,870
1956	63,000	59,350	15	300	45	2,050			1,300
Development Assistance									
1954									
1955									
1956									
Technical Cooperation									
1954	8,234	3,073	73	1,261	67	2,734	1	2	1,164
1955	5,220	704	79	1,422	84	2,042	89	472	580
1956	9,000	3,051	118	2,100	84	2,718	124	619	512
Total All Programs									
1954	22,734	17,573	73	1,261	67	2,734	1	2	1,164
1955	72,120	65,247	92	1,682	87	2,173	112	568	2,450
1956	92,000	82,401	133	2,400	129	4,768	124	619	1,812

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support: For Project Use	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Direct Forces Support	FY 1955 Total	FY 1956 Defense Support: For Project Use	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Fats and Oils			900		900		900		900
Sugar			4,500		4,500		4,000		4,000
Fertilizers	4,000		1,500		1,500		2,000		2,000
Wool			3,000		3,000				
Transportation a/			1,400 a/		1,400				
Other Agricultural Products	125	542			542	700			700
Total Food and Agricultural Imports	4,125	542	11,300		11,842	700	6,900		7,600
Industrial Imports									
Fuel			6,750		6,750			5,000	5,000
Industrial Raw Materials	867	6,275	8,400		14,675	9,340	9,900	5,000	24,240
Machinery and Vehicles	8,944	8,905	6,600		15,505	12,525	4,500	4,000	21,025
Other Manufactures			8,250		8,250	3,235	8,000	6,000	17,235
Miscellaneous and Unclassified	564	3,321	5,600		8,921	3,550	700		4,250
Total Industrial Imports	10,375	18,501	35,600		54,101	28,650	23,100	20,000	71,750
Total Commodity Program	14,500	19,043	46,900		65,943	29,350	30,000	20,000	79,350
Transfer of Cash									
Services		957			957	3,650			3,650
Total Country Program	14,500	20,000	46,900		66,900	33,000	30,000	20,000	83,000

a/ $1.4 million ocean transport for Title II P.L. 480 Program.

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Technical Cooperation	130		
Other Programs		300	
Total	130	300	

General Narrative Statement

Funds shown under this category in FY 1954 represents amounts used for regional technical cooperation projects in the South Asia area.

In FY 1955, $300,000 is programmed from Mutual Security funds to expand United States information activities in the South Asia area.

CHINA (Formosa)

BASIC DATA

Population (1954).....millions	10
Annual growth.....percent	2.4
Area..... ... 1,000 sq mi	14
Agricultural land....percent	26
Agricultural land per capita.....acres	0.2

	Formosa	Asian Arc	U.S.
Caloric intake	2,340	2,035	3,120
% Grains & starches..	80	79	29
Literacy rate...percent	65	32	97
Life expectancy...years	43	35	68
Road miles per 1000 sq.mi.	785	220	1,100
Elec. power per capita .....KWH per yr.	179	117	3,165

USE OF RESOURCES - 1954

		%
Gross national product (million U.S. dollars).....	$1,480	
Consumption	1,125	76
Gross investment (public and private).....	135	9
Government purchases of goods and services.....	345	23
Net foreign balance	-125	-8
Per capita GNP (dollars)	$146	

(FOA estimates; converted at NT $ 15.65 per U.S. $)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	130	93	120	130	98
Imports, c.i.f. (incl. aid)	104	151	222	199	207
Trade balance	26	-58	-102	-69	-109
Principal exports					
Sugar: Quantity..... 1,000 MT	996	284	454	866	533
Value..... $ millions	54	50	70	90	57
Rice: Quantity..... 1,000 MT	649	85	108	50	37
Value..... $ millions	36	15	23	11	8
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	1	6	6	7	6
Imports from U.S.	1	41	59	82	94
Balance	-	-35	-53	-75	-88
Balance of payments					
Balance on goods and services		-61	-99	-80	-125
Net capital		61	94	90	95
Private		3	--	9	10
Official and banking		58	94	81	85
Government grants		61	92	83	85
Long-term capital.....		-6	-2	-2	--
Short-term capital.....		3	4	--	--
Change in gold and exch. reserves		+10	+4	+16	-23

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Industrial production.....	1941=100	79a/	92	111	140	152
Agricultural production b/.....	1935-39=100	100c/	83	102	99	102
Major crops:						
Sugar b/	1,000 MT	1,060c/	520	880	700	560
Rice, rough b/.....	1,000 MT	1,744c/	2,013	2,050	2,290	2,220
Sweet potatoes	1,000 MT	1,726	2,021	2,090	2,227	2,600
Major industries:						
Electricity	mill. KWH	696	1,292	1,382	1,564	1,805
Coal	1,000 MT	2,199	1,657	2,286	2,392	2,117
Fertilizers.....	1,000 MT	27	111	150	164	167
Cotton cloth.....	mill. yds	3	62	89	152	180

FINANCES

	1951	1952	1953	1954	1955
Central government and provincial finance	(d)	(d)	(d)		(e)
Deficit (-) before counterpart As % of total revenue (excl. counterpart)	-31%	-36%	-33%	--	-31%
Defense expenditure As % of budget	61%	58%	58%	--	67%
Prices (index 1952=100)					
Wholesale.....	82	100	109	111	119 (Feb)
Retail.....	86	100	104	105	116 (Feb)

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years)	----98.0----		81.5	105.5	108.5	137.6	102.0
			(calendar years)				
Ex-Im Bank disbursements	-	-	-	-	-		
IBRD disbursements	-	-	-	-	-		

* 1954 data partly preliminary or estimated
a/ 1937
b/ Crop year beginning in year stated
c/ Prewar average
d/ Fiscal year ending December 31
e/ Budget estimates fiscal year ending June 30

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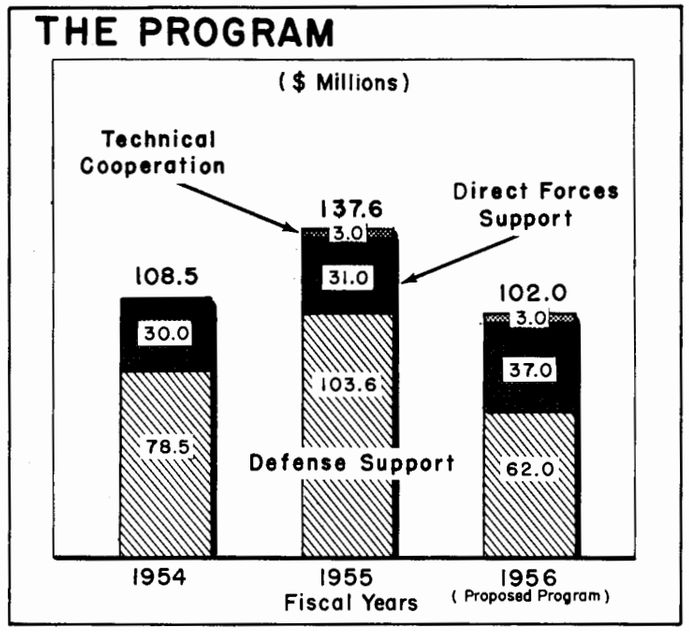
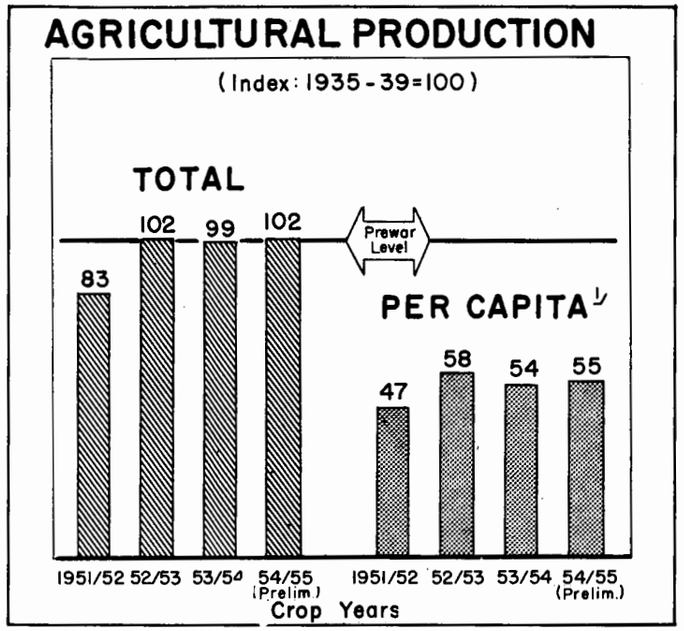
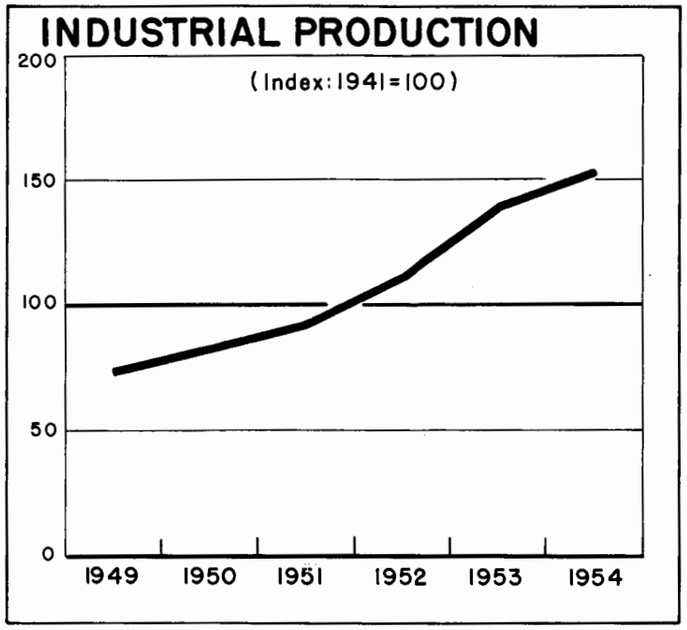
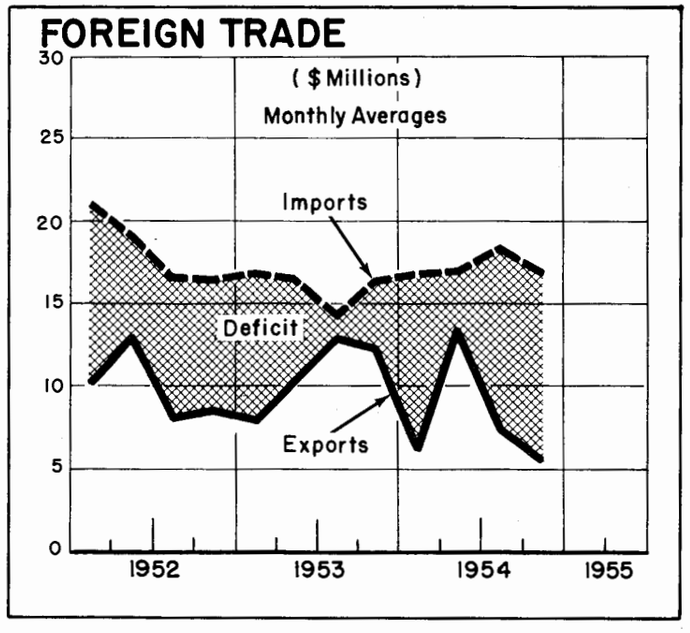
CHINA (Formosa)

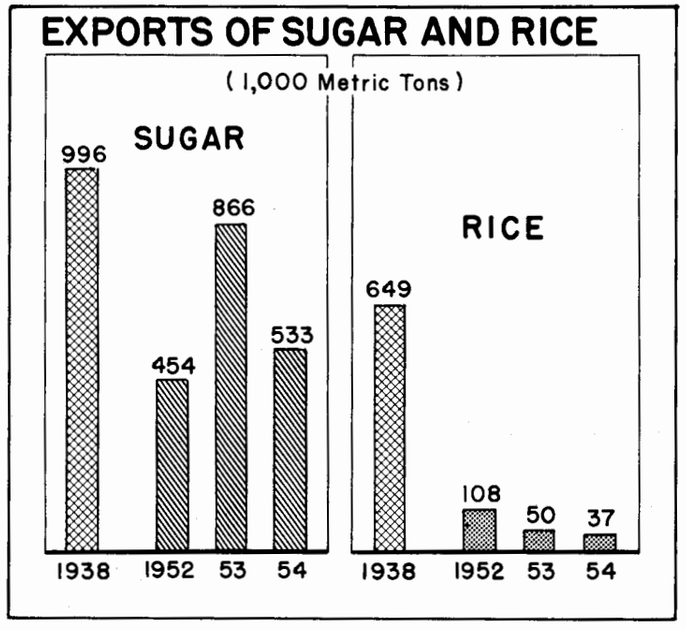


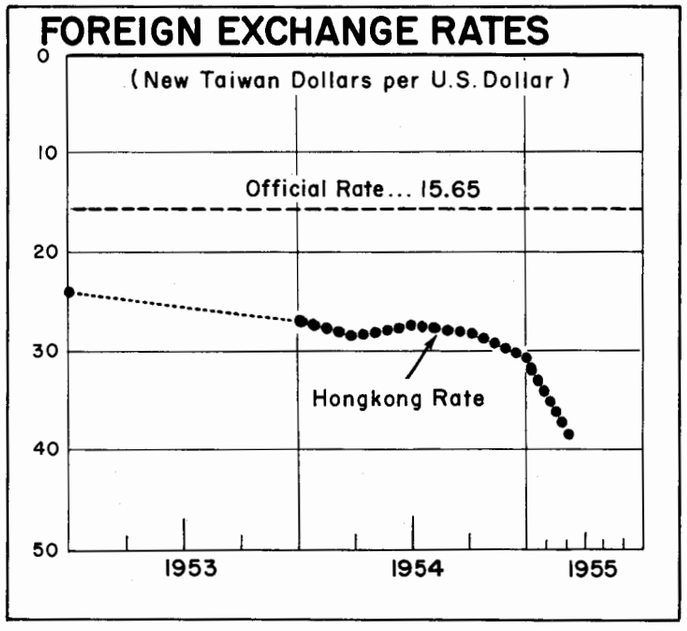


1/ Low per capita output reflects influx from mainland and population growth









ASIA

INDIVIDUAL COUNTRY DATA

Country: CHINA (Formosa)

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	30,000	31,000	37,000
Defense Support	78,454b/	103,598	62,000
Technical Cooperation	-	3,050b/	3,000
Total Country Program Other Than Military Assistance	108,454	137,648	102,000
Of Which Financed by Loan:			
Defense Support	-	20,000	
MSP Sales Surplus Agricultural Commodities			
1. Sales to China	10,000	30,600	40,000
2. Sales Proceeds Programmed in China	5,000c/	30,600	40,000
Direct Forces Support	-	4,800	10,000
Defense Support	5,000	25,800	30,000

a/ Data included in separate submission on Military Assistance.
b/ Excludes regional and inter-regional costs.
c/ Balance of $5,000 utilized for off-shore procurement of military end-items.

General Narrative Statement

Current Situation

Formosa constitutes an important link in the Free World's island chain of defense in the Western Pacific. Because of the aggressive posture of Communist China, the maintenance of Formosa's defense is considered essential to the security of other free countries in the Far East and ultimately of the United States. The Free Chinese armed forces represent a vital element

General Narrative Statement (Continued)

in the defense of Formosa, and therefore in the free world's power to resist Communist aggression.

Moreover, the Chinese Government in Formosa provides a political challenge to Communist domination of the Asian mainland and to Communist influence among the 13 million overseas Chinese, many of whom are located in strategic parts of Southeast Asia and the Pacific. The substantial progress made in the economic sphere and in governmental administration, during the five and a half years since the Government of the Republic of China established itself on Formosa, has demonstrated that a free Chinese society can be developed in Formosa which will stand in increasingly favorable contrast to the harsh rule on the mainland.

Because of the limited economic resources of Formosa in relation to its population and its military establishment, maintenance of the island as a military and political asset to the free world is dependent upon U. S. Military and economic assistance.

In July 1954 the Chinese Communists launched a massive propaganda campaign promising the "liberation" of Formosa, and in September they opened artillery fire on the Quemoy Islands from the nearby mainland coast. In January 1955 they took the island of Yikiangshan by force, and in February the Chinese Government in Formosa ordered the evacuation of the Tachen and Nanchi Islands. In East China and particularly along the coast, the Communists have carried out extensive military preparations. To counter this threat, a Mutual Defense Treaty was entered into between the United States and the Republic of China in Formosa, becoming effective on March 3, 1955.

Meanwhile economic developments since July 1954 on balance have been somewhat unfavorable. Agricultural and industrial production has generally held up well, with such items as textiles, fertilizer, and electric power recording further increases. Continued overall improvement of agricultural and industrial production, however, has been jeopardized by a severe drought beginning late in 1954 which has already caused partial loss of the current sugarcane, rice, and peanut crops, and has necessitated the temporary closing of several industrial plants due to the shortage of electric power.

From November 1954 to February 1955, the wholesale price index rose about 10 percent and the market quotation of the U. S. dollar approximately 20 percent, largely representing reaction to the intensified military threat. The foreign trade deficit increased nearly 60 percent in 1954 over 1953, due primarily to a decline in exports resulting from difficulties in marketing the two major exports, sugar and rice. The government budget deficit for the current fiscal year is expected to be substantially greater than for prior years because of increased military requirements.

In the light of military developments, the need has become apparent for an additional effort to strengthen the Chinese military forces and improve their combat effectiveness, within approved force levels. Requirements have developed for additional equipment, for a substantially increased reserve training program, and for retirement of considerable numbers of servicemen who are no longer qualified for combat duty. Constructive provision also must be made for assimilating these veterans into the civilian economy.

These requirements, together with those resulting from the resettlement of evacuees from the Tachens and other offshore islands, are placing exorbitant demands on slender Chinese Government resources and are serving to highlight both the inability of the economy to support a defense effort of such magnitude and the consequent high degree of dependence upon U. S. aid. Mounting budgetary deficits and increasing import costs are heightening the inflationary pressures on the economy. Furthermore, the shortage of foreign exchange, accentuated by the decline in exports, makes it impossible to import either a sufficient volume of consumer goods and industrial raw materials or the capital equipment required for the expansion of productive facilities.

General Narrative Statement (Continued)

Compounding the problem are the needs of a rapidly growing population, already burdened by the presence of two to three million mainland refugees. The population is currently estimated at more than ten million and is increasing about 2.4 percent a year. If their needs for employment and normal government services are not at least partially satisfied, the problem will be further compounded.

Specific MSP objectives are to assist the National Government of the Republic of China (a) to develop an Army capable of defending Formosa against invasion; a small Navy capable of conducting limited coastal patrol and anti-shipping operations; and an Air Force capable of conducting air defense and troop support missions; (b) to support the mutual defense effort; (c) to maintain the degree of economic stability essential to a successful defense effort; (d) to enhance the prestige of Free China in the eyes of the free world; and (e) to increase the island's capacity for economic self-support. These program objectives stem directly from the U. S. policy aims of denying Formosa to the Chinese Communists, of maintaining the Free Chinese Government as stable and friendly to the United States, of increasing the effectiveness of its armed forces, and of using the Free Chinese political and military potential in the best interests of the Chinese people and the free world.

Progress to Date

Military Assistance

U. S. assistance under the MDA Program has transformed the loyal but poorly equipped armed forces of the Chinese Government in Formosa into relatively modern fighting units. MDAP deliveries recently have been accelerated and are continuing in substantial quantities.

At the inception of the MDA program, the Army had limited defensive capability. Under the guidance of the U. S. Military Assistance Advisory Group (MAAG), the combat infantry divisions have been reorganized so that available and planned combat equipment could be properly utilized. With the receipt of equipment from the United States a progressive and vigorous training program was begun. At this date, the combat divisions provide a significant deterrent to any Chinese Communist intention to invade Formosa.

At the beginning of MDAP, the Chinese Navy was in very poor materiel condition and in most other respects ineffective as a military force. The condition of most of the larger ships and some of the smaller ones is now satisfactory. Operational readiness has greatly improved. Much of this improvement has been made possible by the receipt of large quantities of MDAP materiel aid and by MAAG assistance in maintenance, training, organization and planning. However, much still remains to be done. The Navy is short on technical knowledge and maintenance ability. Recently, however, great progress in hull maintenance in most ships has been observed and maintenance of machinery, fire control, and electronics is improving.

The FY 1950-55 MDA program provides major items of equipment and maintenance support for the Army combat divisions; destroyers, amphibious craft and Marine Corps equipment for the Navy; F-47, F-51, F-84, F-86, and PBY aircraft for the Air Force. Particular emphasis is presently being placed on the delivery of jet aircraft as replacement for propeller-driven planes.

Defense Support and Other Programs

During the fiscal years 1951-55 U. S. assistance to Formosa, exclusive of military end-items, has totalled about $530 million. From FY 1951 through FY 1954, overall aid levels remained roughly constant, averaging about $100 million per year. The FY 1955 total of $137.7 million includes $48.0 million of supplemental funds to accelerate military preparedness. Funds made available in FY 1955 comprise $31.0 million for Direct Forces Support, $103.6 million for Defense Support, and $3.0 million for Technical Cooperation.

The following accomplishments are illustrative of the progress to date.

General Narrative Statement (Continued)

Maintenance of Economic Stability: Of the $530 million made available during the period 1951-55, approximately half has been utilized for the importation of industrial raw materials and consumer goods which, by supplementing locally-produced supplies and Chinese-financed imports, have constituted the major factor in the tranzition from a situation of rampant inflation in 1950-51 to that of the current relative price stability. Although prices have risen in recent months after remaining nearly stable for more than a year, the current trend is not as serious as in 1950 and 1951.

Industrial raw materials and aids to farming such as fertilizer and insecticides, which were included in these imports, have been major factors causing overall production increases since 1951 of approximately 40 percent on a total basis and 25 percent on a per capita basis. Among the items showing outstanding increases in 1954 as compared with 1951 are rice (1.5 to 1.7 million tons of brown rice equivalent), wheat flour (22,000 to 137,000 tons), soy-bean oil and cake (41,000 to 59,000 tons), and cotton yarn (40,000 to 127,000 bales).

Since U. S. financed imports were sold to local users, they have further contributed to control of inflation through the withdrawal of local currency from circulation and the generation of counterpart funds which have been used to finance essential military and civilian expenditures. Counterpart funds from these sources supply annually about 25 percent of total local currency requirements of the Chinese Government.

Support of the Defense Effort: Direct support to the defense effort has been provided through the financing of imported civilian-type supplies and equipment used directly by the armed forces. This, the Direct Forces Support component of the Formosa program, has constituted about 20 percent of total cumulative aid, exclusive of military end-items. Among the items provided with these funds have been petroleum products for aircraft and combat vehicles, raw materials for the local manufacture of certain types of ammunition and small arms, protein-type foodstuffs for the improvement of army rations, and raw cotton for the manufacture of military uniforms.

Direct support to the defense effort is also provided from local currency counterpart funds generated by saleable commodity imports financed under the Defense Support component of the program. Nearly half of total counterpart funds have been used to assure the effective utilization of military equipment and technical assistance furnished by the MAAG under the MDA program. Construction of warehouses, barracks, training centers, transportation facilities, airfields and revetments for jet and conventional aircraft has absorbed the major part of these funds.

To improve further the combat effectiveness of the armed forces, a special program is currently being launched with supplemental dollar funds made available in FY 1955. The objectives of this program are (a) to muster out combat ineffectives and retire them in soldiers' settlements and hospitals, or employ them in public works projects including development and improvement of agricultural and forest areas; and (b) to furnish necessary additional training facilities for recruits in order to bring existing units up to approved strength within the authorized force goals. The major expenses of this project are in local currency and are being financed from counterpart funds.

Increasing Formosa's Capacity for Self-Support: About 20 percent of total cumulative aid, exclusive of military end-items, has been used to import capital equipment for agricultural and industrial development, in order to provide a better base for self-support and reduce dependence on outside aid. The aim is to increase local production, export earnings and governmental revenues, concurrently reducing import requirements, as a means of helping meet requirements for the military effort and civilian consumption.

Substantial gains have already accrued from capital development activities. By increasing electric power capacity and repairing existing installations, power production rose 40 percent from 1951 to 1954, output of paper and pulp increased 60 percent, and production of chemical fertilizers increased 50 percent. Other gains in industrial as well as agricultural production have already been referred to.

General Narrative Statement (Continued)

These are solid achievements but they represent only a beginning, since the principal impact of the investment program is still to be felt. As of January 31, 1955, the value of U. S. financed capital goods imports which had actually arrived in Formosa was $40 million, whereas approximately $70 million was either in the procurement pipeline or will be obligated in FY 1955.

Although the full impact of the capital development program is yet to be felt, significant advances in the capacity of Formosa to support its requirements have been achieved over the past several years. This is evidenced by the relative constancy of the level of U. S. aid during the fiscal years 1951-54, even though military requirements were mounting and population was increasing at a rapid rate. The explanation for this significant accomplishment lies in the effectiveness of activities jointly undertaken during this period to help develop Formosa's capacity to provide increasingly for its own support. Had these efforts not been undertaken, substantially larger amounts of aid would almost certainly now be required in order to maintain economic stability.

Enhancing the Prestige of Free China Abroad: Toward the achievement of this objective, the primary effort in this program has been to assist the Chinese to improve public administration, economic planning, education and public welfare. While a relatively small proportion of total aid (about ten percent) has been used for this purpose, the impact is believed to have been proportionately much greater, although it cannot in all instances be measured in concrete terms.

An outstanding example of assistance in this field is the Joint Commission on Rural Reconstruction, which through encouragement of improved crop techniques and expanded irrigation facilities has been responsible to a marked degree for increases which have been achieved in agricultural production. Moreover, through technical and financial assistance in implementation of the land reform program, strengthening of local farmers' associations, and improvement of rural health services, JCRR has made a major contribution to the general welfare of the rural people, who comprise the great majority of the island's population. Surveys have shown that approximately 95 percent of the rural people have benefited from JCRR activities.

FOA also has provided the services of technicians in various phases of public administration, including budgetary and banking affairs, as well as in public health, education and community development. Aid to education has been concentrated primarily in the technical fields, through university contracts with Purdue, the University of California and Pennsylvania State, as a companion measure aiding agricultural and industrial development.

A special program has been initiated to provide facilities for overseas Chinese students, in order partially to offset the large numbers currently going to Communist China for educational purposes. Counterpart funds are being utilized for the expansion of dormitory and classroom facilities, and dollar funds are being provided for the purchase of books and for the advice of a technical advisor in planning a well-rounded program to attract larger numbers of overseas Chinese students to Formosa. About 2,000 college students and 600 highschool students are expected during 1955.

The FY 1956 Program

Overall Magnitude

For FY 1956 it is proposed that $102 million be made available to Formosa - $37 million for Direct Forces Support, $62 million for Defense Support, and $3 million for Technical Cooperation. The FY 1956 total compares with FY 1955 assistance of about $138 million, including $48 million of supplemental funds.

General Narrative Statement (Continued)

The proposed FY 1956 aid level of $102 million is based upon the continued need for U. S. assistance to supplement anticipated deficiencies in Chinese foreign exchange and government budgetary resources.

Assuming larger shipments in FY 1956 of such items as rice, tea, coal and fruits, exports would be increased somewhat over the 1954 total of $98 million. Imports, however, will have to be continued at the average level of the past three years (about $210 million) in order to maintain consumption at present levels and to provide the supplies and equipment needed for continued operation of local productive facilities and for further increases in output. On these assumpptions, there will be an estimated deficit of about $100 million, which must be covered by imports financed by the United States.

Similarly, as regards the government budgetary situation: While revenues will probably continue the upward trend established during recent years, they will fall far short of covering budgetary expenditures, which are also increasing. On these assumptions, continued U. S. assistance will be required both for direct support of the budget and for defraying the local currency costs of the U. S. aid program. As heretofore, such assistance will be provided in the form of saleable commodities to generate local currency counterpart funds.

Total counterpart requirements for FY 1956 are estimated at the local currency equivalent of approximately $130 million, of which the major portion represents military expenditures and budgetary support projects, including the retirement of military ineffectives. Smaller portions of counterpart accruals will be used for industrial development, the JCRR program, and other activities (primarily health and education).

Considering the uncertainty of military developments in the Formosa area during FY 1956, the $102 million recommended for programs other than end-item aid is believed to be a minimum requirement, not only for continued progress toward MSP objectives but for reasonable assurance that gains thus far achieved will not be lost.

Components of the Program

Direct Forces Support: The proposed increase from $31 million in FY 1955 to $37 million in FY 1956 reflects a partial shift from local procurement to direct importation. This shift is proposed partly to speed implementation of military projects, and partly to free counterpart funds for special projects having a high local cost component, such as the retired servicemen's project. The funds requested for FY 1956 will be used to meet additional needs for such imports as aviation gasoline, lubricating oils, motor vehicle parts, construction materials, raw cotton, wheat and soy-beans. Surplus agricultural commodities will total almost $10 million in FY 1956, as compared with less than $5 million in the previous fiscal year.

Technical Cooperation: A total of $3 million, approximately the same amount as in FY 1955, is required for continuation of this program. Activities to be continued include the JCRR program which, through its village level approach, strongly influences the entire pattern of rural activity in Formosa.

Provision also is made for continuation of the contract services of an American engineering firm which is providing expert technical advice to the Chinese on the rehabilitation and expansion of power, transportation, and industrial facilities, as well as technical review of the soundness of projects proposed for U. S. financing. It is further planned to extend engineering services to new industrial lines now being developed, such as pharmaceutical packaging, specialized chemical products, and electrical fabrication facilities.

Funds will also be provided for the continued services of U. S. technicians, many working through university contracts, in the fields of technical and community education, health, labor and public administration. Training programs in the United States for Chinese technicians in these fields will be continued.

Defense Support: As in prior years, the major portion of aid resources in FY 1956 will necessarily be used for Defense Support, primarily to maintain economic stability. The $62 million

General Narrative Statement (Continued)

requested for FY 1956 compares with a FY 1955 total of about $104 million, including $42 million of supplemental funds. More than half of the amount proposed for FY 1956 will be required to finance imports of industrial raw materials and consumer goods to meet Chinese supply deficiencies and to generate counterpart funds needed to supplement government budgetary resources. These imports will include about $30 million of surplus agricultural commodities, as compared with about $26 million in FY 1955.

Funds to supplement Chinese foreign exchange resources for imports of capital equipment for agricultural and industrial development total approximately $20 million in FY 1956, as compared with about $30 million in FY 1955; in percentage terms the investment component comprises about 20 percent of the defense support total in FY 1956, compared to about 24 percent the year before. Hydroelectric and steam power, chemical fertilizers, metal manufactures, and small industry development will receive special emphasis in FY 1956.

Other factors permitting, it would be desirable to increase the amount of aid funds for capital development in FY 1956, since it contributes directly to increasing Formosa's capacity for self-support. However, because the overriding need to support the military effort and to offset the inflationary pressures that would result from commodity shortages, substantially larger amounts cannot be safely programmed for investment without a commensurate increase in overall aid. Any increase in direct dollar investment, moreover, would entail increased expenditures of local currency as well, thus requiring additional dollar funds for counterpart generating imports.

Present plans are to continue working with the Chinese Government to refine and improve programs for achieving a self-supporting economy. Should military developments in FY 1956 prove sufficiently favorable to provide a sound basis for setting a timetable for the attainment of this goal, it is proposed to direct future U. S. aid toward that end as an integral part of a jointly approved economic development plan based on agreement as to armed force levels and civilian consumption standards to be maintained.

Chinese Government Self-Help Efforts: The Chinese are now devoting nearly two-thirds of the combined National and Provincial Governments' budgetary resources to the military effort. They are also assuming a larger share of the local currency costs of U. S. sponsored technical assistance projects in health, education, and rural development. Growing awareness of the need for a greater flow of private capital to Formosa to promote economic growth is reflected in the enactment of a liberalized foreign investment law. Improved budgetary procedures and controls have recently been instituted, and more rational planning for the use of economic resources has become evident. In these and other fields, progress is continuing.

ASIA

INDIVIDUAL COUNTRY DATA

Country: CHINA (FORMOSA)

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import of Saleable Commodities	Common Use Items	Other Costs
Direct Forces Support													
1954	30,000											30,000	
1955	31,000											31,000	
1956	37,000											37,000	
Defense Support													
1954	78,454	1,648	26,619	1,683	19	607	720	423		870	45,865		
1955	103,598	4,230	26,005	1,355		2,300		120	20		69,568		
1956	62,000	4,515	13,805	1,240		2,700		135	220	2,080	37,305		
Technical Cooperation													
1954													
1955	3,050	915	65	40	5	320	815	195	15	680			
1956	3,000	725	85	35	30	240	875	300	15	695			
Total All Programs													
1954	108,454	1,648	26,619	1,683	19	607	720	423		870	45,865	30,000	
1955	137,648	5,145	26,070	1,395	5	2,620	815	315	35	680	69,568	31,000	
1956	102,000	5,240	13,890	1,275	30	2,940	875	435	235	2,775	37,305	37,000	

ASIA

INDIVIDUAL COUNTRY DATA

Country: CHINA (FORMOSA)

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U.S.Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No.of Persons	Cost	
Direct Forces Support									
1954	30,000	30,000							
1955	31,000	31,000							
1956	37,000	37,000							
Defense Support									
1954	78,454	74,306	48	692	45	2,738	174	718	
1955	103,598	101,208	18	230	27	1,910	72	250	
1956	62,000	61,190	19	270	34	310	50	230	
Technical Cooperation									
1954									
1955	3,050	1,125	42	570	35	665	168	690	
1956	3,000	1,000	46	720	37	560	156	720	
Total All Programs									
1954	108,454	104,306	48	692	45	2,738	174	718	
1955	137,648	133,333	60	800	62	2,575	240	940	
1956	102,000	99,190	65	990	71	870	206	950	

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support For Project Utilization	FY 1955 Defense Support For Consumption and Generating Local Currency	FY 1955 Direct Forces Support	FY 1955 Total	FY 1956 Defense Support For Project Utilization	FY 1956 Defense Support For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains	15,104		7,150	3,230	10,380		4,840	5,160	10,000
Coarse Grains	2,000								
Cotton	22,039		13,500	1,600	15,100		12,360	2,640	15,000
Dairy Products	1,215		2,000	-	2,000		1,000	-	1,000
Fats and Oils	13,779		14,175	1,880	16,055		12,130	1,870	14,000
Tobacco	100		-	-	-				
Total Food and Agricultural Imports	54,237		36,825	6,710	43,535		30,330	9,670	40,000
Less Sales Proceeds Programmed for Other Countries	5,000								
Net U.S. Financed Food and Agricultural Imports	49,237		36,825	6,710	43,535		30,330	9,670	40,000
Industrial Imports									
Petroleum Products	4,599		1,270	8,655	9,925		700	8,140	8,840
Raw and Semi-Finished Products	19,905	7,220	18,355	5,460	31,035	4,935	3,095	5,180	13,210
Machinery and Vehicles	28,910	21,320	10,440	1,545	33,305	16,535	2,450	3,960	22,945
Miscellaneous and Unclassified	1,655	3,100	2,678	8,630	14,408	2,415	730	10,050	13,195
Total Industrial Imports	55,069	31,640	32,743	24,290	88,673	23,885	6,975	27,330	58,190
Total Commodity Program	104,306	31,640	69,568	31,000	132,208	23,885	37,305	37,000	98,190
Services	4,148	2,390			2,390	810			810
Total Country Program	108,454	34,030	69,568	31,000	134,598	24,695	37,305	37,000	99,000

INDONESIA

BASIC DATA

			Indo-nesia	Asian Arc	U.S.
Population (1954)..... millions	81	Caloric intake.....	2,120	2,035	3,120
Annual growth..... percent	1.6	% grains & starches....	79	79	29
Area.....1,000 square miles	576	Literacy rate.... percent	55	32	97
Agricultural land..... percent	6	Life expectancy.....years	32	35	68
Agricultural land per capita..... acres	0.4	Road miles per 1000 sq.mi	75	220	1,100

USE OF RESOURCES - 1954

		%
Gross national product (million U.S. dollars)	$10,400	
Consumption	8,500	82
Gross investment (public and private).....	616	6
Government non-defense expenditure	825	8
Government defense expenditure	482	5
Net foreign balance	-23	-1
Per capita GNP (dollars)	$128	

(FOA estimates; converted at 11.4 rupiahs per $)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	381	1,292	916	820	856
Imports, c.i.f.	275	873	924	753	630
Trade balance	106	419	-8	67	226
Principal exports					
Rubber .....Quantity....1,000 MT	407 [a]	793	789	702	746
Value.... $ millions	119 [a]	654	424	270	264
Petroleum .....Quantity....1,000 MT	6,020 [a]	6,725	7,453	9,600	9,887
Value.... $ millions	90 [a]	185	182	201	226
Tin ore .....Quantity....1,000 MT	28 [a]	45	51	47	48
Value ....$ millions	21 [a]	81	86	81	59
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	69	266	276	215	167
Imports from U.S.	28	162	132	104	71
Balance	41	104	144	111	96
Balance of payments					
Balance on goods & services		128	-251	-136	-23
Net capital		5	93	4	63
Private		-7	-19	2	3
Official and banking		12	112	2	60
Government grants		1	7	3	5
Long-term capital		39	79	-7	-1
Short-term capital		-28	26	6	56
Change in gold & exch. reserves		+120	-200	-116	+23
Gold and foreign exchange reserves.....		592	392	276	299

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production [d]	1935-39=100	100 [e]	112	111	111	113
Major crops:						
Rice, rough [d]	1,000 MT	9,580 [e]	9,900	10,460	11,110	10,400
Copra & coconut oil [d] (as copra)	1,000 MT	1,320 [e]	1,140	870	880	1,000
Rubber	1,000 MT	322	828	758	703	757
Major industries:						
Petroleum, crude	1,000 MT	7,400	7,440	8,520	10,220	10,750
Tin concentrates (metal content)	1,000 MT	30.2	31.5	35.0	34.4	36.4

FINANCES

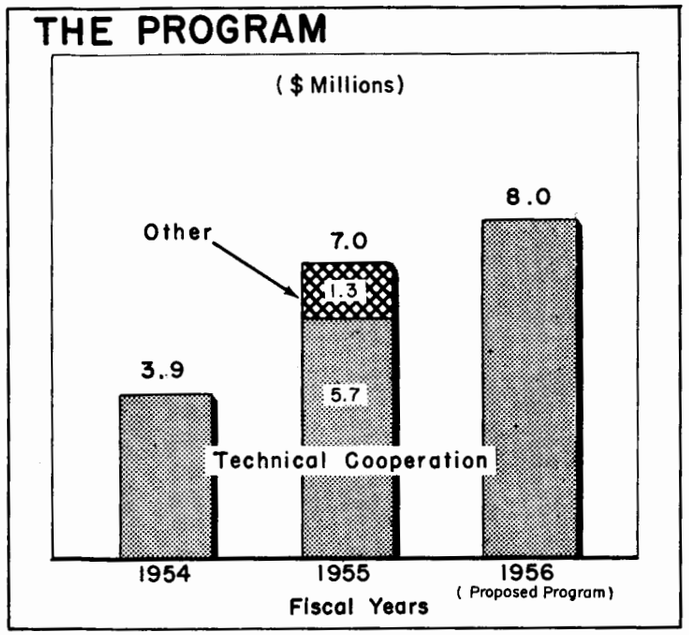
	1951	1952	1953	1954	1955
		(millions of US $)			
Central government budget					(f)
Revenue, excl. counterpart.....	1,038	1,061	1,038	1,000	1,009
Expenditure	928	1,524	1,399	1,263	1,277
Defense	329	448	428	482	n.a.
Capital outlay	599	282	971	265	n.a.
Other non-defense		794		516	n.a.
Surplus or deficit (-) before counterpart .	110	-463	-361	-263	-268
Counterpart funds	--	--	--	44	10
Surplus or deficit (-) after counterpart	110	-463	-361	-219	-258
As % of total revenue	11%	-44%	-35%	-22%	-26%
Defense expend. as % of budget	35%	29%	31%	38%	n.a.
Defense expend. as % of GNP	5%	6%	5%	5%	n.a.
Prices (index 1948=100)					
Wholesale: Djakarta [g]	349	331	352	374 [h]	
Cost of living - food: Djakarta	189	199	211	225	254(Jan)

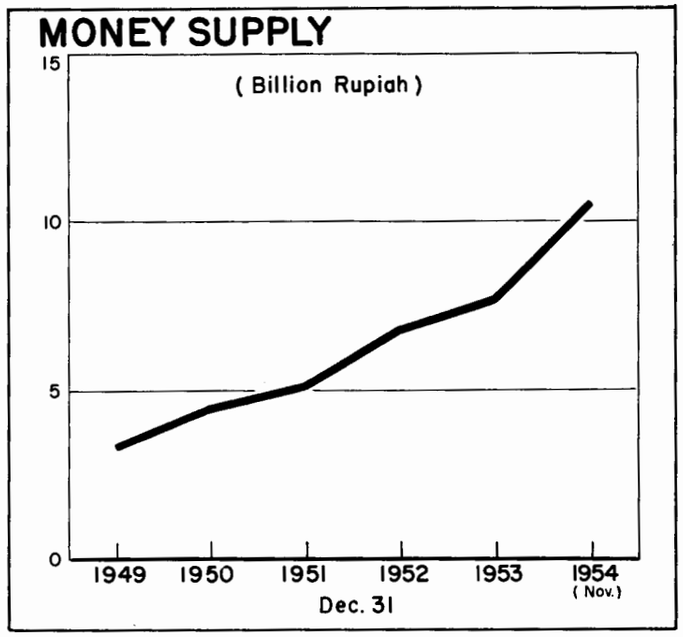
EXTERNAL RESOURCES

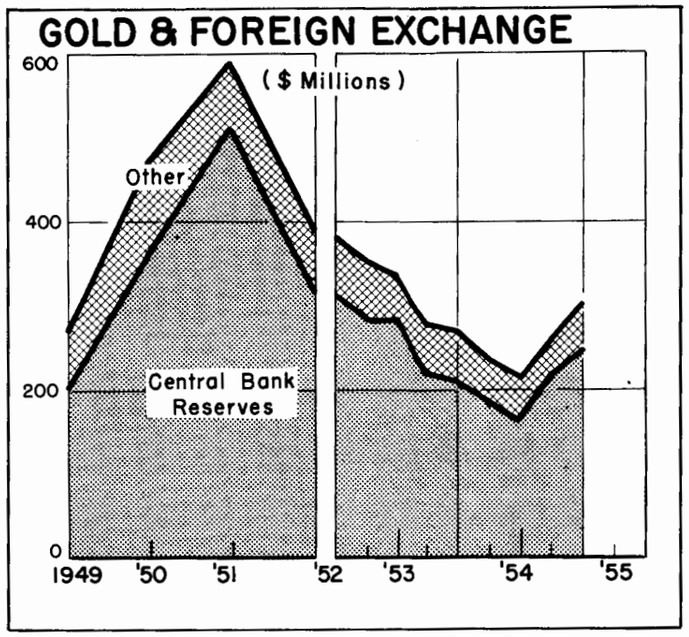
	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years)	--	8.0	-1.9	13.2	3.9	7.0	8.0
			(calendar years)				
EX-IM Bank disbursements.....	--	--	31	12	19 [b]		
IBRD disbursements	--	--	--	--	--		
U.S. private investment (net)							
Net direct investment	-13	4	-23	14			
Reinvested subsidiary earnings.	9	4	25	(c)			
Book value of U.S. direct private investment	58	72	74	88			

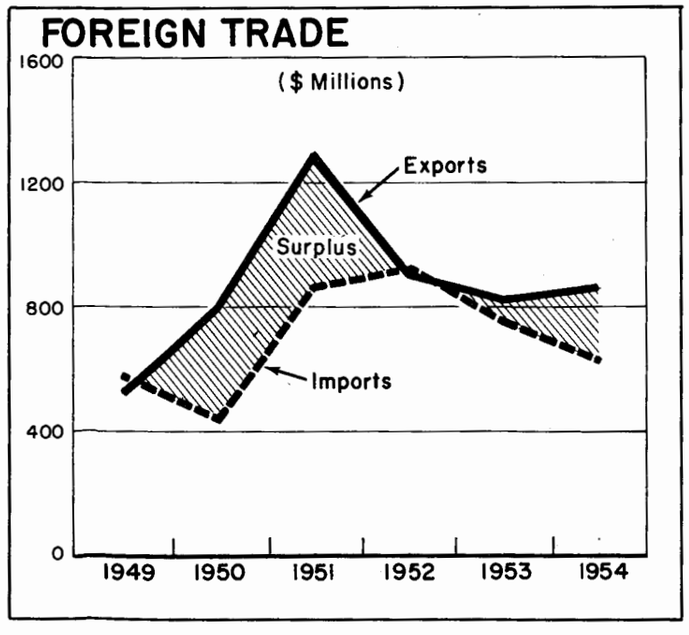
* 1954 data partly preliminary or estimated. n.a. - Not available.
a 1937-38 average.
b Undisbursed balance as of 12/31/54 - $29 million.
c Less than one-half the unit shown.
d Crop year beginning in year stated.
e Prewar average.
f Budget estimates.
g Imported goods
h Average Jan - Sept.

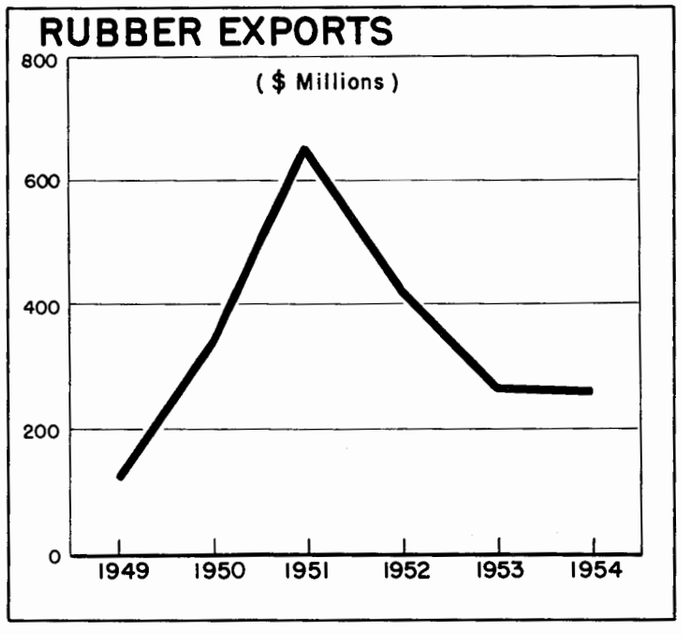
INDONESIA

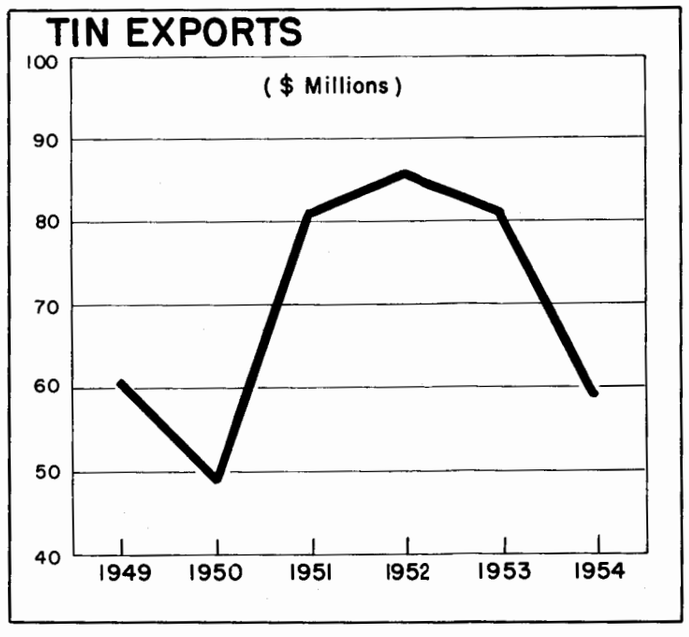

THE PROGRAM
($ Millions)
Other
7.0
1.3
5.7
3.9
8.0
Technical Cooperation
1954
1955
1956
(Proposed Program)
Fiscal Years


MONEY SUPPLY
(Billion Rupiah)
15
10
5
0
1949
1950
1951
1952
1953
1954
(Nov.)
Dec. 31


GOLD & FOREIGN EXCHANGE
($ Millions)
600
400
200
0
Other
Central Bank Reserves
1949
'50
'51
'52
'53
'54
'55


FOREIGN TRADE
($ Millions)
1600
1200
800
400
0
Exports
Surplus
Imports
1949
1950
1951
1952
1953
1954


RUBBER EXPORTS
($ Millions)
800
600
400
200
0
1949
1950
1951
1952
1953
1954


TIN EXPORTS
($ Millions)
100
90
80
70
60
50
40
1949
1950
1951
1952
1953
1954

ASIA

Country: INDONESIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Technical Cooperation	3,906[a]	5,700[a]	8,000
Other Programs	-	1,300	-
Total Country Program	3,906	7,000	8,000

a/ Excludes regional and inter-regional costs.

General Narrative Statement

Current Situation

The Republic of Indonesia, a nation of more than 2,500 islands stretching for 3,000 miles across the sea and air approaches between the Pacific and Indian Oceans and Asia and Australia, is the sixth most populous nation in the world, ranking immediately after Japan. Indonesia produces 40 percent of the free world's supply of natural rubber, 20 percent of its tin, and as the largest producer of petroleum east of the Persian Gulf, was a principal goal of Japan's drive toward the south during World War II.

Indonesia is currently governed by a broad coalition made up of conservative Moslem parties and a range of nationalist parties, including the largest nationalist party, the PNI. The Indonesian Communist Party, discredited by a bloody uprising against the Indonesian state during the struggle against the Dutch, is seeking to rehabilitate itself by associating with the nationalist movement, and has consistently supported the present government in the Indonesian parliament. The parliament, a temporary appointed body, was created during the revolution to represent the principal political parties, organizations, and groups working for independence. The nation's first general elections are scheduled to be held during 1955.

Confronted by staggering internal problems, Indonesia has taken the position that its national interests are best served by refusing to associate itself with either of the principal world power concentrations and follows an active and independent foreign policy. Aware, nevertheless, of its responsibilities as a member of the family of nations, Indonesia is a member of the United Nations and is active in many of the international organizations affiliated with the United Nations.

The Indonesian economy has been slow in regaining prewar levels of activity, and has failed to provide adequately for the needs of an increasing population. Substantial disinvestment has occurred since independence, mainly as a result of Dutch withdrawals. Per capita income is below prewar and declining.

With its very great dependence on the production of a few raw material exports (rubber, tin, petroleum and copra), Indonesia's economy is extremely sensitive to the vagaries of world markets. During the latter part of 1954 a combination

General Narrative Statement (Continued)

of factors, including an upward swing in the price of rubber and stringent import restrictions, temporarily checked the decline in the country's meager foreign exchange reserves. The deficit in the government budget, however, is estimated to have been the equivalent of $263 million for 1954. The increased money supply and import restrictions have led to a rising cost of living, particularly in urban areas.

The nation's economic aspirations call for rapid development toward more balanced and diversified economic activity, with greater emphasis on manufacturing industries utilizing indigenous materials. Progress toward solving the country's problems is inhibited by its lack of trained and experienced personnel and by the low rate of savings and investment.

In attempting to attain its national economic goals, Indonesia is faced with many problems, the most important of which include:

(1) Lack of internal security in certain areas resulting from marauding armed gangs and dissident groups in West and Central Java, North Sumatra and the Celebes.

(2) Widespread prevalence of malaria in epidemic proportions and of other diseases constituting a hazard to health and an obstacle to labor productivity.

(3) Overpopulation on Java and Madura creating great pressure on tillable land.

(4) Serious dearth of trained and experienced personnel in government and the trades and professions.

(5) Inflation and underproduction tending to discourage the accumulation of adequate savings for investment.

(6) Inefficient and uneconomic practices in rubber production resulting in reduced exports and government revenues, with possible adverse effect on Indonesia's future position as a major exporter of rubber.

Program Objectives

The broad objective of the program is to help Indonesia attain its national aspirations by strengthening its independence and laying the groundwork for sound economic growth and better standards of living.

More specifically, the U.S. aid program is directed toward assisting Indonesia to:

(1) Meet its need for technically trained manpower and expand the supply of managerial talent needed to implement an economic development program.

(2) Maintain and expand those productive elements of the economy, both agricultural and industrial, which can best mitigate the inflationary pressures and improve the country's international balance of payments position.

(3) Maintain social and economic stability by strengthening public health and other social services.

Progress to Date

In the five years since FY 1951, the United States has made available to Indonesia technical and economic assistance totaling about $30 million; approximately $19 million was provided in fiscal years 1951 - 1953 and was used in large part to finance supplies and equipment for key projects. The relatively smaller programs for FY 1954 ($3.9 million), and FY 1955 ($7.0 million) have placed greater emphasis on technical assistance and training, with minimum supporting supplies and equipment.

General Narrative Statement (Continued)

The FY 1955 total includes $3.3 million of supplemental funds - $2.0 million to meet increased technical cooperation requirements and $1.3 million for a malaria control project initiated in FY 1953. Contract services, a significant element in the implementation of the program, amounted to $1.7 million in FY 1954 and to $1.9 million in FY 1955.

The Indonesian Government pays all the local costs of U.S. assisted projects, in addition to meeting its obligation for deposit of counterpart funds.

The following are illustrative of accomplishments achieved with U.S. assistance to date:

Technical Training: Thus far, more than 475 participants have received technical training in the United States in agriculture, labor, public health, education and other fields.

To improve technical training facilities in Indonesia, the U.S. is financing the dollar costs of contracts between American universities and the Indonesian Government in the fields of medical, technical and vocational education, business and public administration, and the production of educational and documentary films.

Assistance in Engineering Fields: Through the contractual services of a U.S. engineering firm, technical assistance has been given to the Indonesian Government in formulating an economic development plan and in restoring and improving the country's transportation facilities. Activities in the latter field have included advisory services in the organization of railroad repair shops to keep rolling stock moving; also assistance in helping organize and improve the operation of port facilities at Tandjung Priok, Indonesia's principal port and harbor serving Djakarta. Significant results in the port improvement project include: reduction in the turn-around time per ship from 14 to about four days; reduction of pilferage losses from as high as 37 to only two percent; and increase in the daily cargo-handling capacity per ship from 160 to 400 tons.

Improving Agricultural Production: Assistance in agriculture has been directed toward helping Indonesia meet its food requirements from domestic sources. Rice imports have already been reduced from 760,000 tons in 1952 to an estimated 270,000 tons in 1954.

U.S. technicians are assisting the Indonesian Ministry of Agriculture to find satisfactory methods for clearing new lands for settlers from the crowded island of Java. In North Sumatra, 4,400 acres of land previously covered by tiger grass, which cannot be rooted out with hand tools, have been cleared by farm machinery, much of it provided by the U.S. With such equipment farmers can now clear one acre at a cost of $25, far less than the gross value of the area's yield in one year.

Strengthening Public Health Services: Indonesia has approximately one doctor for every 70,000 persons, as compared to one for every 800 persons in the United States. The U.S. aid program is directed toward relieving the pressing need for doctors by financing the training of medical teachers and students. This is being accomplished under a U.S.-financed contract between the University of California School of Medicine and the University of Indonesia for expanding and reorganizing its medical school. One of the most successful projects in the field of health has been the nurses training school at Bandung.

One of the most pressing health problems is malaria, which in Indonesia kills over 150,000 people each year. To help control this disease, a project begun in FY 1953 was expanded in FY 1955 because of the imperative need for a concentrated effort over a short period of time for maximum effectiveness. During the past three years, in an area with a population of over 3 million malaria has been practically eliminated. In another area - Surabaya, East Java - sample tests on infants made before the project was undertaken revealed that 30 percent had malaria and that many of them would not survive. Two years later, a similar test showed that not one infant had malaria.

The FY 1956 Program

The program proposed for FY 1956 embraces Technical Cooperation projects totaling $8 million. These include projects

General Narrative Statement (Continued)

begun in FY 1955 or prior years and new projects selected by the Republic of Indonesia. The program is composed of three elements: (1) Technical education to help Indonesia train the personnel so urgently needed in technical fields; (2) technical advice and assistance to help increase agricultural and industrial production, in an effort with technical assistance to aid Indonesia in meeting its basic long-range economic problems; and (3) assistance in improving the health of the people, particularly in eradicating malaria as a serious health menace and thus increasing their ability to produce.

In view of the critical need for trained personnel, the FY 1956 program is concentrating to a greater extent than in previous years on technical education. The Indonesian Government has expressed a strong desire for an effective two-part program in the field of technical education: (1) to assist the Ministry of Education in formulating and initiating a ten-year program of technical education within the country, which will cover all scholastic levels, as well as on-the-job training; and (2) to provide training in the United States for the largest possible number of potential Indonesian leaders in technical fields.

The FY 1956 program envisages an extension of the contractual relationship between universities and technical institutions in Indonesia and the United States. A survey team of American educators will undertake to draft a national long-range plan of technical education in line with the Indonesian Government's request, and the FY 1956 program through its contractual relationships is expected to help implement the recommendations of this group.

New projects in the fields of engineering education, public and business administration, and agriculture are to be initiated in FY 1956. A nationwide program of vocational education is being worked out under the continuing contract with an American institute. The new arrangements contemplated for instruction at the university level will help make possible, in total, a broad, comprehensive contribution to the needs of the country.

The program also provides for assistance in the industrial field in which the country needs help at almost every point. It will assist in assessing the economic feasibility of proposed projects, in making pre-project surveys and studies preliminary to an application for credit, and in advising on the improvements needed to make existing industries and supporting facilities more efficient. Consultant services will be provided through a contract with a U.S. engineering firm. Furthermore, expert assistance is to be given the industrial institutes in Indonesia which are now training young men and women in various industrial fields and providing a pool of advisory services to small and medium-sized industries.

The farmer's problem in Indonesia is not, as in so many countries in Asia, a problem of land tenure with the consequent need for land reform. It is, instead, a problem of increasing his yields on his small holdings, of opening up new acreage in frontier lands such as Sumatra and Borneo, of inducing the young men and women in over-populated Java to migrate to areas where free fertile land is available in under-populated Sumatra. To assist in these endeavors, the FY 1956 program provides for: Expanding services in the field of agricultural extension to assist the government in getting existing and recently developed knowledge, techniques and better seed into the hands of the farmer; continued assistance for training Indonesian personnel in the operation and maintenance of land-clearing equipment; soils analysis and soil conservation; and the diversification of agricultural production.

As a part of the U.S. effort to increase the food supply of the country, particularly in the much needed proteins, technical assistance is being given in the field of marine fisheries. The 1956 program proposes the establishment of two fishing communities as demonstration projects in which the necessary demonstration equipment would be provided: ice plant, cannery, drying and salting facilities, gear, boat yard. Demonstration equipment which can be obtained only from abroad would be financed under the program, and two experts would be made available to supervise its installation and advise the Indonesian Government on its effective utilization.

General Narrative Statement (Continued)

In the field of labor, the Indonesian Government has requested technicians to assist in developing a program of workers' education, in cooperation with the Ministry of Labor and the trade unions. Plans also are under way to establish a demonstration low-cost housing project for workers, using indigenous materials and self-help.

The FY 1956 health program provides for the continued financing of a contract between the University of California School of Medicine and the University of Indonesia Medical College, rendering assistance in developing and improving its curriculum and methods of instruction. Further assistance also will be given to the effort to eradicate malaria.

The FY 1956 program represents a new emphasis in technical cooperation with Indonesia. Recognizing that hope for a better life is essential if the country is to succeed in maintaining its independence, the program is directed at helping in those areas in which greatest impact may be achieved in terms of the well-being of the people, thereby helping to achieve some progress toward mutually agreed upon goals.

ASIA

Country: INDONESIA

INDIVIDUAL COUNTRY DATA

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import of Saleable Commodities	Common Use Items	Other Costs
Technical Cooperation													
1954	3,906	97	1,337	78	(69)	403	476	1,172		412			
1955	5,700	1,345	1,300	120	300	835	710	750	100	240			
1956	8,000	1,555	2,075	235	645	460	1,215	1,040	290	485			
Other Programs													
1954													
1955	1,300					1,300							
1956													
Total All Programs													
1954	3,906	97	1,337	78	(69)	403	476	1,172		412			
1955	7,000	1,345	1,300	120	300	2,135	710	750	100	240			
1956	8,000	1,555	2,075	235	645	460	1,215	1,040	290	485			

ASIA

Country: INDONESIA

INDIVIDUAL COUNTRY DATA

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954	3,906	1,442	44	93 a/	23	1,744	216	627	
1955	5,700	1,565	70	960	86	1,930	270	1,245	
1956	8,000	3,075	97	1,300	107	2,095	323	1,530	
Other Programs									
1954									
1955	1,300	1,300							
1956									
Total All Programs									
1954	3,906	1,442	44	93	23	1,744	216	627	
1955	7,000	2,865	70	960	86	1,930	270	1,245	
1956	8,000	3,075	97	1,300	107	2,095	323	1,530	

a/ Excludes financing costs of some technicians financed from prior year funds.

JAPAN

BASIC DATA

			Japan	Asian Arc	U.S.
Population (1954)..... millions	88	Caloric intake.....	2,100	2,035	3,120
Annual growth..... percent	1.0	% grains & starches ...	75	79	29
Area.....1,000 square miles	142	Literacy rate.... percent	95	32	97
Agricultural land.....percent	18	Life expectancy.... years	56	35	68
Agricultural land per capita..... acres	0.2	Road miles per 1,000 sq.mi	1,800	220	1,100
		Elec. power per capita ..... KWH per year	680	117	3,165

USE OF RESOURCES-1954

		%
Gross national product (millions of U.S. dollars).....	$21,225	
Consumption	13,105	62
Gross investment (public and private).....	5,695	27
Government non-defense expenditure	1,950	9
Government defense expenditure **	553	3
Net foreign balance	-78	-1
Per capita GNP	$241	

(FOA estimates; converted at 360 yen per $)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.....	1,109	1,355	1,273	1,275	1,629
Imports, c.i.f.....	1,070	1,995	2,028	2,410	2,399
Trade balance.....	39	-640	-755	-1,135	-770
Principal exports					
Cotton fabrics .....million sq.yds.	2,274	1,092	762	914	1,278
$ millions	129	317	180	179	252
Iron & steel..... 1,000 MT	455[a]	967	1,633	843	1,183
$ millions	34[a]	206	263	140	166
Machinery & transport equip..$ millions	68	109	110	189	202
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	127	205	229	262	279
Imports from U.S.	240	598	621	668	677
Balance.....	-113	-393	-392	-406	-398
Balance of payments					
Balance on goods & services		158	193	-226	-78
Net capital		227	31	76	187
Private		50	65	3	44
Official & banking		177	-34	73	143
Government grants		155	5	-	-
Long-term capital		-3	-71	-200	2
Short-term capital		25	32	273	141
Change in gold & exch. reserves		+394	+223	-148	+108
Gold and foreign exchange reserves[b]...	326	950[E]	1,165	1,017	1,125

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Industrial production	1948=100	228	193	213	257	276
Agricultural production[e]	1935-39=100	100[f]	106	114	99	108
Major crops:						
Rice, rough[e]	1,000 MT	12,150[f]	11,240	12,330	10,250	11,340
Wheat[e]	1,000 MT	1,360[f]	1,490	1,540	1,370	1,510
Sweet potatoes[e]	1,000 MT	3,420[f]	5,530	6,200	5,390	5,210
Major industries:						
Manufacturing	1948=100	274	219	244	299	325
Mining	1948=100	157	138	142	152	145
Electricity and gas.....	1948=100	94	134	146	160	172
Woven cotton fabrics...million sq. mtrs.		2,760	1,820	1,870	2,350	2,662

FINANCES

	1951	1952	1953	1954	1955
		(millions of US $)			
Central government budget (fiscal year ending March 31)				(g)	(g)
Revenue, excl. GARIOA counterpart	1,984	2,475	2,979	2,837	2,830
Expenditure	2,004	2,638	3,003	3,477	3,187
Defense **	327	330	299	484	575
Capital outlay	729	1,249	1,344	1,431	1,106
Other non-defense	948	1,059	1,360	1,562	1,506
Surplus or deficit (-) before GARIOA counterpart	-20	-163	-24	-640	-357
Counterpart funds (GARIOA)	453	151	119	65	44
Net surplus or deficit (-)	433	-12	95	-575	-313
As % of total revenue	22%	(h)	3%	-20%	-11%
Defense expend. as % of budget	16%	13%	10%	14%	18%
Defense expend. as % of GNP **.....	3%	2%	2%	2%	3%
Prices (index 1948 = 100)					
Wholesale	268	273	274	272	269 (Jan)
Cost of living	143	150	160	170	170 (Jan)

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	-	-	-	-	10.0	0.5	1.0
Other U.S. aid - GARIOA (calendar years)	361	155	5	-	-	-	-
			(calendar years)				
Ex-Im Bank disbursements	10	-	40	40	80[c]		
IBRD disbursements	-	-	-	-	11[d]		
U.S. private investment (net)							
New direct investment	7	21	23	16			
Reinvested subsidiary earnings	-	-	1	3			
Book value of U.S. private direct investment	19	45	69	88			

* 1954 data partly preliminary or estimated.

** Defense expenditure includes the expenditure of the National Defense Agency and the expenditure of other agencies and departments for defense purposes.

a 1939. b Excludes Bank of Japan's gold holdings in postwar years.

c Undisbursed balance as of Dec. 31, 1954 - $40 million.

d Undisbursed balance as of Dec. 31, 1954 - $29 million.

e Crop year beginning in year stated. f Prewar average.

g Budget estimates. h Less than 1/2 of one percent.

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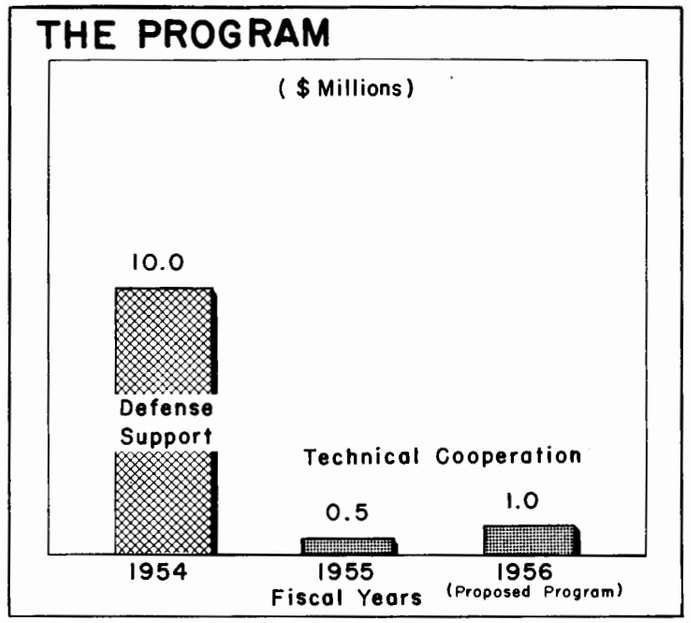
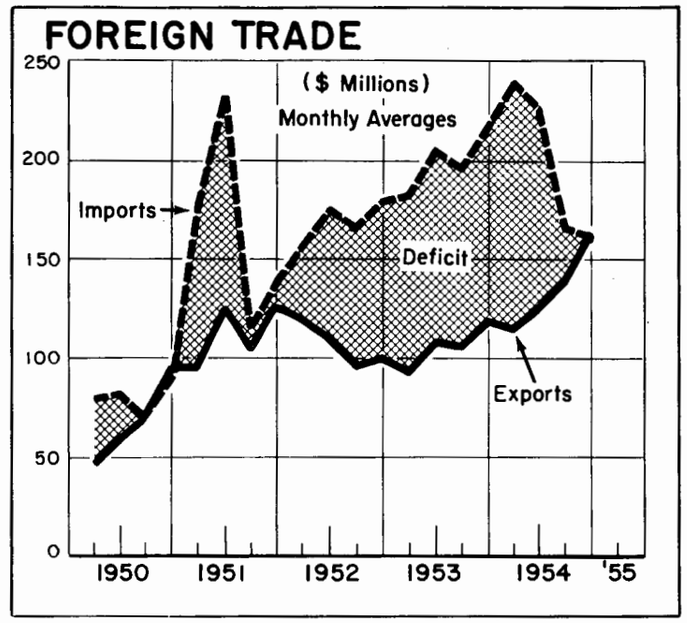
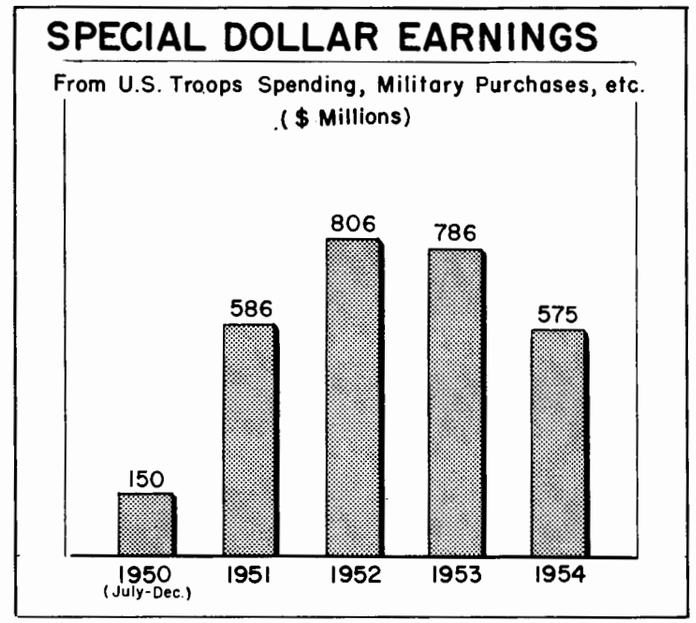
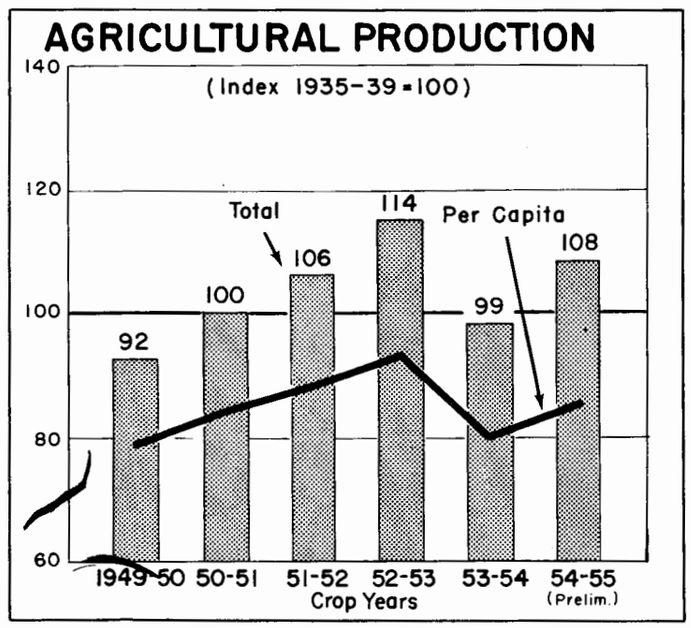
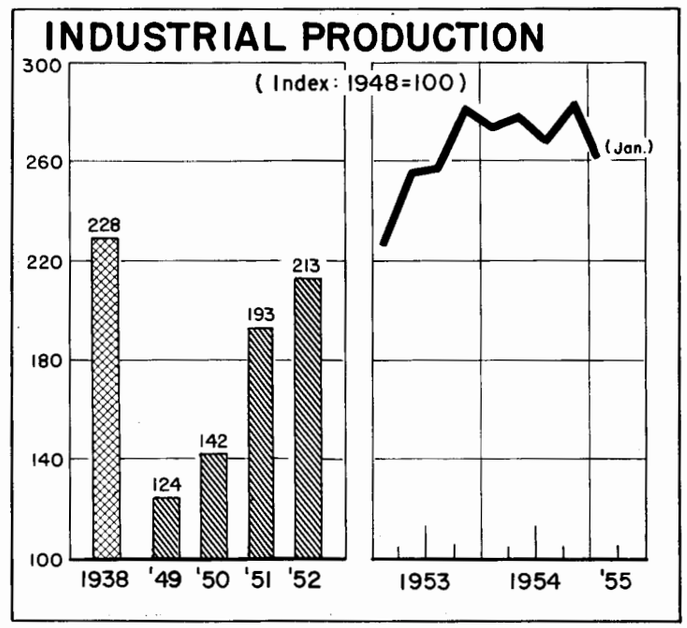
JAPAN

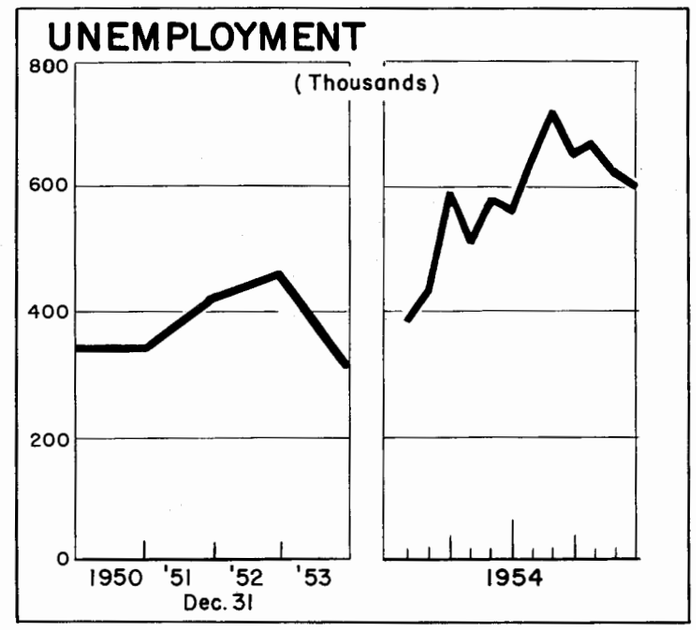

THE PROGRAM
($ Millions)
10.0
Defense Support
Technical Cooperation
0.5
1.0
1954
1955
1956
Fiscal Years
(Proposed Program)


FOREIGN TRADE
($ Millions)
Monthly Averages
Imports
Deficit
Exports
250
200
150
100
50
0
1950
1951
1952
1953
1954
'55


SPECIAL DOLLAR EARNINGS
From U.S. Troops Spending, Military Purchases, etc.
($ Millions)
150
586
806
786
575
1950
(July-Dec.)
1951
1952
1953
1954


AGRICULTURAL PRODUCTION
(Index 1935-39=100)
Total
Per Capita
92
100
106
114
99
108
140
120
100
80
60
1949-50
50-51
51-52
52-53
53-54
54-55
(Prelim.)
Crop Years


INDUSTRIAL PRODUCTION
(Index: 1948=100)
(Jan.)
228
124
142
193
213
300
260
220
180
140
100
1938
'49
'50
'51
'52
1953
1954
'55


UNEMPLOYMENT
(Thousands)
800
600
400
200
0
1950
'51
'52
'53
Dec. 31
1954

ASIA

Country: JAPAN

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Defense Support	10,000		
Technical Cooperation	-	500	1,000
Total Country Program Other Than Military Assistance	10,000	500	1,000
MSP Sales Surplus Agricultural Commodities			
Sales to This Country	50,000	-	-
Sales Proceeds Programmed in This Country	-		
Defense Support	10,000	-	-

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

Japan is the northern-most anchor of the strategically important offshore island chain on the Western Pacific and is by far the most industrially advanced country of Free Asia. It is of vital importance to the Free World that Japan be politically stable, economically viable, capable of defending itself against internal subversion and external aggression, aligned with the countries of Free Asia, and able and willing to contribute to the mutual security of the Area.

An economically strong Japan would contribute to the economic development of the entire Far East and would provide another strong link in the Free World's chain of defense against Communist aggression.

Japanese effort expended during the war and the loss of the war itself seriously damaged the country politically, economically, and psychologically, and left it with no means for self-defense. During the period of the U.S. military occupation from 1945 to 1951, Japan established certain democratic institutions and attacked the problem of rehabilitating its economy and restoring its international trade.

The United States during this period assisted directly in Japan's economic rehabilitation by expending some $2 billion for emergency relief and economic assistance under GARIOA (Government and Relief in Occupied Areas). The outbreak of the Korean War brought about heavy U.S. expenditures in Japan in support of

General Narrative Statement (Continued)

U.S. forces. These expenditures, together with personal expenditures by U.S. troops in Japan, resulted in special dollar earnings of approximately $806, $786 and $575 million in 1952, 1953 and 1954, respectively, and provided a tremendous stimulant to the Japanese economy. Although these special earnings permitted Japan to finance the large trade deficits which it incurred, they helped put off the day when certain weaknesses in the Japanese economy had to be attacked.

Problems

(1) Economic: Japan's economic difficulties arise fundamentally out of the growing disparity between population and available resources. Its population of approximately 88 million people is increasing at a rate of more than one million per year. Consequently, even with as intensive cultivation of land as anywhere in the world, Japan must import approximately 20 percent of its food requirements. Since the country is poor in material resources, it must depend on imports for much of its raw material requirements. The loss of prewar territories which supplied many of its import needs has necessitated the development of new sources of supply. However, Japan does have a skilled, industrious population, and managerial and technical capacity.

Japan's problem is to expand exports sufficiently to offset the expected decline of U.S. military spending in order to provide foreign exchange income to cover the costs of its food and raw material import requirements. In 1954 the Japanese Government took steps to restrict imports, promote exports, and curb the inflationary boom created during the Korean war; these measures had much to do with the improvement which occurred during that year. These steps, however, are not sufficient to solve the basic trade problem. The trade negotiation now under way at Geneva, if concluded successfully, and the accession of Japan into GATT (General Agreement on Tariffs and Trade) would increase Japan's ability to export. In addition, efforts to promote the economic development of South and Southeast Asia will tend to expand the market for Japan's goods.

(2) Political: An active and voluble Communist minority aggravates the Japanese political scene and encourages destructive tactics by other dissident groups. In November 1954, the split within the Liberal Party (conservative) resulted in the resignation of Prime Minister Yoshida and set the stage for a general election and the establishment of a new government. As a result of the elections held in February 1955, the combined strength of the several conservative parties is slightly less than two-thirds of the seats of the House of Representatives, thus requiring substantial cooperation among the conservative elements.

(3) Military: In accordance with U.S. occupation policy, Japan had no military defense forces at the time of the outbreak of hostilities in Korea. In July 1950, however, the Japanese Government was authorized to organize a 75,000-man National Police Reserve to provide for the maintenance of peace and order within the country; thus permitting U.S. combat divisions to be transferred to the fighting front in Korea. This Reserve was gradually transformed and augmented so that in 1955 it consisted not only of Ground but also of Naval and Air components, with a total strength of approximately 150,000. The present Japanese force, however, is far short of that capable of defending the country against a major external attack. The United States, meanwhile, maintains in and around Japan sizeable components of all three of its basic services.

Program Objectives

The objectives of the Mutual Security Program in Japan are to assist the country to strengthen its defense forces and to develop a strong, viable economy.

Within these objectives the portion of the program under the direction of the U.S. Military Assistance Advisory Group (MAAG) is directed toward the expeditious organization, training and equipping of Japanese forces capable of maintaining internal security and of effectively contributing to the security of Japan against external aggression, a major purpose of which would be to permit the redeployment of certain U.S. forces.

General Narrative Statement (Continued)

The technical cooperation portion of the Mutual Security Program and other bilateral arrangements with Japan are directed toward encouraging: (a) Japanese participation in programs of economic development in Free Asia, with special emphasis on development projects which would increase sound intra-regional trade; (b) the development of defense and defense-supporting industries assisted by a proper coordination of offshore procurement with defense and mutual security funds; (c) the expansion, rehabilitation and modernization of Japan's other industries on a sound economic basis; (d) improvement of the managerial and marketing efficiency of Japanese industrial enterprises through, among other means, technical assistance; and (e) an improved climate for private foreign investment and reduction of tariff and other barriers to Japanese trade.

To assist in carrying out the economic portion of the program a small U.S. Operations Mission (USOM) was established in December 1954 and The Economic Section of the Embassy was integrated with it. This mission will help assure a coordinated approach to all U.S. activities affecting the Japanese economy.

Progress to Date

Military Assistance

Japan was included in the Military Assistance Programs for fiscal years 1954 and 1955 and these programs are being implemented since signing of the Mutual Defense Assistance Agreement on March 8, 1954. Prior thereto, the United States loaned military equipment and provided other assistance to Japan within Department of Defense FY 1950-53 appropriations. The Mutual Security Act of 1954 authorized transfer of this equipment to Japan; transfer will be completed by June 30, 1955.

During the past year, the Japanese have expanded their military defense forces. The Coastal Safety Force (naval force) has increased, largely as the result of the turnover by the United States of 2 destroyers, 18 frigates and 50 landing craft, pursuant to authority contained in Public Laws 188 and 467. The United States has transferred to the National Safety Force (army force) equipment procured out of 1950/53 Army appropriations. The United States also has trained the National Safety Force in the use of this equipment.

The FY 1954/55 programs are planned to provide assistance to Japan in developing its forces by supplying selected major items of military equipment for its present and proposed land, sea and air forces. The Army program provides training, ammunition and maintenance for materiel procured out of FY 1950/53 Army appropriations, and materiel supplied under MDA Programs. The Navy program will provide a number of escort vessels, mine vessels, maritime aircraft, equipment for installation in Japanese constructed vessels, and maintenance materiel. The Air Force program will provide modern aircraft and related equipment for the Japanese Air Force.

Technical Cooperation and Other Programs

Although there has been no formal U.S. economic assistance to Japan since the termination of GARIOA in June 1951, there have been a number of activities which have had a direct impact on the Japanese economy. These include procurement of military materiel in Japan for U.S. and allied military requirements; procurement of manufactured goods and industrial equipment for U.S. economic assistance programs throughout the Far East; four short-term cotton credits totaling $200 million from the Export-Import Bank (the loan currently outstanding is for $60 million); the sale of $50 million of surplus agricultural commodities for local currency under Section 550 of the Mutual Security Act of 1951 (as amended); and an allocation during FY 1955 of $500,000 for technical assistance to a productivity program.

In 1954, under Section 550 of the Mutual Security Act of 1951 (as amended), Japan purchased for local currency $50 million worth of surplus wheat. Approximately $40 million of this local currency is being used for payments against deliveries under existing offshore procurement contracts and for future

General Narrative Statement (Continued)

purchases of goods under the Mutual Security Programs; $10 million has been made available to Japan in the form of a grant for the support of defense production industries. In addition, an agreement is currently being negotiated with Japan under which equivalent of approximately $100 million worth of surplus agricultural commodities would be sold to Japan under the provisions of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480).

FY 1956 Activities

Although Japan is receiving only a limited amount of Technical Cooperation assistance under the Mutual Security Program, the economic benefit to Japan of other U.S. activities will be, in fact, very substantial. Special dollar receipts will continue to accrue to Japan during 1956, although at a reduced level, from (a) Department of Defense expenditures in support of the U.S. military establishment in the country, (b) offshore procurement, and (c) private expenditures of the U.S. Government and U.S. military personnel in Japan. These special dollar receipts, although not aid in the normal sense, necessarily result in a substantial indirect element of economic assistance to the Japanese economy, as would loans made from the proceeds derived from sales of U.S. agricultural surpluses (P.L. 480) under the Loan and Sales Agreements now under negotiation.

The specific efforts of the U.S. to assist Japan to increase its trade with South and Southeast Asia includes a number of programs. During FY 1956, nationals of other free Asian countries will be given training in various Japanese enterprises. Their activities will be coordinated by the Regional Training Center a part of the United States operations Mission.

Technical cooperation will assist Japan in increasing its food production through utilization of undeveloped lands, in particular the Alpine Uplands, which have previously been considered of little value.

A Japanese productivity center has recently been established and will receive assistance in the amount of $1 million. This program which includes projects for improvement in engineering, design, quality control, packaging, marketing, management and labor relations, is designed to help Japan modernize its industrial and marketing techniques in order to improve the country's competitive position in world markets, thus increasing its exports and reducing its dependence on U.S. special dollar receipts. Through joint participation in this program there should be diffused throughout the Japanese economy a realization of the advantages of the modern production management, and marketing techniques which will enhance Japan's economic future by greater association with private foreign enterprises.

Japanese Efforts and Progress

In October 1953, the Japanese Government adopted a deflationary program consisting principally of restrictions on credit and import financing. The effects of this program were most salutary, including a reversal of the inflationary trend. Measures were adopted to encourage greater production for export rather than domestic consumption.

Industrial production for 1954 reached 170 percent of the 1934/36 average. Electric energy output continued to increase through construction of new plants and some rehabilitation of old. In the overall, exports expanded while imports declined. In spite of this improvement, a substantial commercial trade deficit continues, and Japan needs to adopt additional new techniques and the concept of increased production at lower cost. Japan's recognition of this need is evidenced by its contribution of the yen equivalent of $200,000 for the balance of FY 1955 toward the support of a Productivity Center under an Agreement with the U.S., signed in March 1955.

Settlement of Japan's reparations problems with its Far Eastern neighbors would be a major step toward removing one of the serious obstacles to the expansion of its trade in this area. In September 1954, a Reparations Accord with Burma was signed and

General Narrative Statement (Continued)

recently, meetings were begun in Tokyo with representatives of the Philippine Government on this same subject.

Since the end of the occupation, the Japanese Export-Import Bank has extended almost $50 million in short term credits to Japanese exporters to finance capital goods exports to other Free Asian countries. Many of these countries are sending technicians to Japan in increasing numbers to receive training in the particular technical fields in which Japan is highly advanced and peculiarly suited, such as fishing and agriculture. Japan also is furnishing technicians to these countries under the Colombo Plan.

INDIVIDUAL COUNTRY DATA

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Labor	Education	General and Misc.
Defense Support						
1954	10,000		10,000			
1955						
1956						
Technical Cooperation						
1954						
1955	500	55	315	35	-	95
1956	1,000	125	535	65	175	100
Total All Programs						
1954	10,000		10,000			
1955	500	55	315	35		95
1956	1,000	125	535	65	175	100

ASIA

INDIVIDUAL COUNTRY DATA

Summary by Major Cost Components

(In thousands of dollars)

Country: JAPAN

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Technical Cooperation									
1954									
1955	500	130	11	150	3	110	109	110 a/	
1956	1,000	145	14	255	6	350	207	250 a/	
Defense Support									
1954	10,000								10,000
1955									
1956									
Total All Programs									
1954	10,000								10,000
1955	500	130	11	150	3	110	109	110 a/	
1956	1,000	145	14	255	6	350	207	250 a/	

a/ Provides for study-tours averaging six weeks' duration.

KOREA

BASIC DATA

Population (1954).....millions	22
Annual growth..... percent	1.7
Area ..... 1,000 sq.mi.	38
Agricultural land....percent	23
Agricultural land per capita..... acres	0.2

	Korea	Asian Arc	U.S.
Caloric intake	2,230	2,035	3,120
% grains & starches ...	88	79	29
Literacy rate....percent	65	32	97
Life expectancy... years	37	35	68
Road miles per 1,000 sq.mi.	260	220	1,100
Electric power per capita .....KWH per year	41	117	3,165

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.			28	40	24
Imports, c.i.f.(incl. aid)			242 E	405 E	289 E
Trade balance			-214 E	-365 E	-265 E
Principal exports					
Rice: Quantity ..... 1,000 MT	515 a/	-	-	-	-
Value ..... $ millions	67 b/	-	-	-	-
Tungsten: Quantity..... 1,000 MT	2 a/	n.a.	4 E	7 E	3 E
Value .....$ millions	4 b/	n.a.	16	27	11
Trade with U.S. (U.S. Customs data)					
Exports to U.S.		4	18	30	18
Imports from U.S. c/		45	94	94	86
Balance		-41	-76	-64	-68
Balance of payments					
Balance on goods and services			-147	-243	-219
Net capital			186	269	217
Private			-	-	-
Official and banking			186	269	217
Government grants			187	249	194
Short-term capital			-1	20	23
Change in gold and exch. reserves			+41	+29	-1
Gold and foreign exchange reserves		46	87	116	115

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years)	80.1	32.9	-13.1	-9.6	469.4 d/	498.5	460.0
CRIK obligations (fiscal years).....	-	50	149	127	(d)	-	-
UNKRA obligations (fiscal years).....	-	0.5	4	53	39	35	-
			(calendar years)				
Ex-Im Bank disbursements	-	-	-	-	-		
IBRD disbursements			(not a member)				

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Industrial production	1949=100	n.a.	63	111	146	149
Agricultural production e/.....	1935-39=100	100 f/	72	80	91	96
Major crops:						
Rice, rough	1,000 MT	3,060 f/	2,558	2,903	3,200	3,270
Major industries:						
Electricity	mill. KWH	n.a.	337	635	736	898
Cotton cloth	mill. yds	n.a.	31	65	130	132
Coal, anthracite	1,000 MT	227	112	576	866	891
Tungsten ore	1,000 MT	n.a.	1.2	3.8	7.4	3.8

FINANCES

	1954	1955	1956
		(millions of US $)	
Central government budget (fiscal year ending June 30).....	(g)		
Revenue, excl. counterpart.....	60	108	218
Expenditure	131 h/	203 h/	319 h/
Defense	65	113	148
Non-defense	66	90	171
Surplus or deficit (-) before aid	-71	-95	-101
Counterpart funds i/	3	24	--
Net surplus or deficit (-)	-68	- 71	-101
As % of total revenue	-113%	- 66%	- 46%

	1951	1952	1953	1954	1955
Prices (index 1953=100)					
Wholesale: Seoul	n.a.	79 j/	100	126	188 (Jan)
Cost of living	28	69	100	136	190 (Jan)

* 1954 data partly preliminary or estimated. E-Estimate. n.a.-Not available.

a 1939.
b Average 1938-39.
c Excludes goods imported by U.S. armed services.
d Department of Defense CRIK obligations included with data for FOA.

e Crop year beginning in year stated.
f Prewar average.
g Year ending March 31.
h Excludes large expenditures from FOA, CRIK, and UNKRA counterpart funds with the exception of small amounts uded to finance defense expenditures.
i Only those funds used to finance defense expenditures.
j Pusan 1952 and Jan-July 1953.

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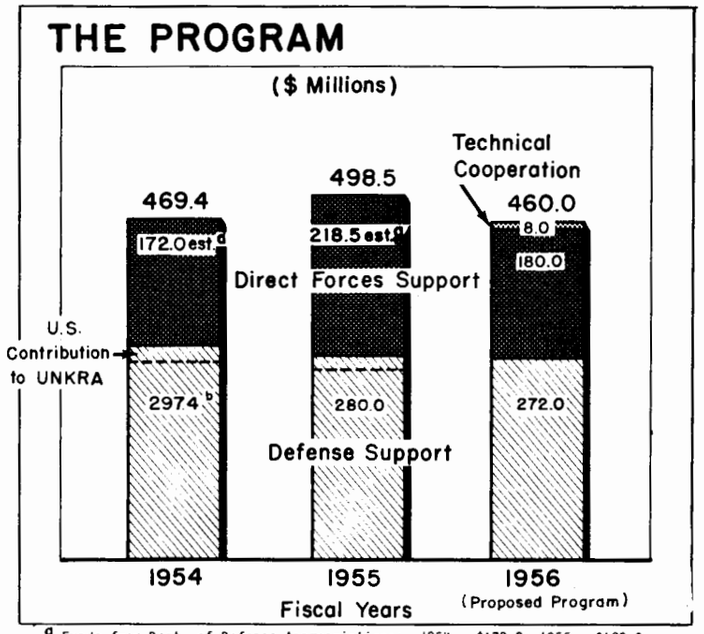
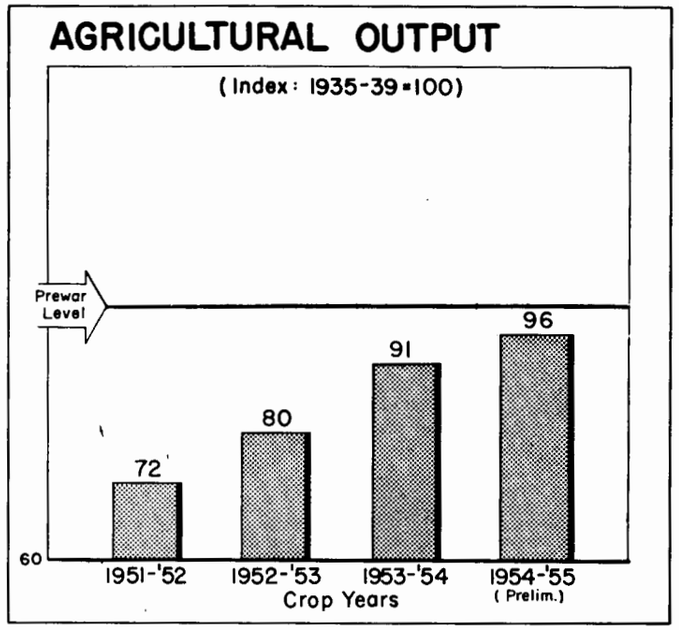
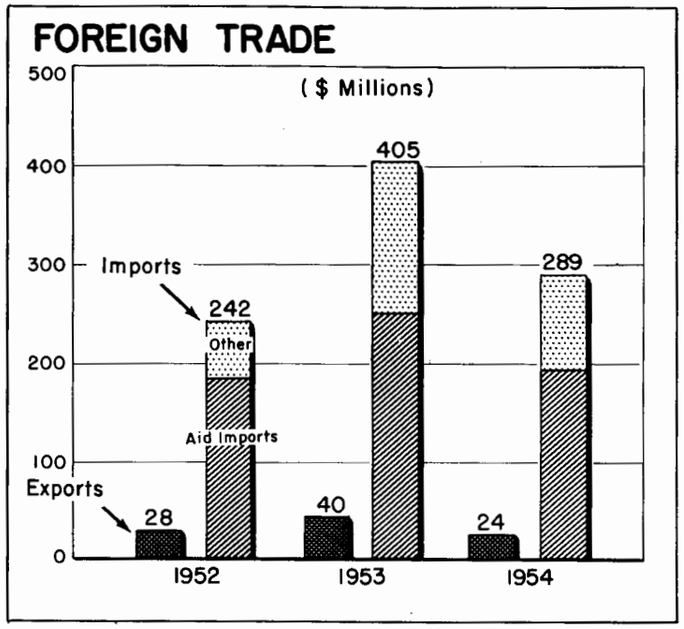
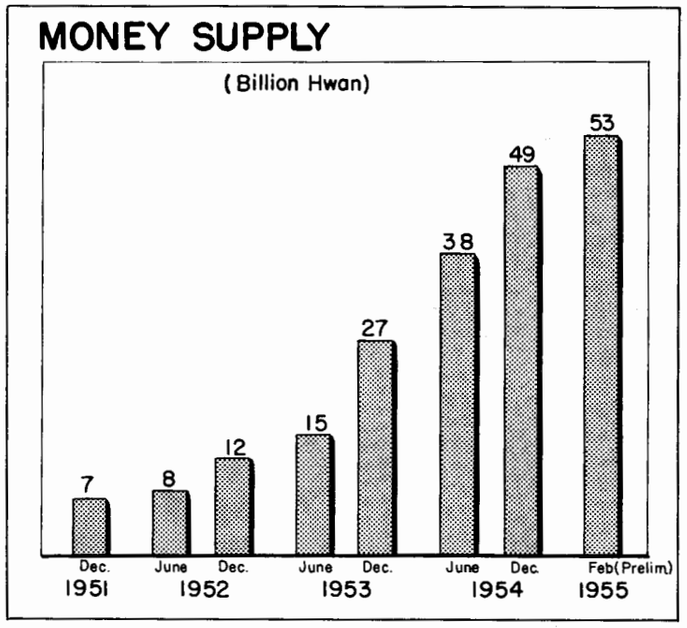
KOREA

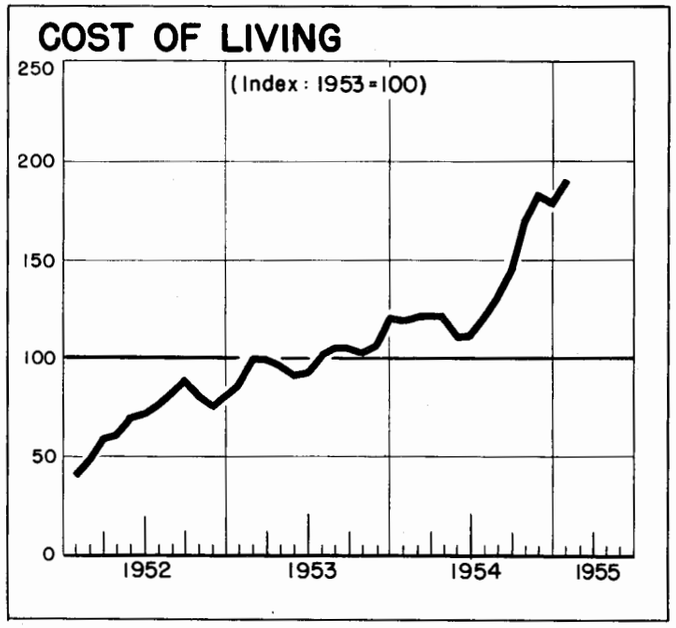


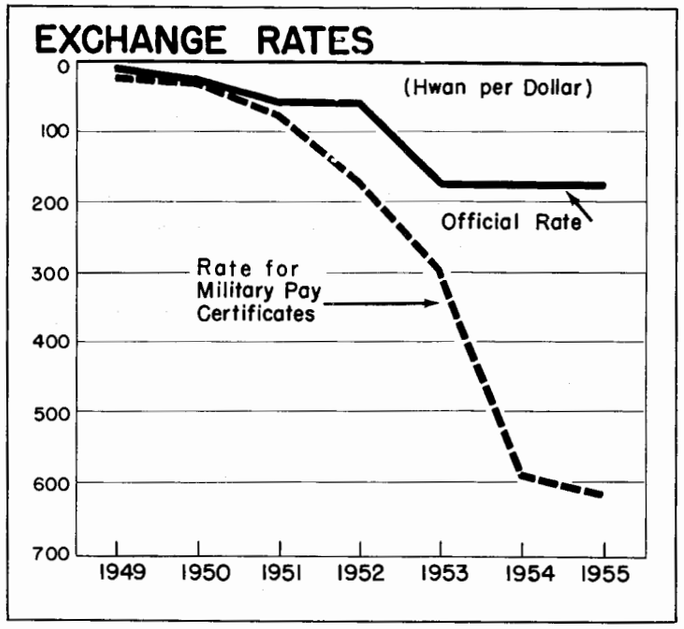
[a] Funds from Dept. of Defense Appropriations: 1954 - $172.0; 1955 - $189.6
[b] Includes Dept. of Defense CRIK program











ASIA

Country: KOREA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	172,033 b/	218,500 b/	180,000
Defense Support			
FOA/CRIK	265,187 c/	261,000	272,000
U.S. Contribution to UNKRA	23,153	19,000	
Korea Emergency Food Relief	9,000		
Subtotal	297,340	280,000	272,000
Technical Cooperation (FOA/CRIK)	d/	d/	8,000
Total Country Program Other Than Military Assistance	469,373	498,500	460,000
MSP Sales Surplus Agricultural Commodities			
Sales to Korea		28,800	45,000
Sales Proceeds Programmed in Korea			
Defense Support		28,800	45,000

a/ Data included in separate submission on Military Assistance.
b/ Estimated.
c/ Includes $65,926,459 Civilian Relief (CRIK) program financed from Department of Defense funds.
d/ Conducted as integrated program, including Technical Cooperation-type activities.

General Narrative Statement

Current Situation

One of the principal objectives of the United States in the Far East is to strengthen the capacity of the free countries there to resist the threat of further Communist expansion.

The 21 battle-tested divisions of the Republic of Korea are non-Communist Asia's greatest fighting force. They protect the southern half of the Korean peninsula and serve to deter Communist

General Narrative Statement (Continued)

aggression elsewhere in the Far East. This formidable force induces Red China to maintain in North Korea troop units which otherwise might be dispatched to fronts farther south. Moreover, Korea's progress under U. S. and U. N. auspices toward rebuilding its war-devastated economy is being carefully watched by other Far Eastern countries, and resistance by others to Communism in Asia will be affected by the success achieved.

The most important current development affecting interests which the United States shares with Korea in that country is the build-up of the North Korean ground and air forces. The problems in the Formosa Strait, combined with general uncertainty in other parts of Asia, explain the U.S.-ROK Government decision to maintain the defensive strength of the Korean forces at their present level, in spite of the heavy economic burden this decision implies.

Since July 1954 there has been steady progress in agriculture and industry, but the economic situation as a whole is still far from bright. Inflation continues to present difficulties. From June 1954 to February 1955, the ROK wholesale price index rose about 77 percent. The deficit in the government's budget is expected to be about 34 percent larger in FY 1955 than the year before. The improvement in the country's food production has decreased import requirements for relief food; the worsening of the internal financial situation has been due to heavier expenditures for military and investment needs.

Korea's economic problems, in general those of an underdeveloped country, have been aggravated by the destruction resulting from the Communist aggression of 1950-53 and is greatly magnified by the need to maintain a 21-division military force. The need for this force has been mutually agreed upon and will continue until tensions are eased in the Far East. More than half of Korea's total budgetary expenditures in the current fiscal year are being devoted to its military establishment, even though the United States through the Department of Defense has provided all the logistical support for the ROK forces, except for food and limited amounts of other indigenous supplies.

The heavy burden of ROK military requirements severely limits the funds that can be supplied either by the U. S. or the ROK for investment to be absorbed in agriculture, power, transportation and telecommunications, education, and industrial facilities. Only 35 percent of the $280 million defense support funds provided in FY 1955 is programmed for these purposes. Efforts to maintain an army and at the same time reconstruct the country inevitably have led to inflation, even with the substantial assistance provided from the outside.

The shortage of technical and administrative skills also seriously impedes the economic progress of the country. This shortage stems largely from the situation during the 40-year Japanese occupation, when Koreans were systematically excluded from important administrative and technical positions in both the government and business world. While substantial strides have been taken to correct the situation, much more time is required to enable the ROK to develop on a sufficiently broad basis the governmental and business experience essential to deal with its complex problems.

Added to these fundamental factors which retard economic recovery are other impediments arising out of certain internal economic and financial policies. One of these is the exchange rate and pricing policy for some commodities which overvalues the Korean hwan in terms of dollars. As a consequence, imports are underpriced and exports overpriced, thus stimulating the consumption of imported goods and discouraging exports and local production. A further effect of this pricing policy is that aid goods sold on the domestic market do not yield the maximum possible sales proceeds, thus reducing the counterpart funds available for inflation control and internal support of military and investment undertakings. In addition, internal prices of some basic items, such as power and coal and certain utility rates, are legislatively fixed at levels which result in unprofitable operation of some government-owned enterprises and loss of potential revenue.

Program Objectives

Specific Mutual Security Program objectives are to assist the Korean Government to (a) strengthen its armed forces

General Narrative Statement (Continued)

sufficiently to maintain internal stability and take over an increasing share of the country's defense; (b) support the mutual defense effort; (c) maintain the degree of economic stability essential to a successful defense effort; (d) increase the country's capacity for economic self-support; and (e) train Korean technicians for public administration, business, and other activities conducive to economic progress.

Progress to Date

Military Assistance

The ROK forces have progressed from very limited strength in June of 1950 when hostilities commenced in Korea, to an Army of 20 divisions, a Marine Corps of one division, a Navy of 52 vessels, and an Air Force consisting of one fighter wing and miscellaneous supporting aircraft. In addition, there are two paramilitary forces - the National Police Force and the Korean Service Corps. These ROK forces, with United Nations support, participated successfully in a major conflict. Their present leaders are combat trained and experienced. Their present military strength has been achieved largely as a result of U. S. materiel and economic support, as well as assistance in the form of advice, leadership and guidance.

Defense Support and Other Programs

U. S. assistance to Korea, including U. S. contributions to UNKRA (United Nations Korean Reconstruction Agency) amounted to almost $470 million in FY 1954 and $498.5 million in FY 1955. U. S. operations are carried out by the U. S. Army's Korean Civil Assistance Command (KCAC), which is under the direction of the Commander-in-Chief of the United Nations Command (CINCUNC) and the operational control of his Economic Coordinator.

The $498.5 million provided for FY 1955 programs includes $218.5 million for direct forces support and $280 million for defense support, including technical cooperation activities. The $280 million defense support total for FY 1955 consists of the $205 million appropriated for this purpose, an authorized $16.2 million carryover from FY 1954 funds for CRIK (Civilian Relief in Korea), and a $19 million U. S. contribution to UNKRA, plus $39.8 million of supplemental assistance.

The following accomplishments are illustrative of the progress toward objectives resulting from some of the more important program activities to date.

Support of the Defense Effort: Support to the Korean defense effort has been provided primarily through the direct forces support component of the U. S. aid program, which in FY 1955 constituted over 40 percent of total assistance for the year. These funds were provided from appropriations to the Department of Defense and were used largely to finance imported supplies and equipment needed for the armed forces - in particular, such items as petroleum products for aircraft and combat vehicles, raw cotton for the manufacture of military uniforms, construction materials for barracks and military installations, and foodstuffs to improve army rations.

Support for the defense effort is also provided from local currency counterpart funds generated by saleable commodity imports financed under the "defense support" component of the program. Almost 75 percent of total counterpart funds withdrawn thus far this year has been used for military expenditures of the ROK Government. Also of direct assistance to the ROK defense effort is the reconstruction of basic utilities such as railroads, highways, and telecommunications, serving military as well as civilian needs, though financed from defense support funds.

Maintenance of Economic Stability: Of the $280 million total for defense support in FY 1955, approximately 65 percent has been utilized for imports of industrial raw materials and consumer goods which have been the major factor in reducing inflationary pressures. Inflation, nevertheless, continues to be a serious problem.

General Narrative Statement (Continued)

Imports of industrial raw materials (cotton, lumber, coal, cement) and aids to farming (fertilizer, insecticides) have helped raise industrial production since 1952 by 34 percent and agricultural production by 20 percent. Among the items showing outstanding increases in 1954, as compared with 1952, are rice (2.9 to 3.3 million tons) and cotton cloth (65 to 132 million yards).

Sold to local users, these imports further contributed to the control of inflation by absorbing excess purchasing power and generating local currency counterpart funds to finance essential military and civilian projects. Such counterpart funds in FY 1955 supplied about 26 percent of total local currency requirements of the ROK Government.

Increasing Korea's Capacity for Self-Support: About 35 percent of FY 1955 defense support funds has been used to import capital equipment for agricultural and industrial development. This is aimed at helping to build the permanent improvements which will step up local production, provide exports and increase government revenues, while reducing import requirements. It is expected that the capital investment program will eventually reduce the magnitude of assistance required from the United States.

Under the stimulus of aid provided for rehabilitation and capital development, electric power output increased 41 percent from 1952 to 1954, and anthracite coal production rose 55 percent. Since the end of hostilities in 1953, over 2,000 miles of highway have been improved, and 50 factories and 20 major terminal warehouses rehabilitated. More than 1,500 freight cars have been provided, together with essential locomotive parts, crossties, and railway repair equipment. Three railway extension lines are now being built under a contract estimated to cost $205,000. Under a $30 million contract, three thermal power plants capable of producing 100,000 KW are being constructed.

Up to February 1955, the UNKRA program of economic assistance to Korea totaled $127 million, of which $84 million represented the U. S. contribution. Under this program, technical assistance and equipment have been provided to increase coal output; a mineral assay laboratory has been established; the textile industry has been partly rehabilitated; and construction of cement, flat glass and paper plants is under way. When completed, the two cement plants will increase production capacity by 200,000 tons, and flat glass and paper output will satisfy domestic requirements.

The Civilian Relief program has been most effective in combating disease and unrest resulting from the Korean War. Relief needs have been met by imports of food, medical supplies and housing construction materials, and by a large-scale program of innoculation, health care, and resettlement. The number of persons wholly dependent upon relief has been reduced from 3 million in 1952 to approximately 700,000 in 1954. The decrease in the incidence of communicable diseases through joint U. S. Army and UNKRA efforts has been phenomenal. Death rates from smallpox and typhoid during 1954, for example, were only about one-fourth as high as in 1953.

The AFAK Program (Armed Forces Assistance to Korea), directed by the Eighth U. S. Army, had available for public works and civilian medical aid projects $15 million in FY 1954 and $5 million in FY 1955. The effect of this program on the Korean economy, however, has been out of all proportion to the amount expended because of the use of U. S. Army equipment and technical skills. With the help of these funds, units of the UN and ROK armed forces, acting as project sponsors, provided assistance to local Korean communities in rehabilitating local facilities. Schools, churches, orphanages, public health facilities, civic buildings, bridges and highways have been constructed with this aid.

Training Korean Technicians: The training of Korean technicians in the United States was begun on a small scale in FY 1955, with initial emphasis on power and industry. Under a three-year contractual arrangement with the University of Minnesota, Seoul National University will be provided with technical advice and essential equipment in the fields of engineering, medicine, and agriculture. Under an earlier contract with an American engineering firm, Korean engineers and crews are

General Narrative Statement (Continued)

being trained in modern methods of railroad tunnel construction. U. S. and U. N. technicians in Korea, in the normal course of their activities, are providing to their ROK counterparts on-the-job training in such fields as agriculture, transportation, telecommunications, industry, mining, public health, and education.

The FY 1956 Program

a. Over-all Magnitude

For FY 1956, it is proposed that $460 million be made available to Korea: $180 million for direct forces support, $272 million for defense support, and $8 million for technical cooperation. The FY 1956 total compares with FY 1955 assistance, exclusive of military end-items, of $498.5 million.

The amount requested for FY 1956 assumes that the Korean Government will be able to provide, by non-inflationary means, 20 to 30 percent of the funds needed for local procurement of supplies and equipment for the ROK military forces. Should the ROK not be able to meet this goal, the possible alternatives would be to decrease the size and cost of the military establishment or to reduce the amount planned for capital investment in FY 1956. In view of the high priority given to maintenance of the military establishment, however, any shortfall probably would force a cutback in the investment sector in order to make more funds available for saleable commodity imports which would generate the local currency needed to supplement ROK budgetary resources.

Present estimates of probable developments during the coming year strongly suggest that $460 million will prove to be the minimum amount of assistance necessary to assure maintenance of relative internal stability and some further progress in FY 1956 toward the attainment of joint U.S.-ROK goals.

No provision is made for a U. S. contribution to UNKRA in FY 1956 since the present intention is to terminate the program when existing funds are exhausted.

b. Components of the Program

Direct Forces Support

The funds requested for direct forces support in FY 1956 will be used to import aviation gasoline, lubricating oils, motor vehicle parts, construction materials, raw cotton, clothing, wheat, and daily necessities for the ROK forces. The decrease from $218.5 million in FY 1955 to $180 million in FY 1956 reflects not a reduction of requirements for this type of assistance but a shift in part from dollar to local currency financing of supplies available from indigenous sources.

Defense Support

Of the $272 million requested for defense support in FY 1956, approximately 65 percent ($176 million) will be required to finance imports of industrial raw materials and consumer goods to meet Korean supply requirements and to generate counterpart funds for supplementing government budgetary resources. These imports will include approximately $45 million of surplus agricultural commodities, as compared with $32 million in FY 1955; also $32 million of coal, $16 million of petroleum products, and $61 million of fertilizer.

Funds to be devoted to the purchase of capital equipment for agriculture and industry, as presently planned, total approximately $95 million in FY 1956, as compared with $100 million in FY 1955. The investment component thus comprises about 35 percent of the defense support program. Irrigation and flood control, railway and highway construction, steam power, chemical fertilizers, telecommunications, and small private industry development will receive special emphasis.

Technical Cooperation

Although the Korean program from the first has included some technical cooperation activities, these are being presented as an identifiable component for the first time in FY 1956. Activities to be financed with the $8 million requested have been planned so as to make a substantial contribution to the total

effort. Principal emphasis will be on increasing Korean technical competence in fields of activity which are fundamental to the country's economic rehabilitation and growth, and on reducing present shortages of administrative skills in government and business. The three techniques being used to provide technical assistance and training are: contracts with universities and with private management and engineering firms; assistance through daily contacts between US/UN technicians and their Korean counterparts; and a program for training Korean technicians and specialists in Korea and in the United States.

In FY 1956 it is planned to devote a substantial portion of the technical cooperation funds to additional contracts with universities and private management and engineering firms. One such contract for about $1 million will provide vocational education in agriculture, mining, metallurgy, industry and architecture. Another proposed contract for $1.5 million will provide engineering and management guidance in industry, transportation and power to ROK Government officials. The training program for Korean technicians and specialists will be increased in such areas as agriculture, education, public administration and public health.

Korean Government Self-Help Efforts: The Korean Government is devoting 85 percent of its budgetary revenues to the defense effort. It is also supplementing U.S.-generated counterpart funds in meeting the costs of local labor and domestic materials for capital investment projects.

Late in 1954, the ROK National Assembly amended the 1948 constitution to provide encouragement to private foreign investment and private ownership of property. An increasing proportion of the aid program is being implemented by the ROK commercial community. ROK farmers now produce more than enough rice for the needs of both the armed forces and the civilian population, the surplus available for export in 1954 exceeding 100,000 tons. ROK officials cooperate with US/UN personnel in jointly planning and implementing the aid program. To improve efficiency, the ROK Government recently centralized in one ministry all economic development and stabilization activities.

ASIA

Country: KOREA

INDIVIDUAL COUNTRY DATA

COMBINED FOREIGN OPERATIONS ADMINISTRATION, CIVILIAN RELIEF IN KOREA, AND UNITED NATIONS KOREAN RECONSTRUCTION AGENCY PROGRAMS

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import of Saleable Commodities	Common Use Items	Other Costs
Direct Forces Support													
1954	172,033											172,033	
1955	218,500											187,600	30,900 a/
1956	180,000											180,000	
Defense Support													
1954	298,920 b/	4,254	77,260	26,405		6,145	3,005	710	36,516		140,200		4,425 c/
1955	295,953 b/	8,656	42,216	29,772		5,962	3,750	1,110	24,700	14,197	161,000		4,590 c/
1956	272,000	6,655	39,850	27,620		3,100	975		6,400	10,400	177,000		
Technical Cooperation													
1954													
1955													
1956	8,000	3,120			80	600	1,945	1,680	185	390			
Total All Programs													
1954	470,953 b/	4,254	77,260	26,405		6,145	3,005	710	36,516		140,200	172,033	4,425
1955	514,453 b/	8,656	42,216	29,772		5,962	3,750	1,110	24,700	14,197	161,000	187,600	35,490
1956	460,000	9,775	39,850	27,620	80	3,700	2,920	1,680	6,585	10,790	177,000	180,000	

a/ Utilized for local procurement (in Korea) for ROK forces.
b/ Includes total UNKRA program and therefore exceeds U. S. financing in FY 1954 by $10,580 thousand and in FY 1955 by $15,953 thousand.
c/ Utilized for administrative costs and special projects.

INDIVIDUAL COUNTRY DATA

FOREIGN OPERATIONS ADMINISTRATION AND CIVILIAN RELIEF IN KOREA PROGRAMS[a]

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import of Saleable Commodities	Common Use Items	Other Costs
Direct Forces Support													
1954	172,033											172,033	
1955	218,500											187,600	30,900[b]
1956	180,000											180,000	
Defense Support													
1954	265,187	1,050	61,682	25,786		3,104	752	710	31,903		140,200		
1955	261,000	8,110	21,415	29,770		2,460	1,500	1,110	22,800	12,835	161,000		
1956	272,000	6,655	39,850	27,620		3,100	975		6,400	10,400	177,000		
Technical Cooperation													
1954													
1955													
1956	8,000[c]	3,120			80	600	1,945	1,680	185	390			
Total All Programs													
1954	437,220	1,050	61,682	25,786		3,104	752	710	31,903		140,200	172,033	
1955	479,500	8,110	21,415	29,770		2,460	1,500	1,110	22,800	12,835	161,000	187,600	30,900[b]
1956	460,000	9,775	39,850	27,620	80	3,700	2,920	1,680	6,585	10,790	177,000	180,000	

a/ Excludes U. S. contribution to UNKRA and Korea Emergency Food Relief (FY 1954) but includes, for comparability with FY 1956, direct forces support ($172.0 million in FY 1954 and $189.6 million in FY 1955) financed from Department of Defense funds non-mutual security appropriations. In FY 1955, $28.9 million of mutual security funds were used for this purpose.

b/ Utilized for local procurement (in Korea) for ROK forces.

c/ Includes $500,000 for inter-regional costs.

Country: KOREA

ASIA

INDIVIDUAL COUNTRY DATA

FOREIGN OPERATIONS ADMINISTRATION AND CIVILIAN RELIEF IN KOREA PROGRAMS[a]

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U. S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954	172,033	172,033							
1955	218,500	187,600							30,900
1956	180,000	180,000							
Defense Support									
1954	265,187	252,535	341[b]	n.a.	n.a.	12,364	58	288	
1955	261,000	256,680	261[b]	1,500[c]	n.a.	1,815	185	1,005	
1956	272,000	266,630	68	1,020	n.a.	4,000	70	350	
Technical Cooperation									
1954									
1955									
1956	8,000	3,200	79	1,185	n.a.	2,545	185	1,070	
Total All Programs									
1954	437,220	424,568	341	n.a.	n.a.	12,364	58	288	
1955	479,500	444,280	261	1,500[c]	n.a.	1,815	185	1,005	30,900
1956	460,000	449,830	147	2,205	n.a.	6,545	255	1,420	

n.a. - Not available.

a/ Excludes U. S. contribution to UNKRA and Korea Emergency Food Relief (FY 1954) but includes, for comparability with FY 1956, direct forces support ($172.0 million in FY 1954 and $189.6 million in FY 1955) financed from Department of Defense Funds non-mutual security appropriations. In FY 1955, $28.9 of mutual security funds were used for this purpose.

b/ Estimated.

c/ Estimated; excludes cost of military personnel assigned to FOA/CRIK program activities.

INDIVIDUAL COUNTRY DATA

FOREIGN OPERATIONS ADMINISTRATION AND CIVILIAN RELIEF IN KOREA PROGRAMS

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954 a/	FY 1955 Defense Support: For Project Utilization	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Direct Forces Support	FY 1955 Total	FY 1956 Defense Support: For Project Utilization	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains	5,002		3,800		3,800		3,000		3,000
Raw Cotton	19,000		24,000		24,000		40,000		40,000
Fats and Oils	1,347		1,000		1,000		2,000		2,000
Fertilizer	21,625		41,600		41,600		61,000		61,000
Sugar	576		2,300		2,300		2,000		2,000
Other	625		3,600	27,000	30,600			18,800	18,800
Total Food and Agric. Imports	48,175		76,300	27,000	103,300		108,000	18,800	126,800
Less Sales Proceeds Programmed for Other Countries									
Net U.S. Financed Food & Agr.Imp.	48,175		76,300	27,000	103,300		108,000	18,800	126,800
Industrial Imports									
Petroleum Products	8,500		11,300	34,400	45,700		15,600	31,600	47,200
Coal	2,000		31,600	700	32,300		32,300	2,500	34,800
Raw and Semi-Finished Products	73,685	38,000	30,555	22,700	91,255	39,500	14,400	3,700	57,600
Machinery and Vehicles	83,561	30,000	4,500		34,500	46,000	5,200	800	52,000
Miscellaneous and Unclassified	36,614	27,680	6,745	35,300	69,725	4,130	1,500	37,400	43,030
Clothing				67,500	67,500			85,200	85,200
Total Industrial Imports	204,360	95,680	84,700	160,600	340,980	89,630	69,000	161,200	319,830
Less Sales Proceeds for Coal Programmed for Other Countries									
Net U.S.Financed Ind.Imports	204,360	95,680	84,700	160,600	340,980	89,630	69,000	161,200	319,830
Total Commodity Program	252,535	95,680	161,000	187,600	444,280	89,630	177,000	180,000	446,630
Transfer of Cash Services	12,652	4,320			4,320	5,370			5,370
Total Country Program	265,187	100,000	161,000	187,600 b/	448,600	95,000	177,000	180,000	452,000

a/ Excludes direct forces support financed from Department of Defense funds (non-Mutual Security appropriations).
b/ Excludes $30.9 million utilized for local procurement (in Korea) for ROK forces.

ASIA

Country: KOREA

INDIVIDUAL COUNTRY DATA

TOTAL UNITED NATIONS KOREAN RECONSTRUCTION AGENCY PROGRAM

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import of Saleable Commodities	Common Use Items	Other Costs
Defense Support													
1954	33,733[a]	3,204	15,578	619		3,041	2,253		4,613				4,425[b]
1955	34,953[a]	548	20,800			3,505	2,250		1,900	1,360			4,590[b]
1956													

a/ U. S. contributions as follows: FY 1954, $23,153,615; FY 1955, $19,000,000. Distribution by major activity field of funds contributed by U. S. not available.

b/ Utilized for administrative costs and special projects.

PHILIPPINES

BASIC DATA

Population (1954)..... millions	21
Annual growth.....percent	1.9
Area .....1,000 square miles	116
Agricultural land.....percent	22
Potentially productive land.....percent	17
Agricultural land per capita.....acres	0.8

	Philippines	Asian Arc	U.S.
Caloric intake	2,400	2,035	3,120
% grains & starches ..	62	79	29
Literacy rate ...percent	65	32	97
Life expectancy....years	42	35	68
Road miles per 1,000 sq mi.	160	220	1,100
Elec. power per capita ..... KWH per year	55	117	3,165

USE OF RESOURCES 1954

		%
Gross national product (million U.S. dollars).....	$4,245	
Consumption	3,615	85
Gross investment (public and private)	395	9
Government non-defense expenditure	225	5
Government defense expenditure	81	2
Net foreign balance	-71	-1
Per capita GNP (dollars)	$198	

(FOA estimates; converted at rate of 2 pesos per $)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954 *
		(millions of US $)			
Exports, f.o.b.	117	410	352	392	405
Imports, f.o.b.	133	483	430	448	483
Trade balance	-16	-73	-78	-56	-78
Principal exports					
Copra & products .....Quantity....1,000 MT [a]	596 [b]	947	843	749	925
Value.... $ millions	35 [b]	192	116	149	160
Sugar, centrifugal .....Quantity....1,000 MT	817 [b]	567	793	783	869
Value.... $ millions	49 [b]	64	90	96	106
Abaca .....Quantity....1,000 MT	153 [b]	128	110	112	98
Value.... $ millions	16 [b]	67	41	39	26
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	94	284	236	276	260
Imports from U.S.	86	350	283	351	324
Balance	8	-66	-47	-75	-64
Balance of payments					
Balance on goods & services		-92	-53	-56	-71
Net capital		26	51	49	62
Private		13	37	29	46
Official and banking		13	14	20	16
Government grants		15	26	22	19
Long-term capital		-3	-8	-2	-4
Short-term capital		1	-4	--	1
Change in gold & exchange reserves		-51	-2	-10	-22
Gold and foreign exchange reserves	n.a.	319	317	307	285

PRODUCTION

	Unit	1938	1951	1952	1953	1954 *
Industrial production: mfg.	1949=100	n.a.	142	149	169	185
Agricultural production [d]	1935-39=100	100 [e]	119	127	135	134
Major crops:						
Rice, rough [d]	1,000 MT	2,141 [e]	2,830	3,144	3,180	3,060
Corn	1,000 MT	399 [e]	757	721	829	813
Abaca	1,000 MT	169 [e]	126	112	109	101
Copra & coconut oil [a]	1,000 MT	656 [e]	1,002	903	820	900
Sugar, centrifugal	1,000 MT	960 [e]	976	1,028	1,300	1,270
Major industries:						
Electricity [f]	mill. KWH	145	497	558	617	702
Cement	1,000 MT	167	316	317	319	400
Iron ore	1,000 MT	920	904	1,170	1,219	1,435
Chromite ore	1,000 MT	41	335	544	560	456

FINANCES

	1951	1952	1953	1954	1955
		(millions of US $)			
Central government budget (fiscal year ending June 30)					(g)
Revenue, excl. counterpart.....	253	362	346	352	363
Expenditure	263	328	344	391	432
Defense	65	93	82	80	78
Capital outlay	54	69	62	98	135
Other non-defense	144	166	200	213	219
Surplus or deficit (-) before counterpart	-10	34	2	-39	-69
Counterpart funds	--	3	14	23	27
Net surplus or deficit (-).....	-10	37	16	-16	-42
As % of total revenue	-4%	10%	5%	-5%	-12%
Defense expend. as % of budget.....	25%	28%	24%	20%	18%
Defense expend. as % of GNP	2%	2%	2%	2%	n.a.
Prices					
Wholesale (1949=100).....	109	100	99	94	91 (Feb)
Cost of living: Manila (1948=100).....	97	93	87	86	84 (Feb)

EXTERNAL RESOURCES

	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	--	15.0	32.1	17.9	14.5	29.2	28.5
			(calendar years)				
EX-IM Bank disbursements	0.3	--	--	8	6 [c]		
IBRD disbursements	--	--	--	--	--		
U.S. private investment (net)							
Net direct investment	6	5	9	5			
Reinvested subsidiary earnings	11	9	6	5			
Book value of U.S. direct private investment	149	163	178	188			

n.a. - not available.
* 1954 data partly preliminary or estimated.
[a] Copra equivalents.
[b] Average 1937-38.
[c] Undisbursed balance as of 12/31/54 - $11 million.
[d] Crop years beginning in year stated.
[e] Prewar average.
[f] Manila and suburbs only.
[g] Budget estimates.

Revised May 26, 1955

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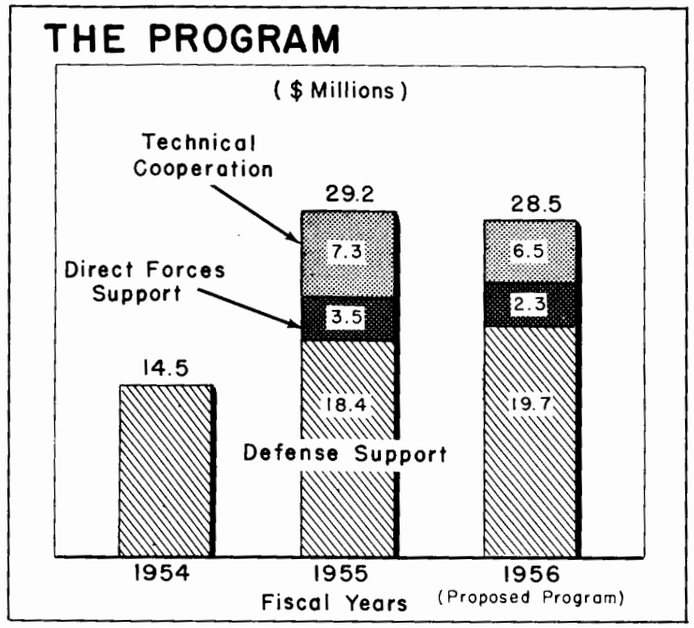
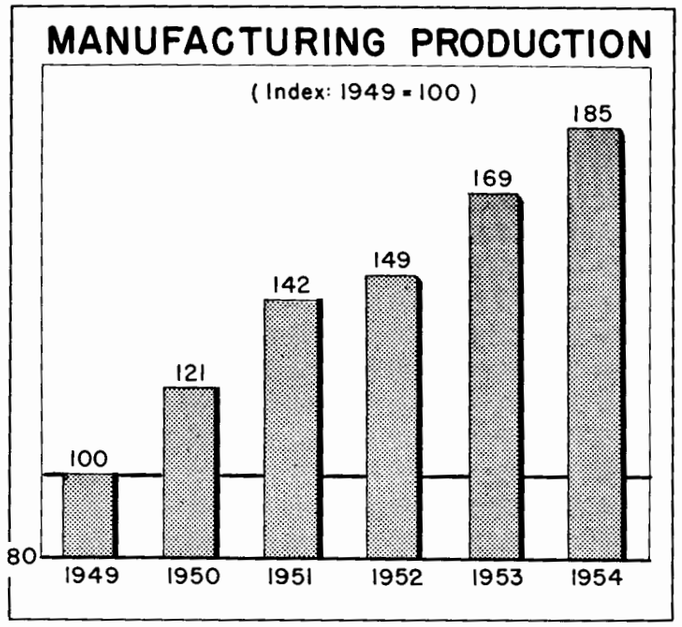
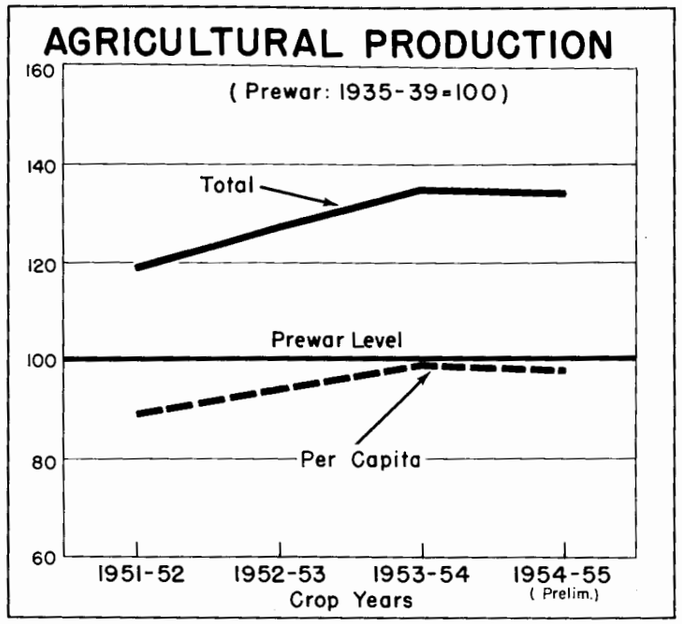
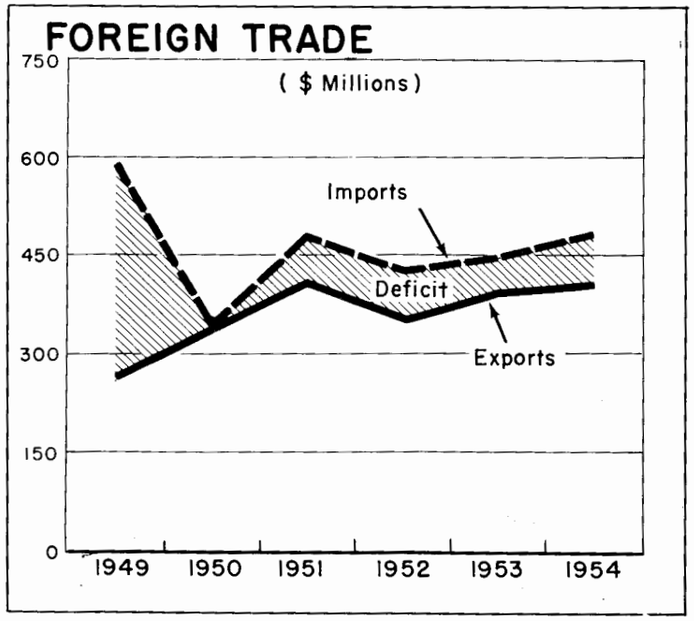
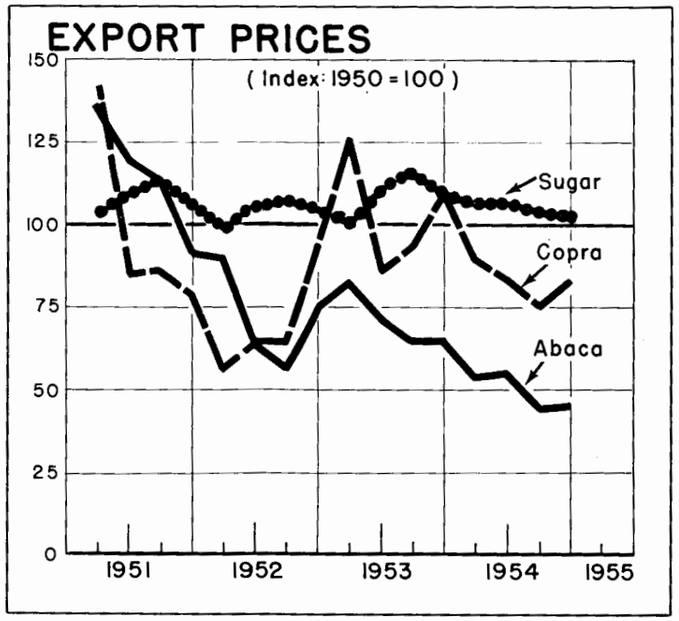
PHILIPPINES

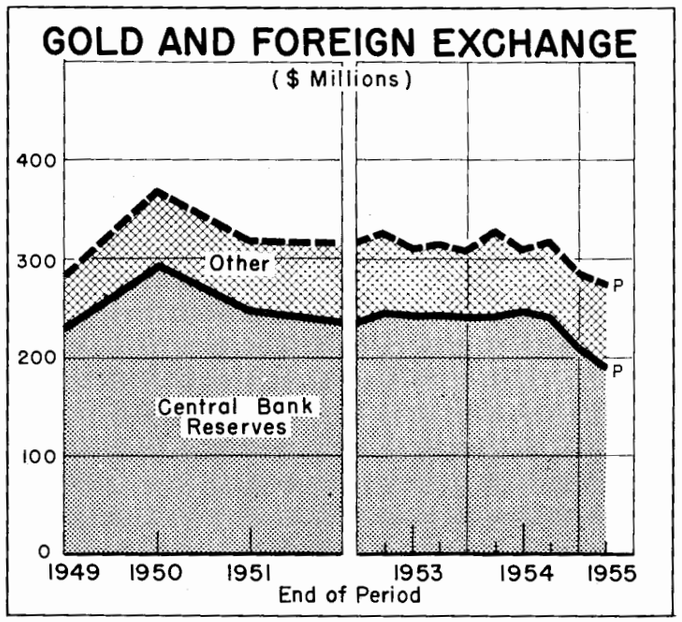












P - Preliminary

ASIA

Country: PHILIPPINES

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	Program FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	-	3,500	2,300
Defense Support	14,450	18,400	19,700
Technical Cooperation	-	7,250	6,500
Total Country Program Other Than Military Assistance	14,450	29,150	28,500
MSP Sales Surplus Agricultural Commodities			
Sales to Philippines	-	-	5,000
Sales Proceeds Programmed in Philippines	-	-	5,000

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

The Republic of the Philippines, already a principal link in the Far East defense perimeter, is becoming an increasingly important element in Free World collective defense arrangements. As a leading democratic, non-Communist Asian country, the Philippines also is demonstrating how Asians can achieve economic and political aspirations as free world members with economic and political approaches relying principally on individual enterprise. To an increasing degree, the Philippines will be able to demonstrate to other countries in Asia the benefits of its experience in continued development toward stable democratic government. With internal economic strength and stability it will have greater capacity to contribute to the mutual defense effort and to improve the economic opportunities and conditions of the Philippine people.

The past year has been marked by relative stability in the Philippines, with significant advances in agriculture, health and education, but without notable improvement in the overall economic situation upon which continued political stability depends.

The hopes of the Philippine people have been raised by their continued faith in President Magsaysay's pledged determination to improve their welfare through a vigorous domestic program encompassing strengthened national security, continued improvement of health, education, and welfare conditions, more effective public administration, improvement of rural conditions, and encouragement of industrial development and of free unionism under responsible leadership. Should these hopes be disappointed,

General Narrative Statement (Continued)

disillusionment and skepticism regarding the ability of a country to achieve economic progress under a democratic government would result.

There still is substantial progress to be made toward eliminating the basic long-run weaknesses of the Philippine economy: extensive unemployment and under-employment; vulnerability of foreign exchange income. Marked deterioration in the balance of payments occurred during the last quarter of calendar 1954 and continued into the first quarter of 1955. This was due to shipping shortages as well as falling export prices. Toward the end of that quarter, foreign exchange reserves had fallen to about $265 million - the lowest level since the economic crisis of 1949.

A Philippine Government budget deficit of $42 million is expected in FY 1955, and an even larger deficit is anticipated in FY 1956.

The Philippines is faced with the following major problems affecting interests and objectives mutually shared in the present situation with the United States:

(1) Some reorganization and strengthening of the Philippine Army is necessary to meet more effectively the new responsibilities and requirements arising from the country's role in the Southeast Asian defense arrangements.

(2) Threats to internal stability still exist in remnants of the Huk resistance, despite President Magsaysay's personal popularity and his success in reducing Communist pressure.

(3) Normal Philippine foreign exchange earnings and government revenues are inadequate to meet defense costs, while the country is pressing forward with developmental activities. Government borrowings from non-inflationary sources are not sufficient to make up these deficiencies.

(4) Shortages of trained personnel and inadequate government organization inhibit economic progress and imperil public confidence in democratic processes.

The Mutual Security Program is directed toward the solution of specific aspects of these problems, which can be attacked through cooperative efforts of the Philippines and the United States.

Program Objectives

The broad objectives of the Mutual Security Program in the Philippines are:

(1) To help reorganize and strengthen the armed forces of the Philippines to enable them to maintain internal security, eliminate all effective Huk forces, and increase their capabilities for defense against external aggression.

(2) To help increase the nation's economic capacity to support an expanded defense effort and concurrently achieve a higher rate of productive investment.

(3) To strengthen internal political and social stability by improving the practice of democratic government.

(4) To prevent decreased foreign exchange income and increased defense expenditures from causing a loss of momentum in achieving economic, political and social stability.

Within these broad objectives, the MSP program is concentrated on the following specific goals:

(1) To encourage reorganization and strengthening of the Philippine Army by provision of materiel and training and, to the extent necessary, direct financial support.

(2) To foster diversification and expansion of agricultural production, encourage more extensive extraction and use of raw material resources, and stimulate private investment in productive industrial enterprise.

General Narrative Statement (Continued)

(3) To improve technical training facilities, help increase the effectiveness of government operations, and encourage the expansion of essential government services.

(4) To help improve rural living conditions by cooperating in President Magsaysay's health, education and community development programs.

(5) To assist in Philippine Government efforts to expand public revenues and to increase and conserve earnings of foreign exchange.

Progress to Date

Military Assistance

The Philippine armed forces have shown definite and steady improvement since the beginning of the Mutual Defense Assistance Program. Such assistance to date has provided major items of equipment for the Philippine Army; surface vessels and aircraft, together with equipment for modernization of both MDAP and non-MDAP ships in the possession of the Philippine Navy; and F-51, C-47, H-19, and L-5 aircraft for the Philippine Air Force.

MDAP trained personnel are being placed as instructors in service schools and in key positions requiring technical knowledge. This upgrading of personnel, together with proper use of mobile training teams, has materially increased the ability of the armed forces to utilize more effectively available equipment.

MDAP deliveries have been in phase with the country programs and schedules for activation, organization, and training of units. Equipment furnished under the grant assistance program is being properly utilized.

Until recently employment of all major Philippine combat units in the anti-dissident campaign has handicapped organized and continuous training. Through the experience gained in the anti-dissident campaign, however, the Army is considered capable of coping with any internal military threat to the security of the country. The Philippine Government is now moving ahead, with U. S. assistance, to reorganize its armed forces into divisions. The Philippine Air Force and Navy, although small, are developing into a well-trained combatant force.

Defense Support and Other Programs

Since the inception in April 1951 of U. S. assistance to the Philippines, about $100 million has been made available for Technical Cooperation and Defense Support activities, and an additional $9.5 million (in FY 1955) for barracks and other items for the Philippine armed forces. Activities undertaken with these funds have been directed toward establishing a sound base for implementation of the Philippine Government's five-year development plan.

The following accomplishments are illustrative of the specific benefits derived from the more important parts of these programs to date.

Increased Agricultural and Industrial Production: Rice production rose from 2.8 million tons in 1951/52 to 3.1 million tons in 1954/55, and significant production increases also occurred in corn, sugar, and other crops. Irrigation and agricultural extension projects have contributed to this increase. In the last two years approximately 70 pump irrigation systems, serving 50,000 acres, were installed with U. S. assistance; and 31 agricultural schools were equipped with essential tools, supplemented by the necessary technical assistance. Over 200 cooperatives, with a membership of more than 105,000, have been established and the equivalent of nearly $10 million has been loaned to farmers for crop and farm improvement.

To encourage increased utilization of Philippine natural resources, technical advice has been provided for geological and mineral surveys of deposits of strategic materials, including copper, coal, iron ore, manganese, molybdenum, lead, zinc and nickel. These exploratory surveys are preparatory to actual development by private enterprise.

To stimulate private investment, an Industrial Development Center has been established to provide technical advisory

General Narrative Statement (Continued)

services to prospective investors. To help overcome the shortage of credit needed to encourage small and medium-size industrial undertakings, a Loan and Guarantee Fund has been established to supply the peso financing and a $5 million Industrial Fund to provide foreign exchange for the importation of essential equipment. Applications for assistance in establishing industrial enterprises under these arrangements have already reached $11 million, and commercial credit in this field has been expanded.

Improved Training Facilities and Government Operations: Various technical facilities at the University of the Philippines are being upgraded and government operations in important areas substantially improved through professional advice, largely under contractual arrangements, financed with U. S. aid funds. Under contracts with four American universities, (Stanford, Connecticut, Michigan, and and Cornell) technical assistance is being provided to the College of Agriculture at Los Banos, the Institute of Public Administration, the Labor Education Center, and the faculties of business administration, engineering and education at the University of the Philippines. Under four additional contracts with U. S. private firms, the U. S. is meeting the dollar costs of assistance to the Philippine Government in streamlining operations of the Bureau of Lands; generally modernizing budgeting, accounting and auditing procedures; helping to complete a wage and position classification survey; and assisting in a survey of operations of the Executive Branch of the Government.

Improved Rural Living Conditions: U. S. assistance has provided substantial stimulus to President Magsaysay's Barrio (village) Self-Help Program - a nationwide effort to extend the benefits of the country's development activities to hitherto neglected farm families. About 1800 barrio councils, representing approximately 300,000 farmers, have been organized and a number of rural community organizations established. Philippine 4-H Clubs already have about 50,000 members.

Health services have been improved through the establishment of rural health units and the rehabilitation of provincial hospitals. Through the activities of specially trained teams, malaria may be eliminated as a serious health menace by 1957. The prevalence of water-borne diseases has been reduced by U. S. provision of pumps and equipment for the drilling of deep wells to provide potable water.

Rural communities have been brought into closer touch with urban centers and new lands, particularly in Mindanao, have been opened up for settlement through the improvement and construction of nearly 1,000 kilometers of roadways and over 70 bridges. Selected farm tenants and workers are being assisted to transfer to these new areas from crowded high-tenancy sections, including many former Huk territories. This program of "land for the landless" has been facilitated by reorganization of the Bureau of Public Lands. In the first nine months of the current fiscal year, as many public land patents were issued as in the entire 1951-54 period.

The FY 1956 Program

The recommended level for assistance in FY 1956 exclusive of military end-items is $28.5 million, distributed as follows: $2.3 million for Direct Forces Support, $19.7 million for Defense Support, and $6.5 million for Technical Cooperation. The magnitude of aid and the distribution of funds among these functional categories have been determined on the basis of requirements and proven capacity of the Philippines to implement an integrated program of this size.

After four years, progress achieved with assistance from the U. S. has reached the point where emphasis can be shifted from problems of immediate social unrest and political instability to those related to basic economic development, upon which the Philippines must rely for the solution of its fundamental, longer-term problems. Unemployment and underemployment, particularly in urban areas, and vulnerability of foreign exchange income to world prices of its exports are the

General Narrative Statement (Continued)

most important of these problems. The Philippine Government plans to attack them through diversification of the economy and industrial expansion. Existing or potentially favorable factors are: relative internal security, undeveloped natural resources, expanding power supply, an increasing reservoir of trained or trainable labor, and initiative in private enterprise. The timing also is propitious since, under existing slightly deflationary conditions in the Philippine economy, a substantial investment program could be undertaken with a minimum of financial disturbance.

A program based on these favorable conditions can demonstrate to Asians how an Asian nation can, through democratic procedures and in cooperation with the United States, raise itself to a higher standard of living and to a position of greatly increased political and military security.

Of the $19.7 million requested for Defense Support in FY 1956, $4.7 million is intended to provide local currency support of the military effort from counterpart funds generated by saleable commodity imports. The balance is programmed in part for continuation of projects of proven value begun in earlier years, and in part to provide a further stimulus to private industrial investment by expansion of the program initiated in FY 1955. The significant feature of this program is that it supplements foreign exchange available for imports of industrial equipment and at the same time stimulates the expansion of local commercial credit.

The $2.3 million of Direct Forces Support recommended for FY 1956 is to be utilized for imports needed to expand military facilities.

The Technical Cooperation Program proposed for FY 1956, amounting to $6.5 million as compared with $7.3 million in FY 1955, provides principally for continued support of projects initiated in prior years for which dollar financing is still required. These funds provide a minimum of supplies and equipment for demonstration and instruction, technical services, and contractual costs for projects in public administration, agriculture, industry and mining, and education.

Philippine Government Contribution to Mutual Objectives

Contributions by the Philippine Government to U. S. assisted and related projects in the non-military field amounted to the equivalent of $47.5 million in 1954, and are expected to reach the equivalent of $71.5 million in 1955, or about two and a half times the assistance being provided by the United States.

In addition to this financial contribution, the Philippine Government has instituted legislative and administrative reforms to improve government services and operations, and to encourage private investment. The operations of several key government offices, including the Bureau of Lands, Budget Commission, Department of Finance, and Bureau of Internal Revenue have been reorganized and modernized. Bills liberalizing foreign investment regulations and revising the Retail Trade Nationalization Law (to relieve restrictive provisions on commercial activities of aliens) have been introduced in the Philippine Congress.

A significant Philippine contribution to the U. S. policy of fostering regional cooperation has been the increasingly important role assumed by the Philippines as a center of technical training for other Far Eastern countries. In FY 1955, nearly 300 participants from other Southeast Asian countries received training in various Philippine educational institutions, and an Agricultural Extension Workshop, held in Manila in February 1955, was attended by 39 representatives of several Asian countries, including Japan, Nationalist China, Thailand, Indonesia, Viet Nam, and the Republic of Korea.

INDIVIDUAL COUNTRY DATA

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import of Saleable Commodities	Common Use Items	Other Costs
Direct Forces Support													
1954													
1955	3,500											3,500	
1956	2,300											2,300	
Defense Support													
1954	14,450	3,821	37	4,970	346	1,393	2,456	1,681	(10)	(135)	(109)		
1955	18,400	2,625	910	3,865							11,000		
1956	19,700	2,650	400	3,300		1,650					11,700		
Technical Cooperation													
1954													
1955	7,250	1,490	315	120	245	1,770	1,690	1,620					
1956	6,500	1,195	1,745	285	195	525	1,190	1,350	15				
Total All Programs													
1954	14,450	3,821	37	4,970	346	1,393	2,456	1,681	(10)	(135)	(109)		
1955	29,150	4,115	1,225	3,985	245	1,770	1,690	1,620			11,000	3,500	
1956	28,500	3,845	2,145	3,585	195	2,175	1,190	1,350	15		11,700	2,300	

() Net deobligation during FY 1955 applicable to prior fiscal years' obligations.

ASIA

INDIVIDUAL COUNTRY DATA

Country: PHILLIPPINES

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U. S. Cost	Supplies and Equipment	U.S.Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954									
1955	3,500	3,500							
1956	2,300	2,300							
Defense Support									
1954	14,450	9,443	89	1,502	48	1,977	366	1,528	
1955	18,400	18,400							
1956	19,700	19,700							
Technical Cooperation									
1954									
1955	7,250	2,960	136	1,290	61	1,665	333	1,335	
1956	6,500	1,630	126	2,095	82	1,665	296	1,110	
Total All Programs									
1954	14,450	9,443	89	1,502	48	1,977	366	1,528	
1955	29,150	24,860	136	1,290	61	1,665	333	1,335	
1956	28,500	23,630	126	2,095	82	1,665	296	1,110	

ASIA

Country: PHILIPPINES

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support: For Project Utilization	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Direct Forces Support	FY 1955 Total	FY 1956 Defense Support: For Project Utilization	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains							3,000		3,000
Dairy Products							2,000		2,000
Total Food & Agricultural Imports							5,000		5,000 a/
Less Sales Proceeds Programmed for Other Countries									
Net U.S. Financed Food and Agr. Imports							5,000		5,000
Industrial Imports									
Fuel									
Raw and Semi-Finished Products	2,895	1,100		3,500	4,600	2,050		2,300	4,350
Machinery and Vehicles	4,925	5,535	11,000		16,535	4,560	6,700		11,260
Miscellaneous and Unclassified	1,623	765			765	1,390			1,390
Total Industrial Imports	9,443	7,400	11,000	3,500	21,900	8,000	6,700	2,300	17,000
Less Sales Proceeds for Coal Programmed for Other Countries									
Net U.S. Financed Industrial Imports	9,443	7,400	11,000	3,500	21,900	8,000	6,700	2,300	17,000
Total Commodity Program	9,443	7,400	11,000	3,500	21,900	8,000	11,700	2,300	22,000
Services	5,007								
Total Country Program	14,450	7,400	11,000	3,500	21,900	8,000	11,700	2,300	22,000

a/ Programmed for surplus agricultural imports.

THAILAND

BASIC DATA

Population (1954)..... millions	20
Annual growth.....percent	1.9
Area.....1,000 square miles	198
Agricultural land.....percent	15
Agricultural land per capita.....acres	1.0

	Thai-land	Asian Arc	U.S.
Caloric intake	2,190	2,035	3,120
% grains & starches ..	62	79	29
Literacy rate...percent	50	32	97
Life expectancy...years	49	35	68
Road miles per 1,000 sq. mi	20	220	1,100
Elec. power per capita ..... KWH per year	8	117	3,165

USE OF RESOURCES - 1954

Gross national product (million U.S. dollars).....	$1,795	%
Consumption	1,495	83
Gross investment (public and private)	175	10
Government non-defense expenditure	100	6
Government defense expenditure	92	5
Net foreign balance	-67	-4
Per capita GNP (dollars)	$90	

(FOA estimates; converted at 20 baht per $)

TRADE AND PAYMENTS

	1938	1951	1952	1953	1954 *
		(millions of US $)			
Exports, f.o.b.	89	396 E	355 E	327 E	280 E
Imports, c.i.f.	57	276 E	341 E	337 E	310 E
Trade balance	32	120	14	-10	-30
Principal exports					
Rice .....Quantity....1,000 MT	1,328 a	1,555	1,428	1,336	1,004
Value.....$ millions	38 a	198 E	236 E	233 E	145 E
Rubber .....Quantity....1,000 MT	41 a	111	99	97	119
Value.....$ millions	11 a	124 E	58 E	42 E	51 E
Trade with U.S. (U.S. Customs data)					
Exports to U.S.	0.3	137	99	70	54
Imports from U.S.	3.3	50	58	57	43
Balance	-3.0	87	41	13	11
Balance of payments					
Balance on goods & services		83 E	-21 E	-58 E	-67 E
Net capital		-66	50	15	50
Private (incl. errors and omissions)...		-2 E	-13 E	2 E	42 E
Official and banking		-64	63	13	8
Government grants		-1	4	5	4
Long-term capital		-63	59	11	4
Short-term capital		--	--	-3	--
Change in gold & exchange reserves.....		+17	+29	-43	-17
Gold and foreign exchange reserves b.....	55	359	352	302	273

PRODUCTION

	Unit	1938	1951	1952	1953	1954*
Agricultural production d.....	1935-39=100	100 e	178	162	192	171
Major crops:						
Rice, rough d	1,000 MT	4,349 e	7,325	6,602	8,200	7,030
Rubber f	1,000 MT	41 a	111	99	97	119
Major industries:						
Tin concentrates (metal content)	1,000 MT	15	10	10	10	10

FINANCES

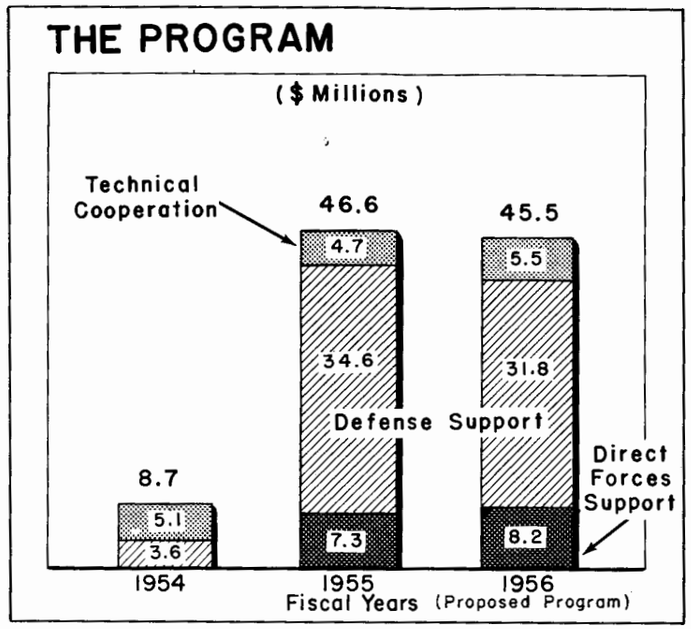
	1951	1952	1953	1954	1955
		(millions of US $)			
Central government budget					
Revenue, excl. counterpart.....	123	167	207 g	244 g	
Expenditure	163	218	289	251	
Defense	39	68	94	92	
Capital outlay	43	52	55	66	
Other non-defense	81	98	140	93	
Surplus or deficit (-) before counterpart	-40	-51	-82	-7	
Counterpart funds	--	2	3	6	
Surplus or deficit (-) after counterpart	-40	-49	-79	-1	
As % of total revenue	-33%	-29%	-38%	-0.4%	
Defense expend. as % of budget	24%	31%	32%	37%	n.a.
Defense expend. as % of GNP	3%	4%	5%	5%	n.a.
Prices (index 1948 = 100)					
Wholesale: Bangkok	104	109	103	99	104(Jan)
Cost of living: Bangkok	110	123	135	134	

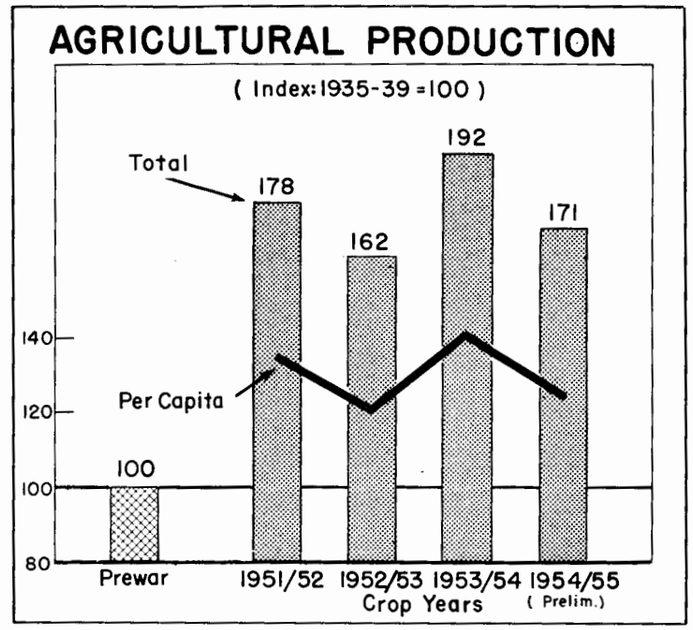
EXTERNAL RESOURCES

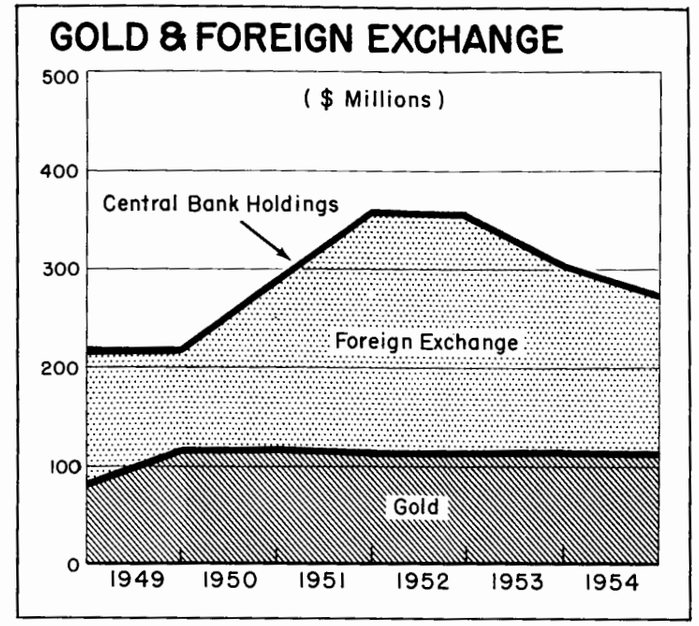
	1950	1951	1952	1953	1954	Program 1955	Program 1956
			(millions of US $)				
FOA obligations (fiscal years).....	--	8.9	7.2	6.5	8.7	46.6	45.5
			(calendar years)				
EX-IM Bank disbursements.....	--	1	--	--	--		
IBRD disbursements.....	--	4	9	8	2 c		

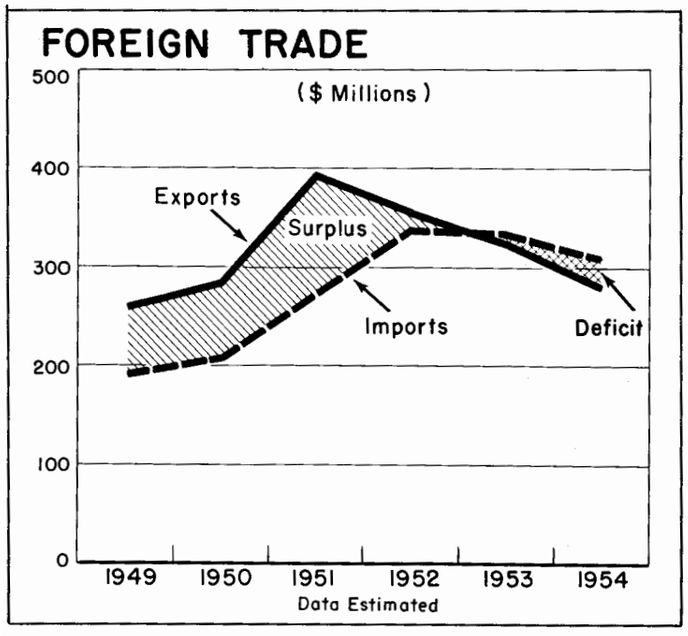
* 1954 data partly preliminary or estimated.
a Average 1937-38.
b Central Bank only.
c Undisbursed balance as of 12/31/54 - $3 million.
E - Estimate
d Crop year beginning in year stated.
e Prewar average.
f Exports.
g Includes withdrawals of extraordinary proceeds from the currency profit account - $10 million in 1953 and $36 million in 1954.

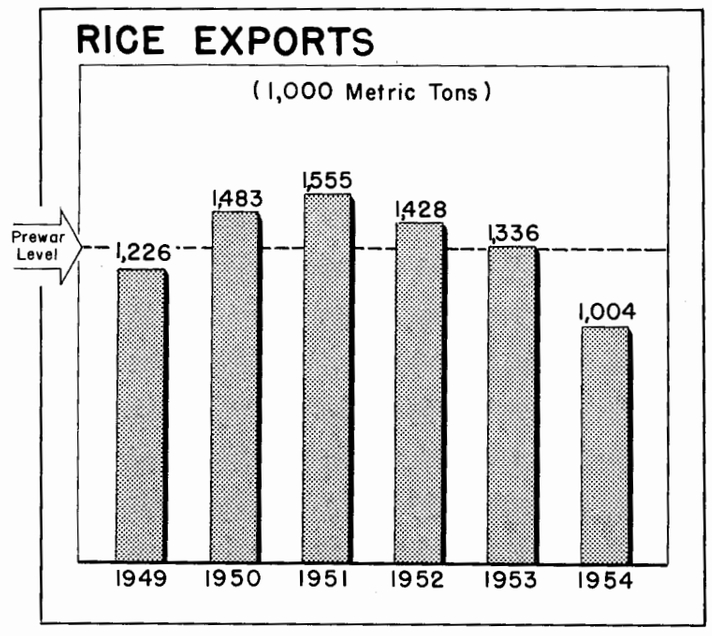
THAILAND

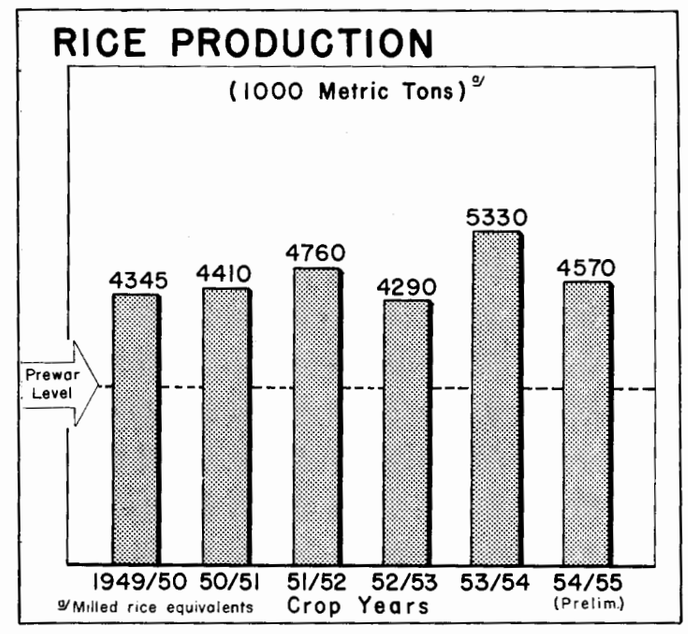

THE PROGRAM
($ Millions)
Technical Cooperation
46.6
45.5
4.7
5.5
34.6
31.8
Defense Support
Direct Forces Support
8.7
5.1
3.6
7.3
8.2
1954
1955
1956
Fiscal Years (Proposed Program)


AGRICULTURAL PRODUCTION
(Index: 1935-39 = 100)
Total
178
162
192
171
140
120
100
80
Per Capita
100
Prewar
1951/52
1952/53
1953/54
1954/55
Crop Years
(Prelim.)


GOLD & FOREIGN EXCHANGE
($ Millions)
500
400
300
200
100
0
Central Bank Holdings
Foreign Exchange
Gold
1949
1950
1951
1952
1953
1954


FOREIGN TRADE
($ Millions)
500
400
300
200
100
0
Exports
Surplus
Imports
Deficit
1949
1950
1951
1952
1953
1954
Data Estimated


RICE EXPORTS
(1,000 Metric Tons)
Prewar Level
1,226
1,483
1,555
1,428
1,336
1,004
1949
1950
1951
1952
1953
1954


RICE PRODUCTION
(1000 Metric Tons) a/
Prewar Level
4345
4410
4760
4290
5330
4570
1949/50
50/51
51/52
52/53
53/54
54/55
(Prelim.)
a/ Milled rice equivalents
Crop Years

ASIA

Country: THAILAND

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	-	7,260	8,200
Defense Support	3,580	34,640	31,800
Technical Cooperation	5,154a/	4,650	5,500
Total Country Program Other Than Military Assistance	8,734	46,550	45,500

a/ Data included in separate submission on Military Assistance.

General Narrative Statement

Current Situation

Situated at the heart of Southeast Asia, Thailand occupies a stragetic position in the free world struggle with Communism. It is also economically important to the free world as one of the world's principal exporters of rice and as a producer of tin and rubber.

With the recent expansion of Communist influence in Viet Nam, Cambodia and Laos, Thailand is emerging as a frontier of resistance to the Communist conquest of Southeast Asia. Its assumption of increased international responsibilities under the Manila Pact is further evidence of its importance. If Thailand should succumb to internal subversive Communist pressures, the danger to the whole of Southeast Asia would be greatly increased.

Free world strength also will be enhanced if Thailand, as an Asian nation, continues to demonstrate to Asians the benefits of participation in the free world family of nations.

The partition of Viet Nam has had a profound effect on the thinking of the Thai, creating in their view increased uncertainty as to the political future of Laos and Cambodia with which Thailand shares more than 1,000 miles of common border.

Since the Geneva truce the Communists have substantially accelerated their campaign to subvert the peoples of Northeast Thailand. There remain in these provinces some 50,000 Vietnamese refugees, practically all of whom openly support Ho Chi Minh. In the background looms the recently-publicized Chinese Communist efforts to bring into a so-called Greater Thai Autonomous State most of the provinces of Thialand, together with Laos and the Shan States of Burma.

General Narrative Statement (Continued)

Thailand's firm orientation to the free world, long evidenced by its participation in the United Nations action in Korea, has been further demonstrated by its charter membership in the recent Manila Pact, its host role to the first Manila Pact meeting, and by its willingness to cooperate openly with the free world in opposition to Communism in other important matters.

Thailand suffers from the conventional ills of a poorly-developed, one-crop, raw materials economy. Approximately 85 percent of the population is engaged in agriculture, forestry and fisheries, mostly in rice growing. Rice yields are about one-third as high as in Japan.

The depressed world market price for rice and the accumulation of large rice surpluses have had a depressing effect on the entire Thai economy. The country's international payments position changed from a surplus of $81 million in 1951 to a deficit of approximately $25 million in 1954; Central Bank gold and foreign exchange holdings declined from $352 million in 1952 to $273 million in 1954.

Thai defense expenditures, which in the 1954 budget were more than double those of 1950, are placing increasing strain on Thai financial resources and causing reductions in appropriations for essential public services.

Measures taken to correct Thailand's unfavorable balance of payments have aggravated the budgetary problem. Liberalization of rice export controls to facilitate competition in the decling world market is expected to reduce government income from this important source by more than 55 percent.

The Thai economic situation is seriously weakened at a time when more substantial resources than ever before are required to support a military build-up and to fight a cold war with economic and psychological measures.

Internal security and defense considerations require the maintenance and modernization of large military and police forces which the Thai budget cannot sustain without cutbacks in the civilian sector.

Inadequate transportation and communications are serious handicaps to trade and development, and to the conduct of defense, both internally and in mainland Southeast Asia.

Because of the general inadequacy of basic governmental services and the lack of significant progress toward improved standards of living, many of the Thai people are vulnerable to Communist subversion. The risks inherent in this situation are of particular concern in the relatively isolated and economically depressed Northeast provinces bordering on Laos.

Lack of modern organization, procedures and training within the Thai Government, especially in planning and in fiscal management, leads to under-utilization of Thailand's own economic and natural resources. Severe shortages of skilled and technically trained personnel further impede proper utilization and development of Thailand's resources.

Poor agricultural yields, low industrial productivity, and lack of diversification handicap economic growth. Present marketing practices, especially poor quality control, hamper the competition of Thai exports in world markets.

Program Objectives

The Mutual Security Program objectives support the overall U.S. objective to strengthen Thailand's position as a center of non-Communist influence in Southeast Asia and a bulwark against further Communist expansion in that area. They are:

(1) To assist in supporting a level of Thai military and police forces adequate to maintain internal security and cope with border incursions.

General Narrative Statement (Continued)

(2) To aid in strengthening the Thai economy in order to help maintain political stability.

(3) To promote closer ties between Thailand and the other anti-Communistic countries of Asia.

The specific means being employed to accomplish these objectives are to provide military end-items and training for the Thai armed forces, and further assist the Thai Government to:

(1) Meet the non-military needs of its security forces and construct essential military installations and facilities.

(2) Develop essential communication and transportation services, especially facilities in the Northeastern provinces and services connecting Thailand with Laos and Cambodia.

(3) Increase the scope and effectiveness of essential governmental services to the people.

(4) Improve the budgetary and fiscal activities of the government and its planning and management of developmental projects.

(5) Expand and diversify production, improve marketing and distribution facilities, and facilitate increased private investment in productive enterprises.

(6) Engage in joint planning with the governments of Laos, Cambodia, and Viet Nam for the Development of regional projects of Mutual interest.

Progress to Date

Military Assistance

At the inception of the MDA Program, the Thai Armed Forces had a limited capability. They were equipped with a collection of varied and obsolete arms and equipment procured from diverse sources. Since the beginning of MDAP, these forces have been modernized and their equipment generally standardized. While not capable of repelling a full-scale invasion, the Thai forces can now provide internal security and act as a deterrent to outside aggression.

The Thai Army has been strengthened by deliveries of modern types of equipment and by a training program for army personnel, including study in the United States. Activities of the U.S. military mission in Thailand currently are stressing the training and development of Thai junior and non-commissioned officers and the improvement of local technical skills for armaments, operations and maintenance.

When the U.S. MAAG was established in the fall of 1950, the Royal Thai Air Force possessed virtually no combat capability. It was equipped with obsolescent aircraft, and pilots and support personnel lacked adequate training in the use of modern equipment and tactics. With intensive training, however, they are becoming increasingly proficient in the maintenance and use of aircraft. Though still a small service, the Thai Air Force now has a real combat potential.

The MDA program has assisted the Royal Thai Navy by provision of a limited number of small craft and equipment for modernization of existing vessels. Although lack of training has been a major limiting factor, the U.S. is currently assisting in the development of a new training program for naval personnel.

Defense Support & Other Programs

During the fiscal years 1951-54 U.S. assistance to Thailand exclusive of military end-items totaled $31.2 million - $28.7 million for Technical Cooperation and the remaining $3.6 million for Defense Support.

General Narrative Statement (Continued)

Early in FY 1955 it became apparent that budgetary limitations were seriously impeding the Thai Government's ability to maintain adequate defense forces and at the same time provide adequately for essential government services and minimum investment needs. In recognition of Thailand's more vulnerable economic situation and the urgent need to accelerate defense activities, the FY 1955 U.S. aid program was recently expanded to provide $7.3 million for direct forces support and $34.6 million for defense support, in addition to the $4.7 million originally programmed for technical cooperation.

The following illustrates the activities undertaken and the progress achieved in the important segments of the U.S. aid program.

Supplies and Installations for Military Forces: The $7.3 million for direct forces support will make it possible to increase the effectiveness of the armed forces by providing gasoline for military training and operations, field hospital equipment, uniforms and field equipment for the troops. With additional funds made available from the Department of Defense, several existing airfields and a naval base will be improved and expanded, and a new military training center constructed.

Communication and Transportation Services: To facilitate access from Central Thailand to the relatively isolated and politically vulnerable Northeast, a highway is being built with funds provided in FY 1954 and supplemented in FY 1955. Selective improvement of key portions of the existing highway system is also to be undertaken, especially of roads leading to the Laotian and Cambodian borders. In addition, equipment and engineering assistance will be provided for: a rail extension from Udorn to the Mekong River at a point a few miles below Vientiane, the capital of Laos; a telecommunications survey to plan a modern system for linking key cities now without effective means of communication; and a program for improving operations of the Thai Airways, a vital link in the transportation system serving upcountry Thailand and mainland Southeast Asia.

Government Services: Activities undertaken with Technical Cooperation funds are helping make substantial improvements in Thai public services. Such activities include: agricultural extension, rural health improvement, malaria control, teacher training, livestock improvement, rice seed improvement through plant breeding, and vocational education. Since inception of this program, over 700 technicians, mostly Thai Government employees, have been brought to the United States for technical training. Educational facilities throughout the Thailand benefit from a contract between the University of Indiana and the Thai Teacher Training College for improving teacher training.

Budget and Fiscal Activities: The Thai system of revenue collection is being improved under a technical assistance contract. Another contract is to provide additional assistance to help modernize budgetary procedures and improve fiscal management throughout The Thai Government. Improvements such as these are expected to result in improved mobilization of Thailand's domestic financial resources for productive economic undertakings and support of its defense forces.

Improved Production and Marketing: Technical cooperation activities contribute to the expansion and diversification of production. For example, a livestock project has improved marketing techniques and expanded export sales of meat and of livestock. Crop diversification is being encouraged through the introduction of new and improved forage crops. Fertilizer trials and demonstrations show promise of doubling and tripling crop yields on certain soils. Tank irrigation projects are expected to provide water for almost 300,000 acres in the semi-arid Northeast. The eradication of malaria in several North Central provinces greatly increases the productivity of the population in those areas. The Bangkok Technical Institute is helping develop skilled artisans needed to increase productivity in the industrial sector of the economy.

General Narrative Statement (Continued)

Regional Projects: To strengthen regional ties and promote planning on a regional basis, technical exchanges have been arranged between Thailand and the new governments in Laos and Cambodia. Technicians from Laos and Cambodia are being brought to Thailand for practical training. Several projects, notably those concerned with rinderpest and malaria control, and improvement of highways, railways, airways and telecommunications, are being considered on a regional basis. A cooperative survey of the development potentialities of the Mekong River will be jointly sponsored, with U.S. assistance, by Thailand, Laos, Cambodia and Viet Nam.

The FY 1956 Program

Exclusive of military end-items, total assistance of $45.5 million is proposed for Thailand in FY 1956 - $8.2 million for Direct Forces Support, $31.8 million for Defense Support, and $5.5 million for Technical Cooperation.

As in FY 1955, primary emphasis will be given to strengthening defense facilities and improving transportation and communications services important to economic growth and to mobility of the defense forces. Regional cooperation will be stressed and relatively greater emphasis given to marketing, and credit; vocational education; and public administration, including fiscal management. Private trade and investment ties between U.S. and Thai business interests, and diversification of the Thai economy, are to be encouraged by a new project being developed to improve and expand secondary exports.

Assistance for direct forces support will help to provide essential supplies, such as petroleum products; and to construct key military installations and facilities, including improvements at airfields, ports, and military training centers, and vehicle and aircraft engine rebuild plants.

Of the $31.8 million proposed for defense support, about $22.7 million will be required to finance the local currency costs of forces support and defense support projects, which cannot be met from the Thai Government's budget. The local currency will be generated through sale in the local market of U.S.-financed imports of essential commodities.

The total of $45.5 million recommended for FY 1956 will enable Thailand to continue to undertake activities essential to defense and economic growth. Without such aid, military support activities would have to be severely curtailed in order to avoid increasing inflationary pressures which would seriously impair the stability of the Thai economy.

Thai Government Efforts and Progress: The Thai Government has moved aggressively to solve several of its most pressing problems. Perhaps most significant is its large increase in defense expenditures since 1950 to expand and modernize its military and police forces.

To alleviate some of the country's economic ills, it has established drastic import controls, restricted the use of preferential rates of exchange, and greatly liberalized rice export regulations. A much larger budget deficit has been avoided by substantial curtailment of its developmental expenditures. The Thai Government has already utilized most of a $25 million IBRD loan and has been actively negotiating for additional loans to finance essential development projects.

On the psychological front, the government is conducting a large-scale anti-Communist campaign among national and provincial officials who, in turn, are conducting a similar program for the general population through such media as films, printed material and lectures.

To improve the climate for foreign investment the Thai Government recently enacted the Industry Promotion Act, signed an investment guaranty agreement with the United States, and is sending high officials abroad in an effort to stimulate outside investments.

INDIVIDUAL COUNTRY DATA

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	General and Misc.	Import of Saleable Commodities	Common Use Items
Direct Forces Support											
1954											
1955	7,260										7,260
1956	8,200										8,200
Defense Support											
1954	3,580			3,580							
1955	34,640	40	650	8,905		305				24,740	
1956	31,800		4,125	4,575		200	200			22,700	
Technical Cooperation											
1954	5,154	1,640	145	201	15	2,060	963	85	45		
1955	4,650	915	330	435	30	1,075	1,315	425	125		
1956	5,500	1,535	345	495	50	1,075	1,650	260	90		
Total All Programs											
1954	8,734	1,640	145	3,781	15	2,060	963	85	45		
1955	46,550	955	980	9,340	30	1,380	1,315	425	125	24,740	7,260
1956	45,500	1,535	4,470	5,070	50	1,275	1,850	260	90	22,700	8,200

ASIA

Country: THAILAND

INDIVIDUAL COUNTRY DATA

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954									
1955	7,260	7,260							
1956	8,200	8,200							
Defense Support									
1954	3,580	3,030				550			
1955	34,640	30,200	10	90	85	4,350			
1956	31,800	29,650	15	205	190	1,945			
Technical Cooperation									
1954	5,154	2,418	58	957	2	520	267	1,259	
1955	4,650	1,270	81	1,050	20	1,085	252	1,245	
1956	5,500	1,275	101	1,380	56	1,520	295	1,325	
Total All Programs									
1954	8,734	5,448	58	957	2	1,070	267	1,259	
1955	46,550	38,730	91	1,140	105	5,435	252	1,245	
1956	45,500	39,125	116	1,585	246	3,465	295	1,325	

ASIA

INDIVIDUAL COUNTRY DATA (EXCLUDING MILITARY ASSISTANCE AND TECHNICAL COOPERATION)

Country: THAILAND

Summary of Commodity Imports and Services

(In thousands of dollars)

Illustrative Composition of Country Program	Actual FY 1954	FY 1955 Defense Support: For Project Utilization	FY 1955 Defense Support: For Consumption and Generating Local Currency	FY 1955 Defense Support: Direct Forces Support	FY 1955 Total	FY 1956 Defense Support: For Project Utilization	FY 1956 Defense Support: For Consumption and Generating Local Currency	FY 1956 Defense Support: Direct Forces Support	FY 1956 Total
Commodities									
Food and Agricultural Imports									
Bread Grains									
Coarse Grains									
Fats and Oils									
Fertilizer									
Total Food and Agricultural Imports									
Less Sales Proceeds Programmed for Other Countries									
Net U. S. Financed Food and Agr. Imports									
Industrial Imports									
Fuel			8,900	1,800	10,700		7,795	2,400	10,195
Raw and Semi-Finished Products		50	5,460	645	6,155		5,075	615	5,690
Machinery and Vehicles	2,959	2,795	7,750	730	11,275	6,250	7,345	1,930	15,525
Miscellaneous and Unclassified	71	2,615	2,630	4,085	9,330	700	2,485	3,255	6,440
Total Industrial Imports	3,030	5,460	24,740	7,260	37,460	6,950	22,700	8,200	37,850
Less Sales Proceeds for Coal Programmed for Other Countries									
Net U. S. Financed Industrial Imports	3,030	5,460	24,740	7,260	37,460	6,950	22,700	8,200	37,850
Total Commodity Program	3,030	5,460	24,740	7,260	37,460	6,950	22,700	8,200	37,850
Transfer of Cash									
Services	550	4,440			4,440	2,150			2,150
Total Country Program	3,580	9,900	24,740	7,260	41,900	9,100	22,700	8,200	40,000

CAMBODIA—LAOS—VIETNAM

BASIC DATA

	Total	Cambodia	Laos	South Vietnam
Population (1954)..... millions	16.5	4.0	1.5	11.0
Area .....1,000 square miles	224	67	91	66
Agricultural land.....percent	n.a.	20	8	n.a.
Agricultural land per capita .....acres	n.a.	2.2	3.2	n.a.

	Cambodia Laos & Vietnam	Asian Arc	U.S.
GNP per capita	88	105	2,200
Caloric intake	2,070	2,035	3,120
Literacy rate .... percent	15	32	97
Life expectancy .... years	30	35	68
Road miles per 1,000 sq.mi.	40	220	1,100
Electric power per capita ..... KWH per year	10	117	3,165

CAMBODIA—LAOS—VIETNAM

EXTERNAL RESOURCES	1950	1951	1952	1953	1954	Program 1955	Program 1956
	(millions of US $)						
FOA obligations (fiscal years).....	0.7	21.8	24.6	54.1	769.4	473.4	425.0
EX-IM Bank disbursements.....	--	--	--	--	--		
IBRD disbursements.....	(Not a member)						

CAMBODIA

TRADE	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	n.a.	11.6[a]	19.4[a]	66	61
Imports, c.i.f.	0.6	4.8[a]	8.2[a]	52	59
Trade balance	n.a.	6.8[a]	11.2[a]	14	2
Principal exports					
Rice[b].....Quantity.....1,000 MT	n.a.	225	190	139	296
Value.....$ millions	n.a.	27[E]	30[E]	17	23
Rubber[a].....Quantity.....1,000 MT	17[E]	16	16	21	18
Value.....$ millions	6[E]	18[E]	11[E]	11	12

PRODUCTION	Unit	1938	1951	1952	1953	1954*
Major crops:						
Rice, rough[c]	1,000 MT	800	1,400	1,400	1,400	1,100
Rubber	1,000 MT	17	16	19	22	24

PRICES (index 1949=100)	1938	1951	1952	1953	1954*
Cost of living[d]	n.a.	124	137	n.a.	184

* 1954 data partly preliminary or estimated. n.a. - not available. E-Estimate.

a Excludes trade with other Associated States.
b Shipments; includes trade with other Associated States.
c Crop year beginning in year stated.
d December of year stated.
e 1939.
f Excludes trade with North Vietnam.

LAOS

TRADE	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	n.a.	0.4[a]	3.9	2.7	1.3
Imports, c.i.f.	n.a.	2.0[a]	15.9	13.0	15.0
Trade balance	n.a.	-1.6[a]	-12.0	-10.3	-13.7
Principal exports					
Tin[a].....1,000 MT	0.9[e]	0.1	0.1		
Coffee[b].....1,000 MT	n.a.	1.4	2.2		

PRODUCTION	1938	1951	1952	1953	1954*
Major crops:					
Rice, rough[c].....1,000 MT	n.a.	500[E]	500[E]	500[E]	480[E]

PRICES (index: Dec 1948=100)	1938	1951	1952	1953	1954*
Cost of living: Vientiane	n.a.	113	157	212	260

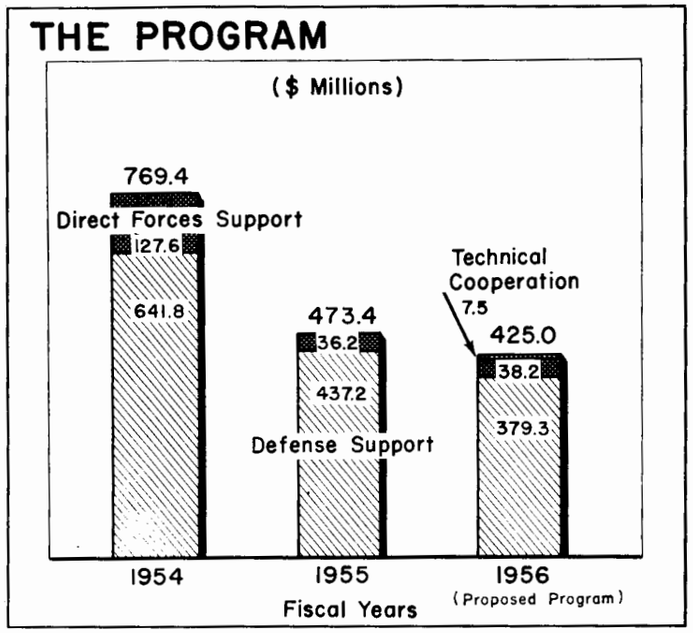
SOUTH VIETNAM

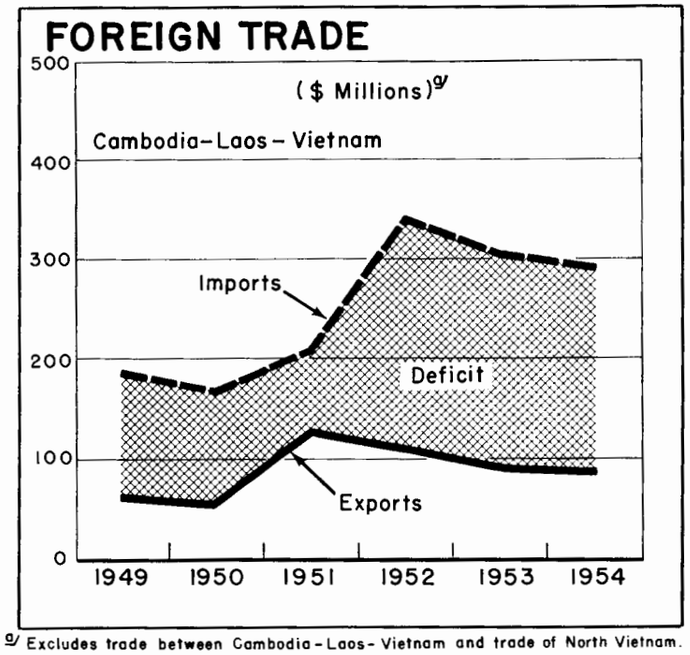
TRADE (data largely estimated)	1938	1951	1952	1953	1954*
		(millions of US $)			
Exports, f.o.b.	n.a.	113[af]	89[af]	100[f]	95[f]
Imports, c.i.f.	n.a.	200[af]	328[af]	340[f]	290[f]
Trade balance	n.a.	-87[af]	-239[af]	-240[f]	-195[f]
Principal exports					
Rice[af].....Quantity....1,000 MT	1,000	300	173	110	183
Value.....$ millions	27	36	28	19	n.a.
Rubber[af].....Quantity....1,000 MT	41	38	47	52	55
Value.....$ millions	14	42	31	25	n.a.

PRODUCTION	Unit	1938	1951	1952	1953	1954*
Major crops:						
Rice, rough[c]	1,000 MT	3,700	1,900	1,900	1,975	1,985
Rubber	1,000 MT	44	37[E]	46	54	51

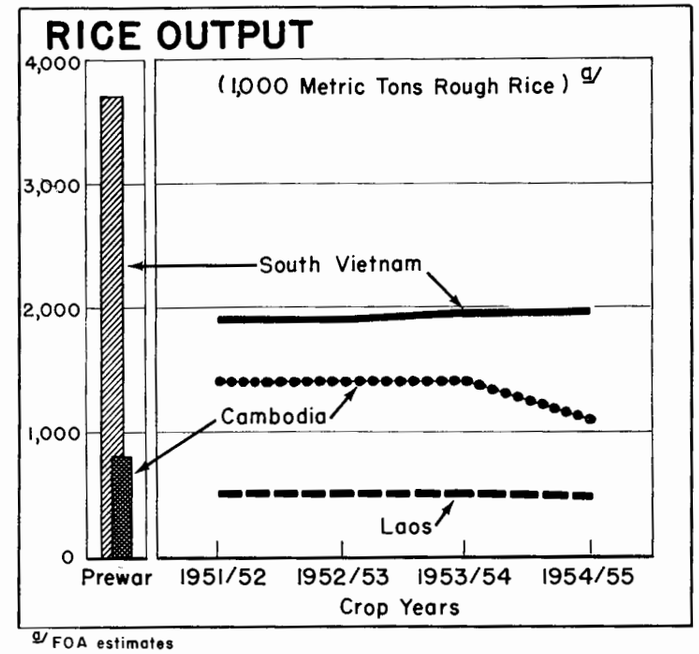
PRICES (index 1949=100)	1938	1951	1952	1953	1954*
Wholesale: Saigon-Cholon	5	117	132	152	160
Cost of living: Saigon	2[e]	116	142	180	203

CAMBODIA-LAOS-VIETNAM

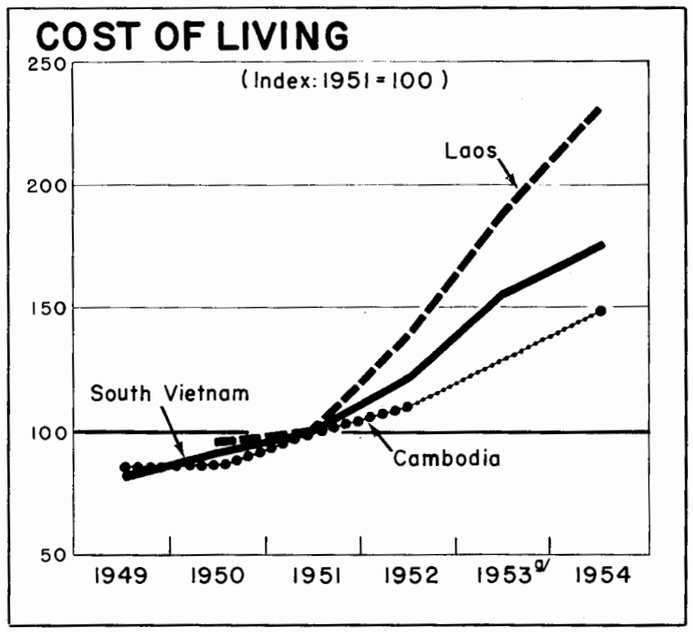




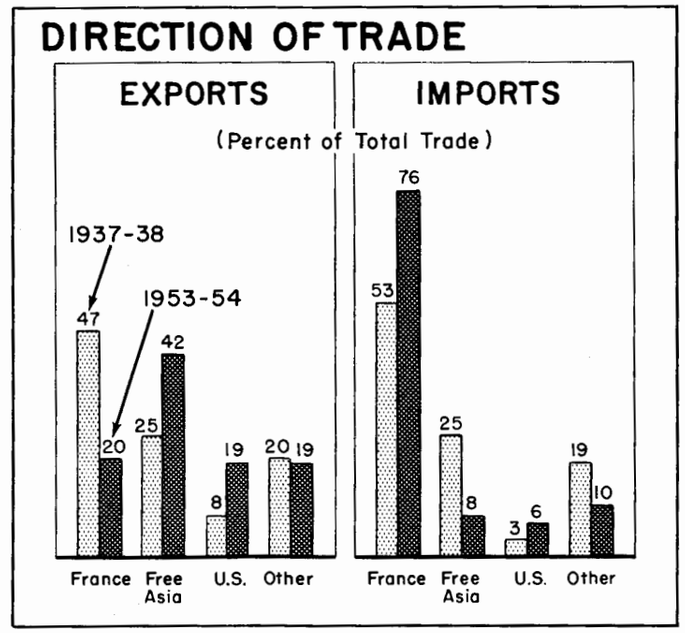
a/ Excludes trade between Cambodia-Laos-Vietnam and trade of North Vietnam.

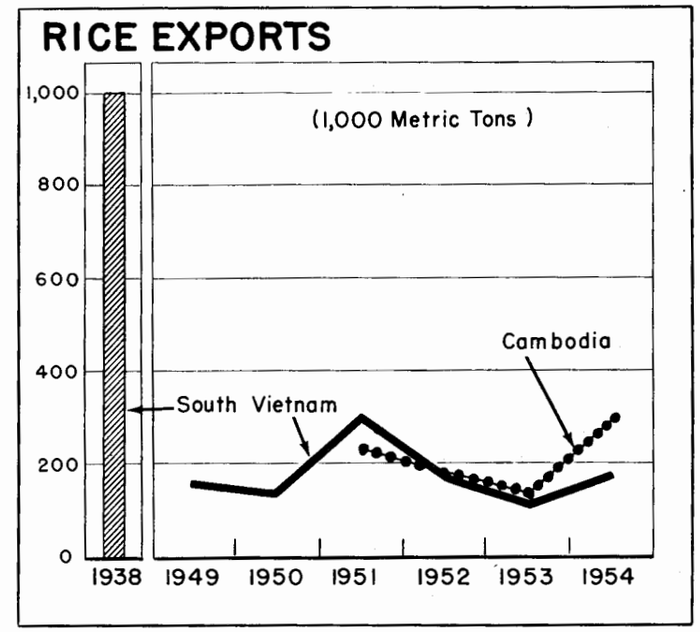


a/ FOA estimates



a/ Data not available for Cambodia.





a/ Excludes trade with Cambodia & Laos.

ASIA

CAMBODIA, LAOS AND VIET NAM

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1950/54	FY 1955	Proposed FY 1956
Military Assistance	a/	a/	a/
	FY 1954		
Direct Forces Support	127,600	36,200	38,200
Defense Support	641,845 b/	437,200	379,300
Technical Cooperation	c/	c/	7,500
Total Country Program Other Than Military Assistance	769,445	473,400 d/	425,000 d/
MSP Sales Surplus Agricultural Commodities			
Sales to Cambodia and Viet Nam		4,600	10,000
Sales Proceeds Programmed in Cambodia and Viet Nam		54,600	10,000

a/ Data included in separate submission on Military Assistance.
b/ Includes $400 million U.S. contribution to support of the French Expeditionary Corps in the Indochina States.
c/ Programmed and administered as an integral part of the Defense Support program.
d/ These are program figures. Reconciliation to estimated obligations is as follows:

	FY 1955	FY 1956
Programmed	473,400	425,000
Unobligated balance of 55 program to be obligated in FY 56 (Defense Support)	-25,000	+25,000
Obligations	448,400	450,000

General Narrative Statement

Current Situation

The cease-fire agreement signed at Geneva in July 1954 left the Viet Minh in control of Vietnam above the 17th parallel and was followed by a drastic revision of relationships between France and the then Associated States of Cambodia, Laos, and Vietnam. The achievement of independence brought with it the added burden of responsibilities.

Traditionally dependent upon the French and weakened by internal political strife, with their economies dislocated and undermined by the burden of eight years of war, the three countries were confronted with an array of complex problems which they had neither the technical and administrative experience nor the financial resources to solve, without assistance from the outside. Immediate steps had to be taken to help the three newly independent nations plan and implement action with respect to defense measures, internal security, refugee relief, fiscal policy, and general economic rehabilitation. U. S. assistance previously planned was reappraised in the light of the radically changed situations within the countries and their external relationships with each other, and with France and neighboring Asian countries.

The broad courses of action that had to be undertaken in each country were clear; development of a detailed blueprint will take time. In the meantime, judgments as to the magnitude of U. S. assistance required have been based on the best estimates currently available of urgent needs that must be met. The cost to the United States will be substantially lower in FY 1955 than FY 1954 and will be further reduced in FY 1956.

Progress to Date

Mutual Defense Assistance

Since the beginning in 1950 of the MDA Program in the Associated States, French and local forces have received approximately one billion dollars in U. S. military end-item assistance, which was used in combat operations in that area.

After signing of the Geneva agreement, all deliveries of MDAP materiel to the Associated States were stopped. France is reducing the French Expeditionary Forces and present plans are to reduce also the levels of the indigenous forces. The U. S., therefore, is now proceeding to identify equipment which is excess to present needs in that area and is redistributing this equipment to meet other MDAP requirements. Equipment that was in the pipeline at the time of the cease-fire has been reallocated to other countries.

In refining the FY 1955 program, account was taken of the additional equipment which it was estimated will be recovered from the Indochina area and funds have been earmarked for repair and rehabilitation of this equipment to make it serviceable for other users. Since the final force levels and composition of the French Expeditionary Corps and the armies of the new independent States are not yet firm, and inventories of serviceable and repairable major items of equipment are not yet completed, redistribution and the declaration of all excesses are still far from complete.

Direct Forces Support

Prior to FY 1955: In the summer of 1953, the French Government informed the United States of a plan to build up the national military forces of Cambodia, Laos and Vietnam, in order to prosecute more vigorously and effectively the war in the Indochina States. The total cost of this build-up was estimated at $557 million for calendar year 1954 - a sum far in excess of the capabilities of the three States.

After consultation with the Congress and appropriate agencies within the Executive Branch of the U. S. Government, the President approved the provision of up to $385 million from FY 1954 Military Assistance funds to help finance a portion of the expanded costs of the Associated States forces during CY 1954. This assistance was additional to the $400 million which the Congress had already authorized (Section 304 of the Mutual Security

General Narrative Statement (Continued)

Act of 1953) to help support the forces in Indochina, primarily the French Expeditionary Corps, during 1954. All $785 million was to be channelled through France.

An agreement regarding the purpose and application of the total $785 million was signed with the French Government in September 1953, and a further memorandum of understanding on administrative procedures was signed on March 1, 1954. The aid agreements provided, among other matters, for some reduction in the $385 million U. S. commitment by the application to this program of certain of the franc counterpart funds accruing in 1954 from previous defense support assistance to France.

Initially, applicable franc counterpart accruals were estimated at $40 million and, accordingly, only $745 million was obligated as of June 30, 1954. Actual accruals, however, have exceeded the original estimate. Further savings to the U. S. will accrue from the reduction of total expenditures for these forces in 1954, as the result of the cessation of hostilities and subsequent changes in force goals.

Under the FY 1956 definitions of the various functional categories, $127.6 million of the $345 million total specifically earmarked for the Associated States is estimated to have been Direct Forces Support. The balance of $217.4 million and the $400 million authorized by the Congress in Section 304 of the Mutual Security Act of 1953 are more appropriately included in Defense Support, constituting, as they do, budgetary support to France and the three States to help finance local currency expenditures (viz. food, clothing, pay, etc.) for the armed forces. The estimated proportionate shares of Cambodia, Laos and Vietnam in the $345 million provided through France for support of the national armies during calendar year 1954 are shown in the individual country data in the classified appendix to this presentation.

FY 1955: In accordance with the new status of full independence of the previously Associated States, the United States in January 1955 initiated direct assistance to Cambodia, Laos and Vietnam for the support of their armed forces. In addition, a minimal amount of assistance is being continued to France for support of the French Expeditionary Forces which must remain in the three countries until the national armies, through reorganization and intensive training, have developed sufficient strength to re-establish and maintain internal security and provide initial resistance to external aggression.

For these purposes, a total of $374.8 million has been approved for allocation out of FY 1955 appropriations - $36.2 million as "Direct Forces Support" for procurement outside the three countries of non-MDAP items required for the exclusive use of their military forces, and $338.6 million as "Defense Support" to help defray internal expenditures for the national armies and the French Expeditionary Corps. In accordance with the precedent established in FY 1954, these funds are intended to cover calendar year 1955 costs. The breakdown by function and country is available in the classified appendix hereto.

Other Programs

Prior to FY 1955: Exclusive of military end-items and other assistance for support of the armed forces, the U. S. made available to Cambodia, Laos and Vietnam approximately $95 million for defense support and technical cooperation activities undertaken during the fiscal years 1951-1954. Unlike the assistance for forces support, these funds were provided directly to the Associated States to cover fiscal rather than calendar year costs. Since Vietnam was then the focal point of hostilities and its need for defense support assistance greater than that of either Laos or Cambodia, it received the largest share of this aid. Fairly significant amounts, however, were channeled to the other two States.

In the aggregate, over half of the $95 million was used to finance imports of civilian commodities essential to the maintenance of production. Sold to local users, these imports also helped to defray the local currency costs of U.S.-assisted activities which could not otherwise have been financed by the States' already overburdened budgets.

Approximately one-fourth of the total dollar funds and one-half of total counterpart accruals during the period provided

General Narrative Statement (Continued)

direct support to the military effort by maintaining and improving transportation facilities, and such activities as emergency relief and other assistance for war refugees. Most of the remaining funds were used to strengthen the public services and help increase popular support of the existing governments through health and sanitation projects, and assistance to agriculture. A small amount was utilized for education and public administration assistance.

The specific uses of these funds in each of the three States and the progress attributable to this assistance are more fully described in the general statements for Cambodia, Laos and Vietnam which follow.

FY 1955: U. S. assistance for the continuation of these activities in FY 1955, initially estimated on the basis of the pre-independence status of the three States, was subsequently reappraised and tailored to the situations confronting them individually and their needs as independent nations in order to achieve objectives mutually shared with the United States.

For the three countries combined, $98.6 million has been made available to finance the dollar and local currency costs of technical cooperation and defense support projects, as distinguished from the defense support assistance provided as a supplement to their budgetary resources for armed forces support (See section on Direct Forces Support above.). Almost half of the total ($45 million) has been used to finance the transportation, relief and resettlement costs of the mass exodus of refugees from Communist-controlled North Vietnam to Free Vietnam.

The FY 1956 Program

Exclusive of end-item assistance permissible under the Geneva agreement, it is proposed that the U. S. make available in FY 1956 for Cambodia, Laos, Vietnam and other requirements in the Indochina region a total of $425 million - $38.2 million for Direct Forces Support, $379.3 million for Defense Support, and $7.5 million for Technical Cooperation, to be identified as a separate component for the first time. About two-thirds of the total for defense support will be required to help defray the internal expenditures of the armed forces in the three countries. U. S. assistance for this purpose in FY 1956, however, will be almost 30 percent less than in FY 1955.

The distribution of the total $425 million by function and country, and within each country by (a) major activity field and (b) major cost components, are given in the classified appendix. The country statements following provide the underlying rationale for the continuation of assistance in the magnitude requested and the general purposes for which the funds are to be used.

ASIA

Country: CAMBODIA, LAOS, VIETNAM

COMBINED COUNTRY DATA, EXCLUDING MILITARY ASSISTANCE

Summary by Major Activity Field

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Agriculture and Natural Resources	Industry and Mining	Transportation	Labor	Health and Sanitation	Education	Public Admin.	Community Development Social Welfare and Housing	General and Misc.	Import Saleable Commodities	Common Use Items	Other Costs
Direct Forces Support													
1954	127,600											127,600	
1955	36,200											36,200	
1956	38,200											38,200	
Defense Support													
1954	641,845	927		4,272		1,359	96	630	486	62	234,013		400,000
1955	437,200	1,390	680	2,765	10	1,020	375	1,530	16,700	1,465	216,265		195,000
1956	379,300	1,105	2,175	16,490		1,015		560	7,405	2,350	223,200		125,000
Technical Cooperation													
1954	a/												
1955	a/												
1956	7,500	1,490	600	210	50	500	1,055	2,720	555	320			
Total All Programs													
1954	769,445	927		4,272		1,359	96	630	486	62	234,013	127,600	400,000
1955	473,400	1,390	680	2,765	10	1,020	375	1,530	16,700	1,465	216,265	36,200	195,000
1956	425,000	2,595	2,775	16,700	50	1,515	1,055	3,280	7,960	2,670	223,200	38,200	125,000

a/ Included in Defense Support.

COMBINED COUNTRY DATA, EXCLUDING MILITARY ASSISTANCE

Summary by Major Cost Components

(In thousands of dollars)

Programs by Fiscal Year	Total U.S. Cost	Supplies and Equipment	U.S. Government Technicians		Contract Services		Participants		Other Costs
			No. of Persons	Cost	No. of Persons	Cost	No. of Persons	Cost	
Direct Forces Support									
1954	127,600	127,600							
1955	36,200	36,200							
1956	38,200	38,200							
Defense Support									
1954	641,845	240,601	72	1,046	10	48	31	150	400,000
1955	437,200	238,220	95	1,225	106	2,455	93	300	195,000
1956	379,300	246,895	75	1,125	170	6,035	50	245	125,000
Technical Cooperation									
1954	a/								
1955	a/								
1956	7,500	3,095	82	1,220	121	2,245	198	940	
Total All Programs									
1954	769,445	368,201	72	1,046	10	48	31	150	400,000
1955	473,400	274,420	95	1,225	106	2,455	93	300	195,000
1956	425,000	288,190	157	2,345	291	8,280	248	1,185	125,000

a/ Included in Defense Support.

General Narrative Statement

Current Situation

Cambodia is strategically situated between Thailand, Laos and Free Vietnam, and is one of the targets of Communist subversion in Southeast Asia. Its continuing independence is vital to the security of the free world in that area.

Having recently regained their independence after a long struggle, the Cambodians do not intend to yield their freedom. Strongly nationalistic and anti-Communist, they are prepared resolutely to defend their country against Communist encroachment. In order successfully to meet the Communist challenge Cambodia, because of its limited resources, will require assistance from friendly countries, especially the United States for some time to come.

General Developments

Political and Military: In accordance with the country's new status of full independence, the United States in January 1955 initiated direct assistance to Cambodia for the support of its armed forces, instead of providing it indirectly as had been done previously through France. A military assistance agreement is currently being negotiated. Defense support and technical cooperation programs have been conducted in Cambodia on a small scale since FY 1951. In FY 1955 they were expanded, and a small U. S. Operations Mission was established in Phnom Penh to administer them.

As a result of the Geneva Agreements, an International Control Commission was stationed in Cambodia to supervise the cessation of hostilities, including evacuation of Viet Minh invaders. This evacuation has been virtually completed. For the most part, various dissident semi-military bands of extreme nationalists and left-wing sympathizers also have been dissolved. It is expected, however, that they will transfer their activities from the military to the political sphere. Pending elections for the National Assembly which have been called for September 1955, a caretaker cabinet is administering the government. The forthcoming election will witness a contest between moderate nationalists and left-wing neutralist elements including Communist sympathizers. Recently, the King who led his country's battle for independence abdicated in favor of his parents. He remains, nonetheless, an important figure in the future of this newly independent nation.

The Cambodian Army at present is not adequately equipped and trained nor appropriately organized for the country's increased defense needs. The police, likewise, are inadequately trained and equipped, lacking mobility and modern communications. Since the more immediate threat to Cambodia is likely to come not from invasion but from infiltration and subversion, the strengthening of the country's internal security forces is an urgent task.

Economic: The Cambodian economy has been particularly hard-pressed during the last year. There have been a poor rice crop, a low fish catch, and the loss of a market for slaughtered cattle as the French Expeditionary Corps was reduced. Difficulties have been compounded by problems arising in trade with Vietnam, as a result of the dissolution of the customs and monetary union of the three Associated States.

General Narrative Statement (Continued)

Existing low living standards provide a fertile ground for Communist propaganda. Per capita income is estimated at less than $50 per year. Educational opportunities are extremely limited; disabling diseases such as malaria, yaws, trachoma and tuberculosis are endemic; and housing is poor.

Agriculture, the mainstay of the economy, is retarded by poor transportation and marketing facilities. The rail, highway, and air transportation systems are run down after eight years of wartime destruction and neglect. This impedes both domestic and foreign trade. Lacking a deep seaport of its own, Cambodia must depend on access to foreign ports for essential supplies.

Cambodia's balance of payments position is largely determined by two factors: rice and rubber sales and foreign assistance. Mainly because of the poor rice crop, it is expected that exports during 1955 will pay for only 60 percent of normal imports; by contrast in 1954, it is estimated that exports and imports were in approximate balance. Foreign aid covered the deficit on invisible and capital account during 1954 and is expected to be a large balancing item in 1955.

Although faced with an extreme shortage of trained technicians and administrators, Cambodia has been required in a very short time to establish a central bank and exchange control office, and to negotiate the complex details of monetary, fiscal, commercial and customs arrangements with its neighbors and with other friendly states. Failure as yet to have worked out these arrangements has resulted in a partial paralysis of foreign trade, with a shortage of consumer goods laying the ground for serious inflation.

From such budget data as are available, it appears that in calendar year 1955 Cambodia would be able to cover only about one-third of the expenditures required for an adequate defense organization. If the domestic rice deficit is as serious as is presently feared, even this estimate may be optimistic.

Problems: Urgent security considerations require the establishment and maintenance of military and police forces which cannot be financed by the Cambodian budget without resort to inflationary deficit financing. With prices already rising, further inflationary pressure would threaten political stability.

Extreme shortage of experienced technical and administrative personnel hinders progress in the Government's effort to provide the basic services upon which popular support and economic advancement depend, and results in under-utilization of Cambodia's own resources.

Outmoded agricultural and marketing practices, together with inadequate transportation and irrigation facilities, keep crop yields and farm incomes at low levels.

Inadequate internal transportation facilities and lack of a seaport seriously handicap both domestic and foreign trade, as well as the establishment of an effective defense system.

Program Objectives

The broad objectives of the Mutual Security Program are to:

a. Assist Cambodia in its efforts to strengthen the internal security forces needed to protect its independence.

b. Help the country maintain financial stability in order to provide a firm base for economic progress upon which support of an effective defense effort depends.

c. Encourage closer military, economic, technical and cultural cooperation between Cambodia and other friendly countries in the free world.

Progress to Date

Prior to FY 1955: During the fiscal years 1951-54, the United States provided small-scale technical and economic

General Narrative Statement (Continued)

assistance to Cambodia as an integral part of aid programs for Indochina as a whole. A number of projects initiated in previous years have continued successfully into FY 1955. Among them is assistance to a teacher training workshop, malaria control teams, and a training school for nurses. Projects in seed selection and animal husbandry have been continued. The ancient irrigation system at Siem Reap (near Angkor Wat) has been rehabilitated. Land flooding ditches have been constructed along the Mekong to trap river silt and increase production. Technicians have been trained in the use of earth-moving equipment required for irrigation projects. Extensive radio and motion picture equipment has been furnished, along with technical training in their operation, to assist the Cambodian Government in reaching the population with anti-Communist information.

The United States also helped to support the Cambodian military establishment. A portion of the U. S. aid to France during calendar year 1954 for expenditures on behalf of the then Associated States, was used by the French to reimburse the Cambodian budget for military costs during calendar year 1954.

The FY 1955 Program: In recognition of the increased post-independence demands on Cambodia's slender resources, U. S. assistance in FY 1955 is substantially greater than the amount provided directly or through France in FY 1954. More than two-thirds of the FY 1955 total provides either direct or indirect support to the Cambodian armed forces; the balance is for expanded defense support and technical cooperation activities.

The following are illustrative of some of the more important purposes for which FY 1955 aid funds are being used.

Maintenance of Military and Internal Security Forces: Support to the military effort is being provided in part through the financing of imported civilian-type supplies used directly by the armed forces, and equipment and materials for military installations. A much larger share, however, of the U. S. contribution to support of the military effort is being provided through local currency counterpart funds to help meet internal expenditures, such as pay and allowances, rations, clothing, and construction and maintenance of military facilities. Upon conclusion of the military assistance agreement now being negotiated, the U. S. also will provide end-item equipment from stocks on hand and will advise the Cambodian Army on its use.

Stabilizing and Strengthening the Cambodian Economy: More than half of FY 1955 assistance is being used to finance commodity imports for sale in the local market. This concentration on saleable imports serves two purposes: (a) By relieving shortages of civilian commodities and siphoning off surplus local currency into the counterpart fund, it has the immediate effect of curbing inflation; and (b) the counterpart funds thus generated provide the supplemental resources needed for internal support of the military effort and complementary defense support projects.

The most important project thus far undertaken with FY 1955 funds is the planning of a highway from Phnom Penh, the capital of Cambodia, to a seaport which France is committed to finance, The engineering survey is now under way and construction of the highway is to begin in FY 1956. The new seaport will relieve Cambodia of military and economic dependence on foreign ports, and the connecting highway will increase the mobility of its defense forces and substantially reduce inland transportation costs.

Another significant project undertaken in FY 1955 is the completion of an existing rail line linking Phnom Penh with Bangkok. With U. S. assistance, Cambodia has repaired the western section of the roadbed and is constructing an international station at the Thai border.

Mindful of the longer term needs of the country, the Cambodian Government is utilizing a small amount of FY 1955 U. S. aid funds to finance a contract with the Unitarian Service Committee for assistance in rural elementary education - a demonstration project involving teacher training, curriculum development, and textbook preparation. Hundreds of Cambodian villages have erected school buildings on their own initiative, but more teachers are required and the curriculum needs to be more closely geared to practical problems of Cambodian life.

The FY 1956 Program

Substantially increased assistance is proposed for Cambodia in FY 1956. As in FY 1955, most of the funds are needed to provide supplies and equipment and local currency financing for the military effort. In FY 1956 for the first time, there will be an identifiable technical cooperation component and increased funds will be provided for projects which will enhance the mobility of defense forces and lay the foundation for more effective utilization of the country's resources.

Efforts in FY 1956 will be directed toward the following goals:

Support of Defense and Internal Security Forces:: The net cost to the United States for support of the Cambodian military establishment will increase somewhat in FY 1956 because of an anticipated decline in government revenues as a result of this year's drought. More than two-thirds of U. S. aid funds will be used to help defray expenses in local currency for pay and allowances, training costs, construction, medical service, and similar items. The balance will be used to provide imports for the direct use of the armed forces.

Improving Transportation Facilities: In FY 1956, as in FY 1955, the port-highway project is accorded highest priority among Cambodia's defense support undertakings. Much of the heavy equipment to be procured for construction of this highway will be used subsequently in the country's public works program. Local technicians will be trained to operate and maintain the machinery.

To increase their military and commercial usefulness, it is planned to drain, lengthen, and resurface the four principal airports in Cambodia and to install modern safety equipment. This will enable heavy four-engine planes to land even during the rainy season. France has promised assistance in building a new air terminal at Phnom Penh.

Improving Rural Conditions: With agriculture the mainstay of the economy, substantial expansion is planned for projects in irrigation and water conservation, agricultural extension, animal husbandry, seed improvement, rice milling and marketing cooperatives, and low interest rural credit. Greater attention will be given to encouraging the diversification of crops to improve nutrition. In cooperation with the World Health Organization, technical assistance and supplies will be provided for disease control, nurses training, health education, and the establishment of dispensaries and health centers in smaller communities. A major drive will be conducted in environmental sanitation to provide training and simple facilities for the sanitary disposal of waste and to develop a sanitary water supply through a well-digging project.

Substantially increased funds will be provided in FY 1956 to speed up all phases of the Cambodian education program. These will encompass teacher training, curriculum development, and textbook preparation at the elementary level, technical and vocational training, and assistance to an existing project which is training villages, through practical demonstration, in self-help methods of improving many of the phases of their daily life. These agricultural, health and educational activities (combined in many cases in community development projects) will demonstrate to the individual Cambodian that by supplementing his own efforts with technical help from the free world, substantial improvement in his living conditions can be achieved.

Increasing the Effectiveness of Government Operations: Technical equipment and training will continue to be furnished to the Cambodian Government to assist in widespread dissemination of anti-Communist information by mass media. A greatly expanded program is scheduled to increase technical skills and to help the government overcome its acute shortage of trained administrators and technicians in such fields as banking, foreign trade, budgeting, statistics, public works engineering, personnel administration, and administrative management. This will be accomplished both by supplying U. S. specialists to Cambodia and by training Cambodian officials in the United States. As the wheels of government turn more smoothly, the strength and stability of this friendly government will be more firmly established.

INDIVIDUAL COUNTRY DATA

General Narrative Statement

Current Situation

Laos is on the frontier of the free world in Southeast Asia. It borders Red China on the north and Communist-controlled North Vietnam on the northeast. If Laos should succumb to Communist control by invasion or subversion, Free Vietnam and Cambodia would be outflanked, and the Communists would be poised across the Mekong River from Thailand.

The two northern provinces of Laos are illegally occupied by a Communist-controlled dissident movement which is being trained and supplied by the Viet Minh Communists in North Vietnam. Although the Lao Government has appealed for assistance to the International Control Commission, set up under the Geneva Agreement, it has been unsuccessful in efforts to restore its lawful authority over these two provinces and to prevent the reenforcement of the Communist rebels from North Vietnam. Moreover, Viet Minh units ostensibly withdrawn from occupied areas have left behind trained agitators to spread disaffection and to promote the interests of pro-Communist and neutralist candidates in the Parliamentary elections scheduled for August 1955.

Thus, the issue between the free world and the Communists is presently being keenly contested in Laos. It is strategically important, therefore, that the Lao Government be assisted in restoring and maintaining its lawful authority.

General Developments

Political and Military: In accordance with the country's new status of full independence, the United States in January 1955 began to provide financial assistance for the Laotian Army directly instead of indirectly through the French as in the past. Other U.S.-assisted programs were substantially increased and a small U. S. Operations Mission was established in Vientiane to administer the aid.

The attainment of independence created a baffling array of problems for the small number of trained technicians and administrators available to the Lao Government. In addition to carrying on routine activities, the government within a very short time has had to establish a central bank and exchange control agency, also a monetary system and customs controls, and concurrently develop commerical arrangements with friendly foreign governments and private concerns.

The new government's responsibilities have been further complicated by the need to restore control over large areas recently evacuated by the Viet Minh and the Laos Communists. This necessitates reorganization, training and supplying of the armed forces which was formerly a part of the French Union Army.

Despite the government's commendable efforts in these directions, the shortage of trained personnel and the lack of experience in dealing with the present complex problems have made progress difficult.

Economic: Laos is dependent for its survival upon the maintenance of a large army which is far beyond the country's capacity to support under existing conditions.

Almost wholly agricultural, Laos is largely a barter economy. Despite an abundance of land, some food for its small urban population usually must be imported - during the current year a drought made it necessary to bring in additional emergency imports. Food shortages result partially from primitive cultivation methods and partially from inadequate farm-to-market roads. Thus, a surplus may exist in one province while a neighboring province suffers.

General Narrative Statement (Continued)

The poor health and low literacy of the population are formidable barriers to economic progress. Educational opportunities at present are beyond the reach of the great majority; as a result, about 85 percent of the population is illiterate. Whole villages are disabled by dysentary, and malaria; yaws and trachoma also are prevalent.

Government revenues are insufficient to cover essential civilian activities, let alone military and development expenditures, and some inflation is already evident. There is little leeway for increasing government receipts through tax reforms because of the non-monetary nature of the economy and the isolation of large segments of the population.

The low level of exports generally suffices to meet the country's modest import needs. A serious international payments problem, however, would be created by military and development expenditures approximating the country's present needs without U. S. assistance.

Problems: The presence of subversive forces within its own borders and the threatening military and political situation in the area require the maintenance of relatively large military and police forces which Laos, without outside aid, could only finance through an inflationary expansion of its currency.

Since the country has just assumed the responsibilities of an independent government and had relied in the past on institutions controlled by the French, even the most fundamental fiscal services are not yet functioning satisfactorily. Likewise, essential services in such fields as health, agriculture, and transportation have not yet been provided, thus increasing vulnerability to Communist subversion and retarding economic progress.

Inadequate transportation and communications impede the transport of agricultural produce within the country and seriously handicap government efforts to establish security.

Program Objectives

Against the background of the post-independence situation in Laos, the broad objectives of the Mutual Security Program are to:

a. Assist the government in efforts to strengthen internal security forces.

b. Help improve government administration and assist in the extension of public services upon which popular support and economic advancement depend.

c. Aid in efforts to bring about a better utilization of the country's resources, thereby expanding production and increasing its capabilities to maintain an adequate defense effort.

d. Encourage activities leading to closer relationships with friendly, neighboring countries.

Progress to Date

Prior to FY 1955: Indirect support of the Lao armed forces was provided by the United States in calendar year 1954 through reimbursements to France for expenditures on behalf of the Associated States. The Lao forces also received a share of the military end-item equipment furnished by the United States to the French Union forces in Indochina from 1950 to 1955. In addition, Laos benefited from the defense support and technical assistance provided by the U. S. in fiscal years 1951-54 as an integral part of an economic aid program for the three Indochina States.

In view of the remoteness of the country, its low population density, and the higher priority necessarily accorded military support activities in Vietnam, Laos' share of the non-military assistance was relatively small. It was sufficient, however, to start and continue such essential activities as highway improvement and maintenance, airport

construction, seed selection, livestock and poultry breeding, lumbering, nurses training, malaria eradication, and primary education. Most of these projects were continued into FY 1955. After the Geneva conference in July 1954, however, the program was re-appraised and enlarged to meet the new situation.

The FY 1955 Program: U. S. assistance tentatively earmarked for Laos in FY 1955 is substantially larger than the amount directly provided or channelled through France in FY 1954. About 90 percent of the FY 1955 total is for support of the Lao armed forces, about three-fourths of it to be provided in local currency for such items as troop pay and allowances, rations, medical services, military construction, and other internal expenses.

These local currency requirements are being met through the sale of imported commodities and through direct purchase with dollars. The counterpart-generating imports act as a brake on inflation and serve the incidental purpose of providing a modest improvement in the levels of civilian consumption.

1. National Defense and Internal Security: With the Lao budget in deficit on civilian account and the government's capacity to contribute to support of its forces therefore nil, the U. S. is currently bearing the total cost of the Lao military establishment. Present aid levels, however, are considered tentative until a Military Assistance Agreement is concluded and firm estimates of maintenance costs at mutually agreed force levels are developed. The Geneva Agreements prohibit the establishment in Laos of a U. S. Military Assistance and Advisory Group. However, American civilians will help determine estimates of needs and supervise the expenditure of U. S. aid.

2. Improve Utilization of Resources: Because of the Lao Government's preoccupation with fiscal and administrative problems, planning for activities to help build economic strength has proceeded slowly. As presently evolved, approximately one-third of the limited funds available for defense support and technical cooperation projects will be channelled into improvement of transportation. Projects either planned or in operation include construction and improvement of highways and development of inland waterways. Ferry ramps on both banks of the Mekong River near the Lao administrative capital, Vientiane, will soon be completed and regular ferry service established for a vessel provided with U. S. funds. This ferry will enable Laos to import commodities through Thailand at substantially reduced costs to the consumer.

Other important projects are in crop and livestock improvement, forestry, environmental sanitation, and resettlement of refugees displaced by the Viet Minh. By specific request of the Lao Government, U. S. technicians are being provided to assist in developing central banking procedures and in the purchase, warehousing, and distribution of commodities. Activities which help to increase the government's capabilities in these fields will contribute to economic stability and an efficient use of foreign exchange provided through U. S. aid.

The FY 1956 Program

Assistance proposed for Laos in FY 1956 is somewhat larger than in FY 1955. The most significant feature is an internal shift toward increased utilization of U. S. aid funds for activities conducive to social improvement and expansion of productive resources. Though planning is still in the preliminary stages, this is a means of building economic strength and increasing Lao capabilities to contribute toward support of its costly military establishment.

Support of Defense and Internal Security Forces: Support of the armed forces remains the highest priority item in the U. S. aid program for Laos. While the cost estimate for FY 1956 as for FY 1955 has yet to be firmed up on the basis of more complete study than has been possible to date, it appears fairly clear that, whatever the final estimate, the entire cost of the Lao military effort will have to be met for some time entirely out of foreign assistance funds.

A positive step toward strengthening the internal security situation will be taken in FY 1956 by initiating a program for the training of Lao police officers in Thailand. This is part of a larger program to be developed on the basis of recommendations of a U. S. police survey team now in Laos.

General Narrative Statement (Continued)

Improved Utilization of Resources: The FY 1956 fund allocation for transportation improvement is about eight times that for FY 1955. Most of the funds will be used to construct new highways linking key cities, which are now readily accessible only by air, and to improve farm-to-market roads. Two additional ferries across the Mekong are planned in order to improve communications and facilitate trade between Laos and Thailand.

Strengthening Government Administration: To strengthen the government's ability to perform essential public services, a substantial expansion is planned in the training of technicians and administrators and in the number of technical advisors to be made available to Government Ministries and agencies and to the provincial governments. U. S. experts attached to Lao agencies will help tide the government over the next few years until currently planned training programs begin to yield a corps of competent specialists and administrators.

Improving Rural Conditions: To assist the Laos in attacking problems affecting rural living conditions, a coordinated program in agriculture, health, education, and community development will be launched in FY 1956. The elementary and vocational education program will be expanded to include the establishment of a normal school for teacher training, curriculum development and textbook preparation. An effort will be made to develop a curriculum which relates in a practical way to the problems of Laotian life.

Assistance also will be given the government in enlarging its agricultural extension service. Emphasis will be on improving rice production so that Laos will be less subject to famines. Attention also will be given to improvement of livestock, once an important foreign exchange earner for Laos, but unproductive in recent years. Further steps will be taken to eradicate the diseases which plague Lao villages and to improve environmental sanitation.

Through a contract with International Voluntary Services, Inc., one or two demonstration projects in village life improvement will be undertaken. This group will focus on practical solutions to the problems of village life in the fields of health, agriculture, self-help housing, family welfare, and education. These projects will demonstrate to the Lao people what can be accomplished in improving living standards through self-help, plus a minimum of outside assistance in training and equipment.

INDIVIDUAL COUNTRY DATA

General Narrative Statement

Current Situation

Vietnam is of vital importance to the interests which the United States shares with the free Asian nations, for military, economic and psychological reasons. The continued independence of Vietnam will contribute to the Free World's ability to prevent Communist subjugation of other countries of Southeast Asia. Loss of Vietnam would provide Communist agents and followers in the other countries with psychological advantages, would stimulate their subversive activities and retard the efforts of countries throughout the region to strengthen themselves against such activities.

Control of the whole of Vietnam would give the Communists access to a potential annual supply of about 1,000,000 tons of surplus rice, 50,000 tons of rubber and 2,500,000 tons of steam coal. Communist control of the port of Saigon would impede the foreign trade of Laos and Cambodia, and would greatly enhance the Communist commercial and naval potentials.

General Developments

Political and Military: An eight-year war ended with the conclusion of an agreement between France and the Vietminh at Geneva, July 20, 1954 in accordance with which Vietnam was partitioned at the 17th parallel, with the Communists left in control of the northern half. A provision was made for reunification through free general elections to be held in 1956.

The stability, even the survival of the nationalistic, non-Communist Government of Vietnam, has been continuously and increasingly threatened by opposition groups. Efforts to pacify the armed minority group have resulted only in an uneasy truce which renders the position of the present Diem Government precarious.

In order to maintain internal security a substantial military force will have to be maintained. By agreement with the Government of Vietnam and the French, responsibility for the reorganization and training of the Vietnamese Army was undertaken in February of this year by a U.S. Military Assistance Advisory Group (MAAG).

Economic: Free Vietnam's normal budget receipts and foreign exchange earnings remain far below the level of expenditures required to meet the heavy costs involved in maintaining a large army, and to provide minimal assistance to the refugees from Communist-controlled North Vietnam, much less to improve the productive capacity and living conditions of a war-weary people. Even with U.S. assistance of the magnitude to be provided out of FY 1955 funds, the Vietnamese budget for calendar year 1955 will show a small, though manageable, deficit. The value of total exports in 1955 is currently estimated at less than 20 percent of the value of necessary imports; the bulk of the country's imports is therefore dependent on foreign aid.

In recognition of the country's newly won independence, the United States in January 1955 began providing assistance directly, rather than indirectly through France, as in the past. Vietnam's dollar resources will thus be increased while its franc holdings will be reduced. This shift will inevitably bring about a change in the pattern of trade which, by increasing competition for the Vietnamese market, should eventually result in lower import prices benefiting Vietnam.

Although the rise in prices during recent months is not serious, the threat of inflation is present. The volume of procurement contracts for imports has recently declined, due in

General Narrative Statement (Continued)

part to political uncertainties but largely to the unavoidable lag in establishing new governmental fiscal agencies at home and abroad, and new trade relationships and procedures between importers and non-French suppliers. With the facilities and financial resources now available, however, an improvement in the situation is expected.

Social: A social problem of enormous proportions has resulted from the mass exodus of refugees from the Communist-controlled North to Free Vietnam. This "Operation Exodus" represents one of the largest voluntary mass movements in modern times. As of March 21 of this year, a total of 700,000 refugees - nearly 500,000 of them civilians - had moved south. Transportation was provided largely by the French Navy, the French Air Force and the U.S. Navy; U.S. aid funds totaling $45 million were made available to assist in their transportation, relief and resettlement. It has been a successful undertaking. However, it is estimated that as of the close of May 1955, about 200,000 persons remain to be resettled and assisted in finding gainful employment.

In addition, there are nearly a million persons, displaced from their homes South of the 17th parallel during the hostilities in the area, and now desiring resettlement. Substantial numbers of demobilized soldiers and their families are also swelling public assistance requirements. Resettlement of these various large groups ties directly into the Government's over-all agrarian reform program which, in its initial stages, is directed toward bringing idle land back into production.

Problems: Among the many problems facing Free Vietnam, the following are the most important:

1. Internal security is seriously threatened by the opposition to central government authority from powerfully armed politico-religious groups, and by intensive Communist activity within the country. There also is a potential threat of military aggression from the North. It is consequently necessary to develop without delay a national army capable of enforcing the government's authority, and of providing initial resistance to any external aggression.

2. An important potential source of unrest lies in the two million or more refugees, displaced persons, and demobilized soldiers, who must be resettled and assisted in obtaining gainful employment.

3. Vietnam's civil administration needs strengthening, to improve and extend government services and increase operating efficiency. The responsibilities of independence make this need particularly acute.

4. Normal government revenues and the country's foreign exchange earnings are sufficient to meet only a small part of the total costs of supporting its large army, the hundreds of thousands of refugees, and an economic rehabilitation program. For some time at least, Vietnam will require outside assistance to narrow the gap between resources and requirements.

Program Objectives

The specific objectives of the Mutual Security Program in Vietnam are to:

a. Provide support to efforts to reorganize and train a national army adequate to maintain internal security and provide initial resistance to external aggression.

b. Help maintain economic stability and assist in rehabilitation and development efforts, including integration into the economy of the two million or more refugees, displaced persons, and demobilized soldiers who might otherwise be vulnerable to Communist subversion.

c. Assist in strengthening and improving the structure and effectiveness of the government, so that it may become more responsive to the needs of the people.

d. Help expand and improve public information services in order to increase popular understanding of, and support for, the government.

General Narrative Statement (Continued)

Progress to Date

FY 1951 Through FY 1954: Vietnam's armed forces received the largest portion of the military equipment furnished by the United States to the French Union forces in Indochina from 1950 to 1955. In addition, support was provided indirectly to the Vietnamese forces in calendar year 1954 through reimbursements to France for expenditures incurred on behalf of the then Associated States. Vietnam also shared in the defense support and technical assistance which was provided by the U.S. in fiscal years 1951 - 1954 as an integrated economic aid program for the three Indochina States. (The preceding general section on Cambodia, Laos, and Vietnam describes the manner in which the various types of assistance were administered and funded.)

Vietnam received a much larger share of assistance under the economic aid program than Laos and Cambodia, obtaining approximately $68 million during this period, as contrasted with about $27 million for the other two countries combined. High priority was given to projects such as rebuilding and maintaining transportation facilities, including roads, inland waterways, airstrips and seaports. A further substantial portion of the funds was devoted to improving agricultural production through irrigation and land reclamation projects, seed improvement, livestock and fisheries improvement, and assistance to cooperatives and farm credit organizations. Activities in the health and sanitation field succeeded in reducing the incidence of malaria, yaws and trachoma, and in training local personnel to continue this work. Under a Mass Education Program over one million people were taught to read and write.

Two-thirds of the cumulative total for Vietnam has been used for the procurement of saleable commodity imports essential to the economy, but imported primarily to generate local currency to meet the internal costs of U.S.-assisted activities. Continuing budget deficits prevented Vietnam from making a financial contribution to this program.

The FY 1955 Program: Revised and reoriented after the Geneva Conference in order to meet the needs of the new situation, the current FY 1955 program provides in the aggregate about the same amount of assistance in FY 1955 as in FY 1954, including the aid then channeled through France.

The following are illustrative of the more important purposes for which FY 1955 aid funds are being used and of some significant accomplishments achieved to date.

1. Support to the Military Effort: The U.S. contribution to support of the Vietnamese armed forces is estimated to be substantially lower in 1955 than the year before due to cessation of hostilities. These funds are being used preponderantly to help defray expenses in local currency for pay and allowances, training costs, construction, medical service and similar items.

The local currency is being provided in greater part through the sale of U.S.-financed commodity imports, but to some extent through direct dollar grants against deposit by the Vietnamese Government of the local currency countervalues. These dollar grants provide Vietnam with foreign exchange to finance additional imports needed to counteract the inflationary pressures created by the heavy internal expenditures for the maintenance of its army. Out of its own budgetary resources Vietnam can meet only about one-fourth of the total cost of its military establishment.

2. Refugee Evacuation, Relief and Resettlement: To assist in dealing with the enormous refugee problem, the U.S. provided $45 million - about two-thirds to be used to defray local currency costs. By the end of March 1955, some 500,000 civilian refugees had already been received in reception centers in Free Vietnam and of this number, about 300,000 had been moved to resettlement villages or areas. Over 30,000 houses had been built, and several times this number are estimated to be under construction. The labor is being provided by the refugees themselves.

Tents and temporary shelter, and housing materials and tools have been provided with U.S. funds, as well as allowances sufficient to take care of immediate needs. Seed and simple agricultural implements also have been furnished, and the refugees are attempting to supply some of their own food requirements. The difficult problem of assisting the refugees to find gainful employment still lies ahead.

3. Improvement of Economic and Social Conditions: In the field of agriculture, U.S. technicians are assisting the government to develop land reform measures to help combat unrest by improving the social and economic status of the preponderant farmer class. Emergency land utilization and rent control ordinances were enacted during January and February 1955, under which some 65,000 families have been placed on approximately 375,000 acres of previously idle land now being brought under cultivation. Special attention has been given to improvement of irrigation, especially in the newly liberated areas. U.S. assistance will provide emergency agricultural credit to finance the settlement of tenants under recent agrarian reform legislation.

The substantial transportation and communications program of past years is being continued. Emphasis in this program has shifted, however, from facilities of primary importance to the military effort in the north to roads and other facilities in the south, which will be of particular assistance to farmers and to the Government in its efforts to control and provide services to areas formerly under Communist domination.

U.S. technicians have assisted in the government's public health activities which have successfully prevented serious epidemics during the active war years and the immediate postwar period. The over-all incidence of malaria is estimated to have been reduced by 10 percent since 1952. Considerable progress of the village level has been achieved through U.S. assistance to first-aid dispensaries. In the field of health education, 120 educators have been trained, 166 health committees have been organized, and 50 laboratory technicians have had short-course training.

4. Improvement of Government Administration: The U.S. provided the services of a specialist in central banking problems to advise the Vietnamese Government on the establishment of the new National Bank. Other U.S. experts are providing advice on central bank operations, foreign exchange and related fiscal problems, taxation, budget formulation, and foreign trade policy.

An expert in public administration was made available to help organize the new governmental structure of Vietnam, including plans for a representative National Assembly. A team of 30 specialists in various phases of public administration, under a U.S.-financed contract with Michigan State College, will shortly (a) undertake an intensive in-service training program for civil servants, (b) establish and staff a National Institute for Administration to improve the caliber of public service, and (c) provide specialized police training and advisory services in public administration to government officials.

The FY 1956 Program

As currently estimated, requirements for U.S. assistance to Vietnam in FY 1956 are expected to decline from the level of FY 1955. This reduction reflects entirely an anticipated decline in aggregate costs for maintaining its military establishment and particularly, reduced local currency costs.

Any significant increase in Vietnam's capacity to support a substantial military establishment will depend upon the progress it makes in the building of economic strength. The non-military portion of assistance recommended for FY 1956 clearly recognizes this fact and consequently includes an increased amount for assistance to activities which will provide support to the defense effort and concurrently help build such strength.

As in FY 1955 priority will be given to the refugee resettlement and rehabilitation program. Even though refugees from North Vietnam may need less assistance in FY 1956 than the year before, aggregate funds required for this program will be about the same in order to assist over a million and a half South Vietnamese displaced from their homes during the war years, as well as demobilized military personnel.

General Narrative Statement (Continued)

In addition, activities of proven value begun in earlier years will be expanded in a variety of fields, and new activities will be undertaken as details are more fully developed. Funds will provide for expansion of activities in the field of agriculture, principally to assist in the establishment of demonstrational production, storage, and primary processing cooperatives, and to provide substantially increased short-term production loans to farmers. Increased funds are needed to expand activities in irrigation and drainage rehabilitation, especially in newly liberated areas.

Activity in the transportation field will be significantly increased, principally to rehabilitate main highways and provide access to areas evacuated by the Vietminh. Major improvement is planned for the main highway from Saigon to Phnom Penh, as well as for roads from Saigon to outlying areas. Improvement of the ports of Saigon and Tourane will be continued and dredging activities to bring inland waterways into serviceable condition will be expanded.

Public administration assistance to improve the police force, civil service, key ministries of the government, and tax and budget administration will be continued, largely under contractual arrangements. Increased attention will be given to programs such as adult education, community development, social welfare and housing, and health and sanitation, which provide tangible evidence of the government's interest in the people's welfare and thus help win popular support.

ASIA

INDIVIDUAL COUNTRY DATA

Summary of Program by Function

(In thousands of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
Defense Support	-600a/		
Technical Cooperation	75	1,260	
Other Programs		4,300	
Total Programs	-525	5,560	

a/ Represents net deobligation of prior year defense support programs for activities undistributed by country.

General Narrative Statement

Programs under this category include regional technical cooperation activities in the Far East area for FY 1954 and FY 1955. Also included are certain special programs carried out in FY 1955 in this area. These include Mutual Security funds used to provide for (a) an expanded exchange of persons program in this area; (b) an expanded United States information program in the area, and for other special programs of a classified nature.

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ASIA

PRESIDENT'S FUND FOR ASIAN ECONOMIC DEVELOPMENT

(In millions of dollars)

Function	Program FY 1954	Program FY 1955	Proposed FY 1956
President's Fund for Asian Economic Development	-	-	200.0

General Narrative Statement

MEASURES TO ACHIEVE MAXIMUM COOPERATIVE EFFORTS IN THE ASIAN PROGRAM

In respect to our cooperative efforts in the economic and related technical assistance fields, the United States cannot undertake, even in combination with other Western countries willing and able to participate, to supply all the foreign exchange resources desired by Asian countries to carry out their development programs. Levels of capital investment required to achieve a self-sustaining rate of expansion in the free Asian countries have been variously estimated depending on the rate of growth assumed to be necessary. It is clear that no such resources are likely to be forthcoming, or such expansion achieved, without substantially intensified internal efforts in Asian countries themselves. Without such efforts, as well as the proposed contributions from this and other governmental programs, the viability of Asian economies cannot be sufficiently improved to justify the investment of capital by established public, or, even less likely, private lending institutions and investors at the rate required to produce a self-sustaining expansion. While the latter, given a more favorable investment climate in terms of both military and political-legal conditions can make a substantial contribution, the main sources of development resources must be the countries themselves. The capacities of the countries to generate the resources required will be increased by the stimulation of trade and investment flows within the region.

The mutual objectives most important to this program are to:

1. Support the Asian desire for continuing association with the West in general, and the U. S. in particular, as promising economic progress which the Communists contend can only be achieved by their methods.

2. Encourage greater regional cooperation on mutual economic development problems and thus increase the effectiveness of our aid and the resources of Asian countries available for economic development and to increase and make more effective economic assistance provided by other non-Asian countries.

ACTIONS REQUIRED

To accomplish these objectives in the free Asian area a number of positive actions are necessary on the part of the Asian countries, and by the rest of the free world in consonance with Asian views.

1. Dormant or ill-directed private funds must be directed towards production, rather than allowed to go into short

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General Narrative Statement (Continued)

run speculation or unnecessary consumption. Technical assistance to help in establishing the necessary institutional structure, and incentives built into the foreign assistance programs, would accelerate this process.

2. An effective consultative and advisory economic organization of free Asian nations should be established on a regional basis with participation by the United States and other countries which are and will continue to provide practical assistance to Asian countries in accomplishing their individual country programs.

3. Public lending institutions, particularly the International Bank for Reconstruction and Development, the Export-Import Bank and, when operative, the International Finance Corporation may be able to increase their already important participation in Asian economic development. About 10 percent of the total loans authorized by these institutions have been extended to the free Asian area.

4. Where Western European countries have indicated a desire to contribute to the Asian program, the United States should express the hope that they will do so.

5. The part that private investors and organizations can play is being examined continuously, and new methods of accomplishing cooperative endeavors between public and private programs should be sought.

6. A concrete and significant inducement, in the form of a portion of the Mutual Security Program of FY 1956, should be made available to help in the carrying out of the measures and objectives listed above.

THE PROPOSED FUND

There is included in the FY 1956 Mutual Security Program a fund of $200 million to be used to advance the above objectives and actions. The identity of this fund as distinct from the illustrative country programs will be maintained throughout its utilization. Broad categories of projects for which assistance under this fund may be applied are as follows:

1. Projects that will contribute in a clearly discernible manner to the promotion of greater economic development in the region as a whole, or among a natural grouping of countries of the region. Assistance may be afforded to projects in the public and private sectors that will result in general economic balance in countries of the region, or that will lead to capital investment within the region from external private sources, or to use of loans made available through established lending agencies.

2. Basic development projects that are required to provide individual countries with necessary transportation, communications, power, and other public capital. This is appropriate when funds for such projects are not otherwise available and when the assistance provides an extraordinary stimulus to countries to mobilize their own resources for such undertakings. Incentives will be provided in connection with our participation in these projects to encourage countries to take initiative and adopt concrete measures to secure private foreign investment, mobilize investment capital resources through internal private or public channels, and to accomplish important reforms in public administration.

3. Should Asian countries work out a practical and acceptable mechanism of regional consultation for the development of means for the expansion of healthy intra-regional cooperation, trade, investment and development, the U. S. would make an appropriate contribution from the fund toward the administrative cost of such a regional organization.

RULES TO BE APPLIED

1. All allocations from the fund would be on a bilateral basis with the U. S. and the cooperating country making the decisions on projects to be assisted.

General Narrative Statement (Continued)

2. To the maximum extent feasible, and generally when development assistance is involved, aid from the fund would be on the basis of repayment to the United States, whether in dollars or local currencies.

3. The fund would be used as much as possible in association, or in close cooperation with private investment undertakings.

DISTINCTION BETWEEN THE FUND AND COUNTRY PROGRAMS

The principal points of distinction between the uses of the proposed Fund and individual country programs recommended elsewhere in this presentation, are as follows:

1. Purposes to be Achieved

As implied above, the main objective of the Fund is to stimulate regional cooperation by assisting in financing economic development projects of importance to the programs of two or more countries. The Fund will be obligated as meritorious projects are developed, thus avoiding some of the disadvantages that may flow from allocating a predetermined amount of aid on a country by country basis. The Fund will be used in a manner complementary to, but not a replacement for regular country programs which are designed to deal with country by country security and economic problems.

2. Administration

The Fund, as distinct from the country programs, will be administered on a flexible basis in respect to (a) time of obligation and expenditure of funds, and (b) the consultation that may be involved in the program. Although the amount of the Fund is based on our best estimates of an appropriate initial allocation for the program, it is proposed that these funds be made available for use over a period of years. The extent and timing of their obligation will depend on whether sufficient projects are proposed which are thoroughly supported by carefully worked out economic and engineering surveys and in the long run interests of Asian regional development, and on whether the interests of the United States require such obligation. In order to assure that the interests of all Asian countries that may have a concern in a particular project are taken into account, and to provide strength and substance to the work of the proposed regional organization outlined below, the U. S. may wish to consult from time to time on the program with such an organization.

3. Supplement to Defense Programs

With the exception of limited funds for technical cooperation, all other programs proposed for the Far East and Pakistan, in fiscal year 1956, are for the immediate support of defense forces, or are designed to add to the productivity of these economies so that they can eventually support their defense establishments with less U. S. assistance. This Fund will also help build up the economic strength needed for expanded defense programs should the need arise, but this is not its primary purpose. Rather, by stimulating greater economic and political unity in the area and by providing the incentive for the planning and development of projects of long-term value to the region, as well as the individual countries, it is intended to supplement programs concerned only with military objectives. The Fund will also be concrete evidence that the United States is concerned about the serious economic difficulties that are confronting free Asian countries as they undertake their economic development programs, difficulties which in many of these countries are compounded by their defense programs. The investment of $200 million on terms more liberal than these countries could borrow elsewhere, if such credit sources were available to them, will repay the United States amply in political, psychological and economic terms.

MAJOR LONG-RANGE EFFECTS AND RELATIONSHIPS TO BE FOSTERED

1. Regional and Non-Asian Relationships

With exceptions of the activities of the United Nations Economic Commission for Asia and the Far East (ECAFE),

General Narrative Statement (Continued)

and the annual meetings of the Consultative Committee of the Colombo Plan, there is no regional forum in which free Asian countries can meet to consider broad common economic problems, or to discuss such problems with friendly non-Asian countries. The role of the Economic Commission for Asia and the Far East is essentially that of a study group, and the participation of the USSR colors its consideration of regional problems. An association based on the present Colombo Plan framework as outlined below, which would be chiefly Asian in membership and purpose but with participation by representatives of the United States, the non-Asian commonwealth powers, and perhaps other countries or organizations able and willing to make a material contribution to Asian development, would accomplish a two-fold purpose. It would:

a. Promote better knowledge of and appreciation for Asian resources and capabilities among the countries of the area, thus resulting in the more effective use of such assets in the interest of regional development.

b. Contribute importantly to allaying Asian suspicions held over from former colonial relationships by bringing non-Asian countries in as contributors and thus increase free world solidarity.

2. Relations between Japan and Other Free Asian Countries

Through her relatively advanced industrial status, and by virtue of the special aptitudes of Japanese technicians and products for the development of South and Southeast Asia countries, Japan potentially is in a position to make an important contribution to their economic advancement. However, bilateral relations between Japan and other free Asian countries are limited by attitudes which are a natural heritage of the war. Japanese participation as primarily a contributor in a broad regional context would help to dissipate these attitudes which are injurious to free world solidarity.

3. Viet Nam, Laos, Cambodia, Thailand Area

This area is particularly vulnerable to covert and overt Communist expansion in Southeast Asia. The maintenance of its independence and stability requires the maximum unity of effort among free Viet Nam, Cambodia, Laos and Thailand that is consistent with their national sovereignties. There are a number of projects or programs in this immediate area for which unity of approach is necessary among the countries themselves and with the United States, France and other friendly countries. The exploitation and possible development of the great Mekong River Valley, the sixth largest river in the world, is perhaps the most dramatic example of the interdependence of the four comparatively small countries in this area. A contribution might also be made to such a project by an effective regional organization encompassing the free Asian area generally.

4. Pakistan-India-Nepal

The internal progress and in part the external security of India, Pakistan and Nepal depends upon the working out of certain problems which are common to two, or all of these countries. Irrigation, industrial development, communications and transportation are special areas of common interest. Harnessing the Kosi River, which flows from Nepal to India, to control floods and develop power and irrigation is a specific example of the need for joint efforts.

The planning in a regional forum of certain of the technical and economic problems associated with the carrying out of this program need in no way detract or weaken U. S. bilateral relations, or the right of the U. S. to determine independently the end-use of any funds we may provide.

ORGANIZATIONAL FRAMEWORK ENVISAGED

The Consultative Committee of the Colombo Plan for Economic Development in South and Southeast Asia, to which the

General Narrative Statement (Continued)

United States belongs as a full member, appears to provide an existing framework upon which a satisfactory regional organization can be constructed. The Colombo Plan as conceived by the Commonwealth Prime Ministers in 1950 was an attempt to bring the underdeveloped countries in South and Southeast Asia together with advanced countries in an effort to increase output in the region at a rate that would outstrip population growth. Geographically, the Plan now includes all countries of South and Southeast Asia except Afghanistan. It also includes the United States, New Zealand, Australia, Canada, Great Britain and Japan. Aid under the Plan is arranged between supplier and recipient on a bilateral basis. The only multilateral aspect is a small Bureau of Technical Cooperation and Information Unit in Colombo, which acts mainly as a clearing house for information and to a minor extent in an evaluation capacity. An annual ministerial meeting of the Consultative Committee is held to discuss and report on progress in economic development. The Committee has no permanent offices, staff or secretariat. The Bureau of Technical Cooperation has a small permanent office in Colombo, the cost of which is financed from its own administrative funds contributed by its members. The U. S. does not participate in this activity.

U. S. bilateral assistance to members of the Colombo Plan, such as India and Pakistan, differs in no substantiative sense from contributions of other non-Asian countries, such as Canada and Australia. When the Plan was started in 1950 it was understood, however, that their contributions would continue at a more or less constant level over a term of years from 1950 to 1956. No such implied commitment has been made in the case of United States assistance, nor is such commitment now contemplated. However, our financial aid to Colombo Plan countries is reported on and publicized in the annual report of the Consultative Committee in the same way as that provided by the other donor countries. The principal recipient countries also make some contributions to each other in the technical assistance field.

Recent exchanges of views with both Asian and non-Asian members of the Colombo Plan have indicated a sense of need for certain additions to the present almost negligible administrative and technical staff of the organization. The secretariat and technical staff might be particularly useful in performing an objective evaluation of projects of concern to more than one country of the region. As in the case of the OEEC, the organization would have no decision-making responsibility with respect to aid funds or bilateral programs.

PROPOSED LEGISLATION

United States aid funds would be used more effectively in coordination with both internal and external resources otherwise available to Asian countries, if there could be an indication on the part of the United States Congress that a program to increase the economic strength of the region will require sustained efforts and will require considerable time.

In view of the length of time required to develop and engineer projects up to the point where countries can most advantageously invest capital in them, it would be highly desirable not to require that the obligation of this special Fund be completed during the fiscal year 1956. This would enhance its effectiveness in attaining the objectives of the program.

As indicated above, it is expected that a major portion of this Fund will be made available on a long-term loan basis on terms substantially similar to those applying to the rest of the Mutual Security Program loan program. Inasmuch as it may be necessary to use a portion of the Fund for projects where loans would be inappropriate and for United States participation in the above-mentioned expanded Colombo Plan organization, it would not be desirable that all or any fixed portion be required to be used exclusively on a repayment basis. Such portion of the Fund as the President deems necessary could then be made available on a grant basis, with the understanding that such grants would be limited as much as possible. The Fund, of course, would not be used even on a loan basis for purposes for which other funds, including loans from established public lending institutions, might be available. The basic premise of this program is that United States objectives in the area require that we make certain limited funds available for development on a repayment basis, but with longer and more flexible conditions for repayment than is possible in the case of regular lending institutions.

General Narrative Statement (Continued)

ILLUSTRATIVE PROJECTS

In presenting the following illustrative projects which might receive financial assistance from this Fund, no country by country breakdown of fund allocations is being proposed, since the Fund will be used to support meritorious projects as they are developed by countries in the area. Similarly, the projects are not subdivided between technical assistance and capital development categories of aid. In most of the projects technical assistance would be required preliminary to and as a basis for the investment of capital either from the Fund or from other sources. It also is emphasized that illustrative projects rather than an illustrative program are presented. Several of these projects have already been subject to considerable study but, as a group, they are intended to illustrate the types of activities for which the Fund might be used rather than as projects to which the U. S. Government is in any way committed.

1. Regional or Sub-regional Development Projects

a. The Mekong River Development

Thailand, Laos and Cambodia all have a vital interest in the irrigation, transportation and power potential of this large river basin in one of the most crucial areas of Southeast Asia. Such potential uses would require careful exploration and engineering studies of all aspects of the problem. A portion of the costs of this project, including initial surveys and evaluation, might be met from this Fund. Inland navigation, power for Laos, Cambodia and Thailand, irrigation, and development of the abundant timber resources of the area, could all be derived from this development.

b. Fisheries - Exploration and Development

The fish resources of this region are very extensive, but, except for Japanese fisheries and limited coastal fisheries in most of the other countries, their exact locations are not known with certainty and the techniques involved are primitive and in many cases destructive of basic fish resources. Some intra-regional technical assistance is already being provided by Japan but organization on a regional basis and the necessary minimum financial support is not available. The successful implementation of this project could add greatly to the protein supply in the area. Some capital could also be profitably invested in refrigeration and other facilities on a country by country basis and loans from the Fund combined with private and governmental resources could be soundly utilized.

c. Projects Related to Natural Gas Development

The further development of uses of Pakistan's natural gas deposits at Sui, in which some British private capital and IBRD funds have already been invested, would permit the establishment of important industries such as fertilizer production, which is in short supply in the region, particularly in India and Afghanistan. A fertilizer plant is under consideration in Hyderabad using Sui gas; its products might be available to Northern India. Similarly, another plant could be built in West Bengal (India) with part of the production going to East Bengal (Pakistan) where no gypsum or other raw materials are available for fertilizer. This would economize on transportation costs and further encourage cooperation between the two countries. Part of the financing of such projects may be obtained from private resources or from established lending institutions. However, the uncertainty of dollar savings from fertilizer production and sale in the subcontinent may make some loan financing from the regional fund desirable to encourage the undertaking of the joint natural gas and fertilizer projects.

d. Minerals Exploration, Transportation and Development

In most of the countries of free Asia, mineral resources are known to exist but the full extent, quality and grade of such resources are only superficially realized. In the Philippines, Afghanistan, and to a limited extent elsewhere, work is going forward under country programs to survey and evaluate some of these resources. The Economic Commission for Asia

General Narrative Statement (Continued)

and the Far East has also done some work on a regional basis on general geological surveys. With the help of technicians such as the Japanese who are knowledgeable on the requirements of their countries for mineral products, a considerable amount can be done of a regional technical assistance nature. There has been an indication that a good deal of local capital in the South and Southeast Asian countries, and Japanese capital, may be available for investment in this industry. Some investment has already occurred, for example, in the Philippine iron and copper resources. There is, however, an important deficiency of roads, short line railroads and harbor facilities required to expand the output and reduce the cost of minerals production, both for domestic use and export. These facilities cannot be financed, in most instances, by private interests due to the risk involved and because they are needed for other uses as well, and their costs should not all rest on the mining industry. Governments should usually be able to undertake the cost if long-term, low interest loans are made available. Examples are the rail, loading, and production facilities involved in the development of the iron ore resources of India. This project has been under study for about two years by Japanese and Indian authorities. The ore is of good quality and its export only requires the construction of rail and port facilities. The development of larger Indian-Japanese trade is important to the economic unity and strength of the area as a whole. Some private investment, possibly to provide for initial processing of the ore in India, might be associated with this undertaking.

e. Transport and Communications Development

In several major portions of the region, improved transportation and communications, especially across land frontiers, would contribute very substantially to the mutual economic development of two or more countries. This is particularly true in the Indian subcontinent where between India and Nepal, Pakistan and Afghanistan, and between East and West Pakistan, transport and communications are unsatisfactory. The political relationships and cohesion of the area are thereby retarded. Prejudices and rivalries stemming from the past, together with the strained financial resources of the countries involved, prevent a satisfactory solution to these problems. Allocations of funds under this program could, if combined with local resources, and perhaps technical assistance, act as a lever to accomplish some of these undertakings.

For example, inland water transportation between Calcutta and points in East Pakistan could be substantially improved by the adoption of modern tugs, barges and other inland water craft. A United Nations expert from Holland has already made a survey of this project. It involves the purchase and demonstration of equipment estimated at about $2 million. The United Nations Technical Assistance Administration might be able to furnish the technicians required if the equipment were available. In view of the importance of inland river transportation to many countries of South and Southeast Asia, this project would be of substantial demonstrative value throughout the area. In order to assure proper servicing of the water craft, a training center for diesel engine mechanics would be established which would service the equipment, as well as train mechanics for servicing vessels in the future.

2. Production Projects

Increases in the productivity of free Asian countries requires a combination of capital investment, technical knowledge, and initiative and management, none of which are now present in adequate quantity. Some of the suggestions made below for regional training projects would contribute substantially to meeting the last two of these three requirements. Private foreign ventures in the area, in combination with local interests, would contribute to all three. Increasing attention is being paid to ways of bringing about such investment in U. S. programs. Long-term loans from this Fund cannot meet any large portion of the capital investment that would be required in industrial categories to cope with problems of unemployment and low productivity in the area. However, it is intended that such funds, in cooperation with internal and external private investment, and other resources, be used to encourage small and medium sized industrial

General Narrative Statement (Continued)

projects. This may be done under one or a combination of the following techniques:

a. To provide, through a participating country or its financial institutions, a portion of the foreign exchange cost of a new enterprise where a concern in an Asian country has entered into an arrangement for a joint venture with an American company, principally to utilize the latter's technical and managerial capacities in the initial years of construction and operations. Financing from the Fund would be on a loan basis and usually through a local financial institution. The American concern might also invest capital in the project, perhaps in sufficient amount to retain control. Such an arrangement might be made in a situation where otherwise, either the host government might not encourage foreign investment to take place because of the future foreign exchange costs of profit and capital remittances involved, or where an economical unit would require an investment by the American company beyond its desire to risk its capital in the venture. The United States would look to the participating country for repayment.

b. To provide the minimum amount of foreign exchange required to permit the establishment of small local industries where, owing to limitation of the local market or other economic hazards, the risk involved is substantial, but where the industry would contribute in large measure to employment opportunities or to the fuller utilization of indigenous materials. Industries which might qualify for assistance are those in which local investors are willing to risk capital, but not foreign investors, and where the foreign exchange position of the country does not permit an allocation of dollars to purchase equipment. In the Philippines, a device has been utilized under which the commercial banks, which had not previously been willing to invest capital in long-term small industry loans, were willing to do so when the necessary foreign exchange and certain loans and guarantees from the counterpart fund were made available to them. Simple farm machinery, furniture, forest products, housing materials from indigenous raw products, improved rice and fish processing plants are examples of industries adaptable to Asian countries. The U. S. would look to the governments concerned for repayment.

3. Regional Training Centers

As is well known, Japanese agricultural techniques, as evidenced by crop yields, the use of fertilizer, and diversification and quantity of agriculture products, are well in advance of most other countries in the Far East and South Asia. Consequently, the establishment in Japan of an Agricultural Training Center, which might train several hundred participants from other Asian countries each year, has been proposed by the Japanese Government. Participants from India, Indonesia and other countries, are already visiting Japan in substantial numbers. No insurmountable political, or other problems, seem to be associated with this project, and it is strongly recommended by those conversant with Far East agriculture problems.

Together with the shortage of capital and engineering and other technical capacities, the lack of business initiative and skill is conceded to be a major impediment to industrial and other economic advances in the private sector of Asian economies. Reputable institutions for business education are not available in most of these countries. The establishment of a regional management training center would greatly reduce the cost and the time involved in acquiring training of sufficient thoroughness to meet practical requirements in the region. The association with such business training center of a U. S. educational institution of appropriate stature is proposed. In the same general category would be some additional assistance on a regional basis to the Agricultural College of the University of the Philippines, to which we have been making a contribution for some time, and which requires only a modest amount of additional support to make it a valuable organization for regional training and scientific agriculture.

Japan has built up her home and small scale industry to the point where it constitutes a significant segment of her total industrial structure. In most other countries of the region beginnings have been made, but usually the development of efficient production and distribution facilities has not yet occurred. The utilization of Japanese techniques together with the pooling of the most efficient special skills and experiences of other countries in a regional training center seems to offer considerable promise of developing small scale labor-intensive

General Narrative Statement (Continued)

industry. The need for this to cope with unemployment, to produce simple consumer goods required to meet local demands and reduce foreign exchange expenditures, as well as produce for export, is everywhere apparent.

Governments and experts familiar with the needs for available training centers in the area have suggested a large number of other fields in which the specific aptitudes of one country could be utilized for the betterment of a substantial grouping of other countries. Nearly all of these undertakings could be tied in one way or another to U. S. educational, or other research and training organizations, with the help of reasonably modest allocations from this Fund. One example would be a regional testing laboratory for agricultural implements and machinery best adapted to rice and other crops of the area. A large variety of such tools are presently utilized in the different countries with very little standardization or interchange of technical information. Improvements and standardization of these tools would not only increase the efficiency of agriculture, but might give rise to small or medium scale local industries to produce them in some of the countries for both domestic and export markets. Japan, of course, might derive substantial benefit from this in expanding her markets in Southeast Asia, but other countries such as the Philippines, India and Pakistan might also develop specialized production based on regional requirements.

The organization of these and other regional training facilities, possibly under the aegis of the Colombo Plan organization, offers many opportunities, not only of raising the incomes and coping with other economic problems of the countries of the region, but also of developing associations and relationships of great value from a political and security point of view.