



U. S. FOREIGN AID IN EAST ASIA

PROPOSED FISCAL YEAR 1972 PROGRAM
AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL NOTE

This is an excerpt from the Agency for International Development's Program Presentation to the Congress outlining the President's foreign aid request for fiscal year (FY) 1972.

The terms "foreign assistance" or "economic assistance," as used in this volume, usually refer only to economic aid programs conducted under the Foreign Assistance Act and exclude other foreign assistance such as the Food for Peace Program under Public Law 480, the Peace Corps and the Military Assistance Program, as well as other economic programs such as those carried out by the Export-Import Bank.

Figures for fiscal years prior to 1971 are actual commitments. FY 1971 figures are estimates made at the time this volume went to press in June 1971. FY 1972 figures are illustrative proposed programs based on the FY 1972 appropriation request and anticipated receipts and recoveries.

Countries in East Asia where AID proposed economic development programs for FY 1972 are shaded in the cover map.

(Vietnam is not a part of A.I.D.'s East Asia Region and is, therefore not included in this booklet.)

EAST ASIA

TECHNICAL COOPERATION – REGIONAL SUMMARY

PROGRAM SUMMARY (In millions of dollars)						
FY	Agricultural & Rural Development	Population & Health	Education & Manpower Training	Industrial & Urban Development	Program Development & Support	Total
1970	5.8	8.0 ^{a/}	10.0	1.1	5.5	30.4 ^{b/}
1971	8.1	9.3 ^{a/}	8.6	0.9	6.4	33.3 ^{b/}
1972	6.9	11.3	9.4	0.9	5.3	33.8

a/ Includes Development Loan funded grants of \$6,889,000 in FY 1970 and \$8,390,000 in FY 1971 for population programs under Title X of the Foreign Assistance Act.

b/ Excludes Public Safety of \$1,216,000 in FY 1970 and \$1,247,000 in FY 1971, which is included in the Economic Supporting Assistance presentation for FY 1972.

FY 1972 technical assistance is proposed for three countries in East Asia – Indonesia, Korea, and the Philippines. In addition, technical assistance is requested for a regional program which involves several East Asia countries working together on common problems such as education, agricultural research and river basin planning.

Although each of the three countries has made significant economic progress over the recent past, continued growth will depend upon constantly expanding technology and the continued development of human skills and abilities to apply the new technology to developmental tasks. Improvements in the well-being of the people of the region will also depend upon achieving a population growth rate which is less than the increase in output of goods and services. It is to these goals that U.S. technical assistance programs are addressed.

Apart from family planning projects, our technical assistance in East Asia focusses on the priority areas of agriculture and education. The bulk of the population in each of the three countries receiving U.S. technical assistance gains its livelihood from agriculture. Despite the increases of the Green Revolution which produced rapid increases in grain production, protein malnourishment continues to be widespread. Despite lower costs of production, the benefits have not accrued to the farmers. Further production increases necessary to raise rural incomes continue to depend upon the use of improved plant strains, fertilizers, insecticides, and better techniques of cultivation. These improvements in turn require adaptive research and supporting institutions. Furthermore, equitable distribution of increased income can depend upon enlightened fiscal governmental policies.

Thus, we are assisting each of the countries in agriculture, working to strengthen their research capability and their supporting institutions but concentrating primarily on training the people necessary to develop and spread the improved technology. Additionally, we are working as closely as possible with all levels of government in the formulation of enlightened policies to promote increases in agricultural production and the equitable distribution of the resulting increases in income.

In 1972, we plan to assign 48 Americans to work in agriculture and rural development activities in East Asia. We also plan to train a total of 118 nationals of the three countries either in the United States or in a third country. Of the total of \$33.8 million requested for technical assistance in the region in FY 1972, we plan to spend \$6.9 million in agriculture and rural development.

In Indonesia and Korea, the scarcity of skilled manpower constitutes a real brake on the pace of economic and social development. Thus, our largest programs of technical assistance in those two countries are in the fields of education and training.

The need for specialized skills and talents in Indonesia is particularly acute in the field of agriculture. Thus, we have concentrated our educational assistance there in (a) helping two advanced universities in graduate agricultural teaching, research, and extension, and (b) providing training abroad for Indonesians in agriculture and also in other fields which are critical to achievement of development goals.

Rapid economic development in Korea has outpaced the ability of the educational system to supply needed technical and managerial skills. This rapid economic growth has also been accompanied by increasingly urgent socio-economic problems such as inadequate housing, medical services, and other imbalances due to over-rapid urbanization. Thus, our technical assistance in education in Korea is focussed on helping (a) improve the planning for accelerated expansion of the educational system, and (b) develop institutions which will lead to better understanding of social problems and actions needed to resolve them.

In total, we plan to provide \$9.4 million in FY 1972 technical assistance funds for education and training purposes, including the funding of 51 United States technicians and 397 participants.

With much of the benefits of economic growth being absorbed by rapidly expanding populations, there seems little chance of materially improving the well-being of the East Asians unless current population growth rates are reduced. Thus, the largest share of the FY 1972 technical assistance funds requested for the area will be allocated to family planning and health projects.

Family planning programs are underway in each of the three countries — Indonesia, Korea, and the Philippines. We plan to allocate \$10.3 million in FY 1972 to support those country programs and a regional family planning program designed to provide training and research activities which have significance to more than one country.

The basic thrust of our assistance is to help each country expand its family planning services to reach as many women of child-bearing age as possible. Thus, we assist in training personnel, providing supplies, developing data and evaluation systems, and undertaking research programs.

In addition to the assistance outlined above, we plan to provide limited technical assistance in FY 1972 in the field of industrial and urban development. We propose a total of \$931,000 primarily to assist with (a) a geological survey and a promotional center for private investment in Indonesia, and (b) the modernization of Korean money and capital markets, and governmental planning for the further development of Korean science and technology.

AGRICULTURAL AND RURAL DEVELOPMENT

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Technical Cooperation	5.8	8.1	6.9

In 1970 total food production in East Asia was about 25% higher than it was in 1960. On a per capita basis, however, food production in 1970 was only 5% in higher than it was in 1960, a growth rate of less than 1/2% per year, for the decade of the 1960s. Moreover, there was extensive malnourishment in the region in 1960, and the marginal increase in per capita production has done little to alleviate the problem.

Gains in total agricultural production during the 1960's were about the same as those achieved in food production alone. However, agricultural production on a per capita basis actually declined in Indonesia, due largely to the severe disruptions of the last years of the Sukarno regime, and remained about the same in the Philippines.

In view of the fact that the period witnessed a major break-through in the development of high-yielding rice strains the resulting performance was particularly modest. While the potential of the Green Revolution has not been fully realized, it did account for a portion of the increased production.

The performance in East Asia in increasing agriculture production reflects a number of continuing problems:

- (1) With the development of high-yielding rice strains, attention has been focussed on rice production with little effort to expand other crops. A much greater effort must be launched in research and extension to develop and disseminate improved seeds and technology for other crops.
- (2) The full potential of improved technology in rice as well as in other crops (the use of improved seeds, fertilizer, and cropping practices) depends upon expansion of existing institutions and facilities to meet the greater credit, storage, milling, distribution, and marketing needs.
- (3) Farmers must be assured of adequate return on their investment to motivate widescale adoption of both the new rice strains and other crops such as sorghum, corn, etc.

Research

We are providing advisory assistance, training and limited commodity support to help develop a more effective research capability in Indonesia. A contract with the International Rice Research Institute (IRRI) of the Philippines will finance a share of this multi-donor effort which includes Japan, the Netherlands and the Ford Foundation. As a first step in improving coordination and administration of overall food crop research in Indonesia, advisory assistance will be provided to the Ministry of Agriculture to strengthen research administration. The FY 1972 cost of this project is \$305,000.

In the *Philippines*, techniques and methodology successfully employed to achieve rice self-sufficiency will be adapted to the production of corn, sorghum, fruits and vegetables. Specific programs to increase swine and poultry production are being developed in that country. A project begun there in FY 1971 to establish two inland fisheries research facilities, one for fresh-water fish and one for brackish-water fish, will be continued in FY 1972.

Additional feasibility studies for rural electrification cooperatives in the Philippines will be undertaken under a program designed to eventually establish 24-36 cooperatives.

While *Korean* agricultural research has been successful in developing a high-yielding rice variety adapted to Korean conditions, further research is needed on a broad front to develop improved seeds and technology in other areas. Under a joint project, A.I.D. will furnish advisors to the Koreans in the planning and coordination of their research efforts.

A number of research programs have been launched on a regional basis with benefits expected for more than one country. These are receiving multilateral support and merit U.S. assistance.

A total of \$1,375,000 in Technical Assistance funds is proposed in FY 1972 for these activities:

- support for maintenance and expansion of research and training at the IRRI in *the Philippines* at an annual rate of \$750,000. The Ford and Rockefeller Foundations are each contributing equal amounts and additional support is expected from other donors.
- support for the regional Asia Vegetable Center in *Taiwan* (\$525,000) which will develop new varieties of vegetable seeds and improved technology adapted to the conditions of Southeast Asia.
- support for the Japanese-initiated Southeast Asia Fisheries Development Center (\$100,000). The Center includes a research department in

Singapore and a training department in Bangkok. Japan, Thailand and Singapore have all contributed to this project and have also shared operational costs.

Infrastructure

Both *Korea* and the *Philippines* have concentrated on the development of infrastructure as the primary incentive to greater agriculture production. As a result, while strains have appeared, particularly in the Philippines, in individual elements, the supporting services and facilities demanded for the rapid increase in rice production in these two countries have on the whole done an adequate job.

Milling, storage, and marketing systems have been pressed sorely in the Philippines by the Green Revolution, and we plan to continue to provide support in the form of advisory services, training, and essential commodities to the Philippines Government to assist in expanding and upgrading these systems. The whole marketing process in Korea will be studied in connection with U.S. supported efforts to build a Korean research and planning capability as a basis for national policies.

In *Indonesia*, however, the institutions and facilities needed for expanded agricultural production are inadequate across a broad spectrum of educational, credit, distribution, and marketing sectors. Thus, the United States is assisting the Indonesian Government's Agriculture Extension (BIMAS) program which aims to increase food production, particularly rice, by accelerating application of modern technology, expanding and increasing the efficiency of the agri-business sector in providing new production inputs, expanding the availability of production credit on reasonable terms, and increasing the capability of the marketing system to merchandise the additional production at terms equitable to both producer and consumer.

While assistance is continuing in farmer education, our joint project will increasingly emphasize distribution of inputs, marketing, credit availability, and the broad area of agricultural incentives. An A.I.D.-financed Tennessee Valley Authority (TVA) team is providing short-term management assistance to the Government's fertilizer distribution agency and will be conducting a training course in fertilizer marketing. In addition, an A.I.D.-financed contract team is currently conducting a study of rice marketing, storage, and processing prior to major capital investment in these important areas. Short-term assistance is also being provided in the preparation of legislation concerning seed certification and criteria. In FY 1972 funding of \$185,000 is required for these activities.

Rural Development

Policies of central governments towards rural areas and the effectiveness of rural and provincial governments continue to be major concerns in East Asia. Generally, industrial and commercial growth has outstripped that of agricultural, and rural/urban disparities in incomes and living conditions continue to grow. At times, price ceilings on agricultural products have benefitted the politically-vocal urban consumer to the detriment of the rural farmer. The benefits of increased productivity are often not returned to the farmer to the extent necessary to induce greater output. There is at best a very sensitive balance between farmer subsidization (either directly as price supports or indirectly as improved infrastructure or irrigation systems) and consumer protection in terms of price ceilings and lower general taxes. However, the balance becomes much more delicate in basically agricultural countries where over half the population derives its livelihood from agricultural pursuits.

A.I.D. is helping to identify problems and to seek solutions in these areas in both Korea and the Philippines. In *Korea*, one project includes advisory services and training in both production techniques and the whole area of governmental agricultural policy, including such subjects as land rearrangement, agri-business activities and marketing systems. Under other projects, the United States assists in both undertaking research on Korean socio-economic problems and developing the Korean research capability to improve governmental policies, many of which effect the pace and direction of rural development.

In the *Philippines*, U.S. technicians are working with national agencies, universities, private institutions, and provincial governors to improve local government administration and services. The establishment of Provincial Development Councils and 3 to 4-year development plans are being encouraged. Research and demonstration activities are being undertaken in cooperation with the University of the Philippines, private organizations, and local governments. These activities include testing and evaluating developmental problems, new methods of improving tax assessments and collections, and the development of more effective organizational systems. Training programs are also being developed with the University of the Philippines. We plan to allocate a total of \$725,000 to this project in FY 1972.

As a quite different aspect of rural development, we also intend to assist the *Mekong Basin Program* as a multilateral planning effort for rural areas of four riparian countries — Laos, Thailand, Cambodia, and South Vietnam. For FY 1972, \$1,417,000 in technical assistance is being requested to support this program.

The Mekong program assists the Mekong Coordinating Committee (MCC) in planning the development of the Lower Mekong River Basin. The Mekong River is the major single natural resource of mainland Southeast Asia. Exploitation of

its hydro-power and irrigation potential could transform the Mekong Basin into a great power and food-producing region. As one of 27 countries, in addition to 12 United Nations agencies, participating in the Mekong Committee's work, the United States has contributed approximately 17% of the total resources so far devoted to the Committee's program.

The plan's aim is to identify development strategies and project priorities and recommend administrative and financial arrangements. United States-financed data and computerized systems analysis used by the MCC have helped in the completion of a first draft of an indicative Mekong Basin plan. The Committee is also expected to identify additional planning and research requirements needed to supplement economic and engineering project feasibility studies.

POPULATION AND HEALTH

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 <u>a/</u> Actual	FY 1971 <u>a/</u> Estimated	FY 1972 Proposed
Technical Cooperation	8.0	9.3	11.3

a/ Includes Development Loan funded grants of \$6,889,000 in FY 1970 and \$8,390,000 in FY 1971 for population programs under Title X of the Foreign Assistance Act.

In 1950, the population of the less developed countries of East Asia (excluding Communist China and Japan), totaled 185 million people. In 1965, it was 275 million – an increase of nearly 50%. By 1980, it will, if present growth rates continue, be over 400 million: At the same time, however, food production is growing only at a moderate rate.

Approximately 190 million people live in Indonesia, Korea, and the Philippines, the East Asian countries in which we are supporting family planning programs with technical assistance funds. Almost two-thirds of these people live in Indonesia whose population of about 120 million is growing at a rate of about 2.6% per year. Korea's population of 31.8 million is growing at a lower rate, 2.2% per year, and the Philippines' population of 38.4 million is growing at the fastest rate of the three, estimated at 3.4% per year.

Active family planning programs are underway in each country. The United States is increasing its support to these programs and plans to allocate \$11.3 million in FY 1972 technical assistance funds, or one-third of the total for the region, to the Population and Health sector.

Indonesia is the sixth most populous country in the world. At present growth rates, 2.6% per year, its population of about 120 million would double in 27 years. Two thirds of the population live on 7% of the land – the islands of Java, Madura, and Bali which have a population density of about 1,500 people per square mile. This is the world's highest concentration of population engaged in agricultural and compares to a figure of about 700 people per square mile in the highly industrialized State of Massachusetts.

In recognition of the need for family planning services, the private Indonesian Planned Parenthood Association began programs in the late 1950's. However, official endorsement and support of family planning programs by the Government of Indonesia did not come until 1967 when President Suharto adopted a positive policy that laid the groundwork for the establishment of public bodies to provide coordination and leadership for a national program.

In 1970, a National Family Planning Coordination Board was established by the Indonesian Government. The Board drew up a five-year plan (based on study jointly undertaken by IBRD/UNDP/WHO) which was approved by the Indonesian Government in late 1970. The targets of this plan are to have five million women practicing family planning by 1976 and a reduction in the population growth rate to 2% per year by that date.

The national program is concentrated on Java and Bali and will require both increased budget allocation by the Government (up 200% in 1971-1972 over the previous fiscal year) and continued support from foreign donors.

In FY 1972 the United States proposes to allocate \$1,825,000 to continue strengthening family planning medical/clinical services in Indonesia through the provision of advisory services, training and commodities. Commodity assistance will include contraceptives, vehicles, and equipment for the rapidly increasing number of clinics offering family planning services.

To further support family planning services, two closely related sub-activities are being started in FY 1971. The first will help train health educators required to staff Indonesia's expanding family planning program. The second will help develop Indonesia's ability to process, collect and evaluate statistical data essential to an effective family planning effort.

Korea was the first of the three countries to recognize officially the need for family planning. Faced with the resettlement of some six million refugees from North Korea and a post-war "baby boom," the country's population had reached a growth rate of 3% per year by 1960.

In 1962, the Korean Government initiated a ten-year national family planning program which has brought the population growth rate down to about 2.2% per year. This reduction was achieved by the establishment of a network of family planning health centers throughout the country. 850 such centers had been set up by June 1970. A national training and research center has been constructed and equipped with aid from the Swedish International Development Authority.

A major goal of the Korean Third Five-Year Plan, which starts in 1972, is to reduce the population growth rate to 1.5% by 1976. Notwithstanding the record of progress to date, achievement of this goal will require revitalization of the family planning program. In FY 1972 A.I.D. plans to allocate \$800,000 for essential technical services, research and commodities.

The Philippines has a higher population growth rate, 3.4% per year, than either Indonesia or Korea. For a variety of reasons such as religious constraints and economic and cultural values favorable to large families, the Philippines

Government did not adopt a national policy on family planning until 1970. However, numerous public as well as private institutions have been active in developing family planning services since the early 1960's.

U.S. assistance began in FY 1967 with a grant of \$210,000. Since then, our assistance in population programs has rapidly expanded, reaching \$5 million in FY 1971. Our aid provides support for numerous public and private institutions engaged in information and education activities, training programs, population research, demographic studies, and clinical services. At present some 224 public and private family planning clinics are active in the Philippines, with the annual rate of acceptors having reached 300,000 women of child-bearing age in 1971. An additional 400 clinics are planned for FY 1972. The Philippines Government has established a Population Commission comprised of senior representatives from both the public and private sectors and has submitted proposed legislation to the Philippine Congress for an appropriation of funds to support the national Population Program. Included as an element of the program is a child nutrition activity that is designed simultaneously to educate Filipino mothers on family planning and on nutritional feeding of pre-school children.

A total of \$5.4 million is proposed for population and health programs in the Philippines for FY 1972. The United States will also continue its support to the Philippines Malaria Eradication program.

The A.I.D. regional program will help international organizations develop and maintain expanded family planning programs in East Asia. In FY 1972 \$2.3 million is proposed to finance: (1) a contract with the Population Council for advisory services and other assistance to countries in the region, (2) a family planning advisor working with the Colombo Plan, (3) continued support for the population program at the East-West Center in Hawaii, and (4) regional projects for the newly established Regional Population Program initiated at a meeting of Southeast Asian countries in Kuala Lumpur in November, 1970. This program includes demographic studies, training of key Asians, research, including evaluation of experience with contraceptives in Southeast Asia, and information activities.

EDUCATION AND MANPOWER TRAINING

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Technical Cooperation	10.0	9.6	9.4

Although significant improvements were made during the past decade in the educational systems of the less developed countries of East Asia, these systems have not kept pace either with accelerating popular demands for education or with the demand for skills to satisfy the manpower needs of the expanding economies. The literacy rate for the region as a whole, excluding communist countries and Japan, is only 57% and only about half of the school-age children are in school.

For FY 1972 28% of the proposed East Asia Technical Cooperation funds, or \$9.4 million, will address needs in education and training. These funds will be used in three broad areas: (1) specialized needs in the area of educational planning, research, and higher education; (2) basic training needs to meet shortages of administrative and technical manpower; and (3) regional needs in education through programs designed to help East Asian cooperative efforts involving the several countries working together on common problems.

Indonesia has a 43% literacy rate and only 38% of the age group between 5 and 19 attends school. Clearly, a large task lies ahead in developing an adequate educational system.

To provide a sound basis for long-range educational planning and development, the Indonesian Government is now engaged in a National Assessment of Education, with Ford Foundation assistance. In addition to providing a broad overview of educational problems and priorities, the assessment will also include in-depth studies of key educational sub-sectors by special task forces. The task force studies will cover the various levels and types of education, as well as educational planning, administration, and finance. A number of other donors, such as UNESCO, UNICEF, the World Bank, the Ford Foundation, are expected to provide assistance to this effort. In view of the present serious weaknesses in basic science education, its importance in the creation of skilled manpower, and U.S. expertise in this field, we have also been asked to provide assistance in this area. Thus we plan FY 1972 funding of \$45,000 to cover the costs of a consultant team to assess Indonesian needs and priorities in this field, as a basis for designing future year activities.

In view of the urgent need for specialized skills in agriculture, A.I.D. also assists graduate education and research at two leading Indonesian agricultural insti-

tutions, Gadjah Mada University and the Bogor Agricultural Institute. These institutions will serve as primary centers which in turn will provide assistance to the newer provincial universities. U.S. assistance totalling \$1.5 million in FY 1972 is to be provided through a contract with the Mid-West Universities Consortium for International Activities.

Korea has a relatively high literacy rate of 71% and about 65% of the Koreans between the ages of 5 and 19 years are attending school. However, needs for specialized education and training are emerging as the Korean economy continues its rapid growth. Further, the general quality of education is low and uneven, reflecting overcrowded classrooms, poorly planned and unrelated curriculum content, undertrained and underpaid teachers, and a scarcity of educational materials. Thus, the Koreans are planning a major effort to upgrade their educational system.

Modest U.S. technical assistance will support this effort in FY 1972, helping the Koreans to (a) develop an educational planning competence and (b) identify and adopt educational innovations which are practicable and effective. This assistance will include both technical advisors to the Korean Ministry of Education and training in the United States in education technology and development.

The rapid economic development of Korea has also created a number of socio-economic problems which the Korean Government must address. These include such problem areas as social welfare and social security for the newly-created work force, environmental quality, urbanization, and the provision of public services. To assist the Koreans in addressing these problems, the United States is providing advisors to work with Koreans on these problems and is helping establish a Development Institute which conducts research on public issues of national significance.

East Asia regional education programs will also be supported in FY 1972. The regional education program is helping to establish regional centers for advanced training, education and research in selected fields and to encourage Asian cooperation in education.

Most of the regional centers are sponsored by the Southeast Asia Ministers of Education Council (SEAMEC), formed following a meeting in 1965 of the Ministers of Education of seven countries (Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam). Cambodia has recently been accepted by SEAMEC as the eighth member country.

The SEAMEC projects are moving from planning and interim operations toward full implementation and we propose \$2,625,000 in FY 1962 to support them. A three-party agreement (SEAMEC, U.S., and Singapore) was signed in May, 1969

providing for construction and operations (over five years) of the Regional English Language Center in Singapore. The Regional Center for Graduate Study and Research in Agriculture in the Philippines began operations in July 1969, and the related construction of additional facilities was covered by an agreement signed in September 1969. The operational program of the Regional Center for Education in Science and Mathematics in Penang, Malaysia, began in July 1970, with agreement on related construction signed in May 1970. The five-year operational program of the Regional Tropical Medicine and Public Health program began in July 1970, and development plans of related national centers are under study. Interim activities of the Regional Center for Educational Innovation and Technology are under way at temporary quarters in Singapore, pending a move to Saigon. The Regional Center for Tropical Biology at Bogor, Indonesia, is now undertaking interim activities.

The Trustees of the Asian Institute of Technology (AIT) in January 1969 authorized a construction program of approximately \$5.5 million, after receiving pledges equivalent to over half of this amount from the Thais, Australians, and British, with the remainder planned for U.S. financing. For FY 1972 we are requesting \$908,000 for support of AIT.

Assistance is also proposed for other regional education and training programs in the amount of \$1,575,000. This will include: (1) support for the Southeast Asia Development Advisory Group and an A.I.D. research program (\$625,000), (2) financing for the Asian-American Free Labor Institute activities (\$800,000), and (3) the initial A.I.D. contribution to a regional management training center (\$150,000).

INDUSTRIAL AND URBAN DEVELOPMENT

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Technical Cooperation	1.1	0.9	0.9

U.S. technical assistance in the Industrial and Urban Development sector in East Asia has been limited as Indonesia, Korea, and the Philippines have been able to meet most of their needs for such aid in connection with capital loans and from other sources. For FY 1972 we propose \$931,000 to support that sector, primarily in activities designed to attract domestic and foreign investments.

Indonesia's mineral deposits, forestry resources, large labor force and vast market potential provide the basis for considerable private investment. The Indonesian Government considers such investment an essential source for domestic income, employment and foreign exchange and has given it an important place in its Five Year Development Plan. The U.S. technical assistance program is helping Indonesia develop these resources.

A Geological Survey Assistance Project, requiring \$353,000 in FY 1972, is intended to increase the Indonesian capacity to survey, map and appraise the country's vast, but as yet largely uncharted, geological and natural resources. The U.S. Geological Survey (USGS) supplemented by short-term experts, are helping train geologists, geophysicists and mapping specialists on the staff of the Indonesian Geological Survey (IGS). With USGS help, the IGS is accelerating the compilation of maps and interpretive reports in order to identify promising areas for further mineral investigation and development. This project also provides U.S. training for several IGS personnel each year and limited amounts of essential laboratory and field equipment.

To help Indonesia promote the orderly development of its rich forestry resources, A.I.D. is currently providing two short-term experts in forestry service organization and concessions management.

Beginning in FY 1972, we will provide assistance in the establishment of an Indonesian Private Investment Center. The Center is intended to facilitate both domestic and foreign private investment by providing advice and information on potentially attractive investment possibilities, aiding private entrepreneurs in preparation of investment applications and in their search for partners, and assisting them in obtaining necessary government approvals. U.S. contract advisors provided preliminary assistance to the Indonesian Government in reviewing investment laws and policies, updating an Investment Handbook, and developing the organizational plan for the Center.

Continued development of Korean industry will be dependent in large measure on the ability of the country to mobilize increasing amounts of domestic savings for investment in the private sector and to attract greater amounts of foreign equity and loan capital. We will provide technical advisors and consultants to modernize Korean money and capital markets and advise the Government on legislative measures and on governmental procedures to enhance the environment for foreign capital. In 1972, the technical assistance project for private enterprise development will require \$148,000.

Also of critical importance is the ability of Korean industry to remain internationally competitive. As Korean wage levels rise, the factors of technological efficiency, quality control and innovativeness will determine whether export markets are maintained and expanded. We will assist by providing technical assistance to Korean institutions involved in science and technology. For this, \$170,000 is programmed in FY 1972 for a U.S. technical advisor, short-term consultants, contract services and U.S. training of Korean scientists.

DEVELOPMENT LENDING – REGIONAL SUMMARY

PROGRAM SUMMARY (In Thousands of Dollars)	
Country	FY 1972 Development Loans
Indonesia	100,000
Korea	20,000
Philippines	20,000
Total	140,000

Substantial economic progress has been made throughout East Asia over the past decade. During this period, GNP of the non-communist countries has more than doubled in real as well as monetary terms. Excluding industrialized Japan and the war-torn states of Indochina, the combined GNP of the remaining countries is currently growing at a rate of about 8% per year, ranging from a low of 5.6% per year for the Philippines to a high of nearly 13% for Korea.

Reflecting this progress, Japan now has one of the most productive economies in the world and has become herself a leading donor of aid; the Republic of China no longer needs concessional economic assistance and Malaysia and Singapore have growing, self-sustaining economies. Thus, the United States is now providing development assistance to only three countries in the area: Indonesia, Korea, and the Philippines.

Per capita incomes in both Korea and the Philippines are well over \$200 per year. As a result of the excesses of the Sukarno regime, Indonesian per capita income is only about half as high or approximately \$100 per year and has only recently returned to the 1961 level.

Neither the spectacular growth in Korea nor the slower growth in the Philippines has been evenly distributed throughout their respective economies. Rural incomes in both countries have lagged behind those of urban areas, although the Philippines has recently made good progress in increasing rice production. Rapid industrialization in Korea has created a greater demand for managerial and technical skills than the educational system can provide. It is these disparities and internal stresses that require priority attention rather than the general pace of development itself. Thus, the United States economic assistance programs in both countries are focused on specific imbalances that need correction, leaving to other donors and commercial sources the general financial assistance still needed by the basic economies of the two countries.

A different situation exists in Indonesia which has not yet achieved either the level or the pace of development reached by Korea and the Philippines. In

Indonesia, attention must be focused on the overall level of outside resources required to pursue both stabilization and developmental programs. Excluding Red China, Indonesia is the largest country in the region in terms of both area and people. Aside from Indochina, it is also the least developed. The resources needed to expand capital investments and to supply raw material for the economy and thus to reach and maintain an acceptable pace of development are great. In helping meet these needs, the United States has joined some ten other donor nations, plus the IBRD and Asian Development Bank (ADB).

External assistance from other donors as well as from the United States has been critical to the economic progress of the region. Aid to the three countries from multilateral institutions, particularly the World Bank and the ADB, has grown from insignificant levels in the early sixties to over \$260 million in 1969.

Other donors have borne an increasing share of the aid to Korea. At the beginning of the last decade, the United States was in effect the only donor of aid to Korea and provided over \$200 million per year as compared to less than \$5 million from all others. The United States is now providing less than half of the aid extended to Korea.

The following table shows the total aid given to Indonesia, Korea and the Philippines for each of the last four years.

	Calendar Year			
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u> (est)
	(\$ million)			
<u>Indonesia</u>	<u>288.3</u>	<u>423.6</u>	<u>507.3</u>	<u>615.1</u>
U.S.	65.3	146.9	210.2	233.5
Other	223.0	276.7	297.1	381.6
Multilateral	(.1)	(11.3)	(73.2)	(124.3)
Bilateral	(222.9)	(265.4)	(223.9)	(257.3)
<u>Korea</u>	<u>309.9</u>	<u>318.8</u>	<u>388.9</u>	<u>423.6</u>
U.S.	195.8	241.9	173.1	202.2
Other	114.1	76.9	215.8	221.4
Multilateral	(13.1)	(20.3)	(107.6)	(105.9)
Bilateral	(101.0)	(56.6)	(108.2)	(115.5)
<u>Philippines</u>	<u>101.4</u>	<u>75.4</u>	<u>154.2</u>	<u>121.4</u>
U.S.	22.7	32.2	14.7	36.9
Other	78.7	43.2	139.5	84.5
Multilateral	(26.2)	(4.2)	(87.7)	(32.6)
Bilateral	(52.5)	(39.0)	(51.8)	(51.9)
<u>Total</u>	<u>699.6</u>	<u>817.7</u>	<u>1050.3</u>	<u>1160.1</u>
U.S.	283.8	420.9	397.9	472.7
Other	415.8	396.8	652.4	687.4
Multilateral	(39.4)	(35.8)	(268.5)	(262.8)
Bilateral	(376.4)	(361.0)	(383.9)	(424.6)

INDONESIA

DEVELOPMENT LENDING

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Development Loans	51.4*	56.4*	100.0

* Excludes \$430,000 in FY 1970 and \$1,750,000 in FY 1971 for population programs under Title X of the Foreign Assistance Act.

Indonesia has made substantial economic progress since the abortive communist coup in 1965. Following the disruptive foreign policy and severe economic dislocations of the Sukarno era, the country's new leadership turned its attention to domestic problem-solving. The first objective was a stabilization program to reduce the rate of inflation and re-establish sensible pricing for goods and services. The main tools employed for this purpose — with the advice of the International Monetary Fund — have been fiscal and credit restraints, abandonment of direct economic controls, rescheduling of the heavy foreign debt burden, and sizeable stabilization aid from abroad.

Along with aid from other donors, U.S. economic assistance — initially consisting primarily of stabilization loans and PL 480 — has made it possible for the Indonesian Government to pursue these necessary but difficult policies. The results to date have been impressive. The rate of inflation has decreased from over 60% in 1966 to under 10% in 1970. The economy has made steady gains in key areas such as exports, domestic revenues, revitalization of commercial trade and foreign and domestic private investment.

Aid to Indonesia is coordinated through the Intergovernmental Group on Indonesia (IGGI), chaired by the Netherlands and comprising 10 donor nations as well as the World Bank, International Monetary Fund and Asian Development Bank. The IBRD and the IMF, both of which maintain resident missions in Djakarta, play key roles in assessing performance and advising the donors on Indonesia's policies and assistance needs.

The IGGI meets twice a year to review Indonesia's current economic performance and consider requests for concessional foreign aid for the coming Indonesian fiscal year. Based on IBRD and IMF recommendations, the IGGI members contributed over \$200 million to Indonesia in CY 1967, about \$300 million in CY 1968 and over \$550 million in FY 1969/70, and they will provide an estimated \$600 million in FY 1970/71. Requirements for FY 1971/72 are estimated at \$640 million. As in 1970/71 the United States plans to provide \$125 million, or one-third of the \$375 million bilateral foreign exchange needs, and a fair share of the \$160 million food aid need.

As a result of the success of the stabilization program, the emphasis in development lending has shifted increasingly from general balance of payments support to priority requirements for the rehabilitation and development of the country's infrastructure. Therefore, in addition to program loans for essential commodities, such as transport equipment, industrial raw materials and machinery, the United States is now providing assistance for the expansion of a fertilizer plant and a cement plant, for electric power rehabilitation and expansion in Central Java and Sumatra, and for the engineering design of a new highway linking the rapidly industrializing Kjakarta/Bogor area.

The U.S. FY 1972 development lending program will center on efforts to stimulate greater productive investment through: (1) continued rehabilitation and expansion of basic infrastructure, particularly transport and power facilities which are necessary to induce greater investments; (2) establishment of industrial estates which can provide supporting services to industry in the most efficient manner, and (3) the import of raw materials and capital and intermediate goods as needed above the level that can be paid for by Indonesia's own export earnings.

The \$100 million development loan request for Indonesia in FY 1972 includes the following six loan proposals:

1. *Industrial Estates (\$5 million)* – Indonesia needs to take whatever steps possible to stimulate increased private investment. Industrial estates have proven successful for this purpose in many countries. A study is presently underway to identify the optimum location and requirements for a number of industrial estates (industrial parks) throughout Indonesia. Simultaneously, the Government of Indonesia is creating an autonomous Industrial Estates Authority which will have complete control of the approval of sites and financing. U.S. financing is contemplated for the engineering, land and site preparation, road construction and drainage, and construction of both off-site and on-site utilities for one or more of these selected estates.
2. *Djakarta-Bogor Highway Construction (\$15 million)* – The existing two-lane, 30-mile road between Djakarta and Bogor is the most heavily travelled highway in Indonesia, with approximately 9,000 vehicles using the road daily and traffic increasing at a rate of about 13% annually. In order to meet the exceedingly heavy traffic projections, construction of a new alignment has been proposed rather than rehabilitation of the existing road. The new highway will pass through one of Indonesia's most rapidly developing industrial corridors. In 1970 A.I.D. authorized an \$800,000 loan for the final engineering design work now underway in connection with this project.

3. *West Java High Voltage Transmission (\$15 million)* – Existing electric power facilities in the West Java area are overloaded and must be rehabilitated and expanded to meet existing and potential demand. Within the IGGI framework, the IBRD, West Germany and the United States are cooperating to renovate and improve integrated power systems in the areas of West and Central Java. This project contemplates the development of a high voltage transmission loop, coupled with relatively low-cost electric power at Tjirebon. This transmission loop will tie into systems in Central Java being financed under existing A.I.D. and German loans.
4. *West Java Power Distribution (\$15 million)* – This project is directly related to the West Java High Voltage Transmission Project and involves the rehabilitation and improvement of the distribution systems of the major cities and towns in West Java.
5. *Djakarta International Airport (\$20 million)* – The present Djakarta airport is clearly inadequate to accommodate the projected increases in air traffic. A study on the feasibility of expanding international airport facilities is presently near completion. The proposed project contemplates expansion of runways, ground facilities, air navigation aids, communications, and terminal facilities. It is expected that other IGGI donors will share in the financing of this project and that construction will be accomplish in stages over a number of years.
6. *Production and Basic Import Loan (\$30 million)* – On the basis of present utilization of the FY 1971 \$30 million commodity import loan we anticipate that additional commodity financing will be required early in FY 1972. This loan will provide foreign exchange financing for essential raw materials, spare parts, machinery, and equipment for the Indonesian private sector. These imports will assist Indonesia in maintaining economic stability and in supporting the material requirements of economic rehabilitation and development.

Another possible development loan proposal that could materialize in Indonesia in FY 1972 is for the Telukbetung-Sumur Road. This \$10 million project involves the construction of a 58 mile road from Telukbetung to Bakauhuni in South Sumatra. It also provides for the construction and rehabilitation of ferry landings and construction of a 37 mile feeder road to provide direct port access from a newly develop crop producing area. In effect, the highway is the gateway to Sumatra from Java. The service area around the highway has major agricultural potential.

KOREA

DEVELOPMENT LENDING

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Development Loans	20.0*	55.0*	20.0

* Excludes \$888,000 in FY 1970 and \$800,000 in FY 1972 for population programs under Title X of the Foreign Assistance Act.

During the decade of the 1960's U.S. development loans played a major role in the growth of the Korean economy. In the early sixties, these loans were the only foreign capital extended to Korea on soft terms for development purposes. They were used to finance public utility facilities, electric power, communications, transportation and municipal water systems, needed to provide the base for the rapid progress achieved. In the industrial-mining sector, they financed plants to produce basic materials, fertilizer, coal, industrial chemicals, cement, and provided foreign exchange capital to Korea's three development banks for relending to industrial projects of smaller scale than the U.S. could finance directly with efficiency. At the end of FY 1970, U.S. development loans to Korea totaled in excess of \$350 million.

Other countries have now joined the U.S. in extending soft-term loans to Korea. Japan and Germany are notable examples. The International Bank family (IBRD, IFC, and IDA) and the Asian Development Bank are now extremely active in Korea and provide well in excess of \$100 million per year for a variety of development projects. These other sources are, for the most part, financing industrial and public utility projects of the type previously financed by the United States.

The Koreans have achieved remarkable progress with this assistance. Overall growth (GNP) was an estimated 9.7% in real terms in 1970, which although down from the 15.9% gain of 1969 was still the fourth highest increase of the high growth period in the 1960's. Exports of goods also continued to climb and reached an estimated \$835 million in 1970 as compared with \$622 million in 1969 and \$175 million in 1965.

The growth, however, has not been uniform throughout the economy. Development in the rural sector has lagged. Agriculture needs priority attention. Social institutions, including the educational system, are proving inadequate to the needs of an industrialized society. The rapid pace of industrial expansion cannot be maintained without continuous technological adaptation, a greater supply of managerial and technical skills, and a more efficient system of

agricultural production. Thus, the U.S. development lending program for FY 1972 will focus on agriculture and education with loans of \$10 million in each of the two sectors.

The Korean agricultural sector may become a serious bottleneck to further rapid growth unless problems are adequately addressed on a priority basis. In the 10-year period from 1958, the total area of cultivated land in Korea increased by only 15% and the increase in the last five years of the period was only 3%. The holding of cultivated land per farm household in 1968 was actually lower than in 1958. While present yields of rice are high, the bumper crop of 1969 was only 3% larger than the 1964 crop and it will be extremely difficult to increase yield appreciably with technology presently being applied.

The economic and social consequences of the very rapid growth in the industrial sector, relative to the agricultural sector, have resulted in a continuing food gap and sharp increases in prices of protein and other high quality foods. However, increases in farm incomes have been extremely modest. The small scale of agricultural enterprises, high production costs and inefficient marketing mechanisms have produced a considerable disparity between farm prices and retail prices and, consequently, little of the substantially increased urban consumer spending on agricultural products is returned to the producer. As the rapid industrial expansion continues to draw labor from agriculture to industry, the Korean "modernization" goal of a diversified, balanced economy will depend upon increasing labor productivity in agriculture. This will undoubtedly require substantial capital investment.

To help meet the urgent need for capital and to focus Korean attention on the need for sector-wide agriculture development planning, the U.S. has programmed a \$14 million sector loan in FY 1971 and proposes a further \$10 million loan for FY 1972. Continuing analyses are underway to develop the specific sector requirements to be financed by the FY 1972 loan.

In addition, PL 480 Title I local currency credit sale proceeds will be utilized, on a repayable basis, to expand agricultural credit and to fund the Grain and Agriculture Price Stabilization Accounts. This offers a non-inflationary opportunity to solve two of Korea's most difficult agricultural development problems – adequate credit and a rational price policy. As a further effort to raise farm income and ease the disparity between urban and rural income, a feeder and farm-to-market road development program is planned under the Food for Work provisions of PL 480 Title II.

The Korean National Council on Long-Range Educational Planning, established in 1969 with U.S. advice and assistance, has identified general goals for education and designated priority target areas. Highlights of the long-range plan

include the following quantitative goals to be achieved by 1986: (1) one-half of the population of 15 to 17 year olds enrolled in senior high schools, and (2) the allocation of 18% to 20% of the Korean budget for education (6% of the GNP) for both public and private education. However, a budget allocation of this magnitude is a heavy commitment of the nation's limited resources and requires the most efficient use of educational resources to ensure any significant improvement in the quality of education. An isolated illustration will suggest the magnitude of the physical problem alone: 12,340 additional classrooms will be required in Seoul city in the next five years to accommodate projected enrollments for pre-college students (there are at present 13,919 classrooms in Seoul).

The scope and cost of the effort to reach the desired goals underlines the importance of technological innovations in the educational process, including such methods as audio-visual and computer assisted devices, program instruction, and systems analyses. The U.S. assistance program in FY 1972 will include (1) continuing expert technical assistance in the field of educational planning; (2) increased participant training to develop Korean expertise in the planning area; and (3) a \$10 million loan to the education sector to support Korean efforts to institute technological innovations into the educational complex at all levels.

PHILIPPINES

DEVELOPMENT LENDING

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Development Loans	-*	-*	20.0

* Excludes \$4,948,000 in FY 1970 and \$5,000,000 in FY 1971 for population programs under Title X of the Foreign Assistance Act.

Development loans, limited in size and used sparingly, have served in the Philippines to (1) demonstrate the viability of pilot programs, (2) fund studies required to support loan applications to international lending institutions, and (3) meet foreign exchange needs of products in the priority agriculture sector. In recent years, U.S. loans have financed the foreign exchange costs of an irrigation construction and rehabilitation project of crucial importance to the rice production and agriculture diversification program, two pilot rural electrification cooperatives, and feasibility studies for various agriculture and provincial development activities.

The Philippine economy grew at an average annual rate of nearly 6% throughout most of the 1960's. However, this growth was interrupted in 1970 when the Philippines encountered a critical balance of payments problem. Partially from its own actions and partially from events beyond its control, at the end of 1969 the Philippines found itself confronted with a large maturing foreign debt and no foreign exchange resources.

In response to this problem, the Philippines negotiated a Stand-by Agreement with the IMF in February 1970 and agreed to take steps to devalue the peso, curtail short-term foreign borrowing, cut government spending, increase taxes, and limit imports. By rigidly adhering to these constraints and negotiating a restructuring of its maturing commercial debt, the Philippines was able to meet the immediate crisis, reverse the trade pattern, and prepare itself to meet the still heavy debt burden of the next two to three years.

In early 1970, the Government of the Philippines requested the IBRD to sponsor a Consultative Group for the Philippines. Following a meeting convened in Paris in October, favorable responses were received from attending nations and international institutions. The formal establishment of the Group is scheduled at a meeting to be held in April 1971. Although the Group is not intended to be a pledging consortium, the expanded discussion of the Philippines problems and programs by a larger spectrum of developed nations is expected to have favorable impact on the nation's future development. In fact, the IBRD and the

ADB have for some time been increasing their assistance to the Philippines and the Government has embraced far-reaching programs in family planning, agriculture diversification, and rural electrification. We propose to continue to assist the first two programs with technical assistance and, in keeping with the selective use of loan funds, to extend a \$20 million loan in FY 1972 to support the rural electrification program of the Government of the Philippines.

Less than 20% of the population has access to adequate electric service and even then it is generally available only in the major urban areas of the country. Although there are many small private and municipal systems serving other areas, such service is usually inadequate, intermittent, unreliable and expensive. The great majority of the countryside is either completely without electric service or has only limited inadequate service.

The availability of adequate, dependable, and reasonably-priced electric power can clearly be one of the more vital elements in social and economic progress. Concerned with the need to reduce the disparities between urban and rural living conditions, the United States has thus been interested in the question of rural electrification for a number of years. In 1964, A.I.D. sponsored a country-wide survey of the electric power industry in the Philippines. Subsequently, A.I.D. financed two pilot projects: the Victorias Rural Electric Service Cooperative (VRESCO) in northern Negros Island and the Misamis Oriental Rural Electric Service Cooperative (MORESCO) in northern Mindanao. A.I.D. has also financed, under a FY 1967 loan, feasibility studies for eight to twelve additional cooperatives.

The \$20 million loan in FY 1972 would be a continuation of this effort, helping to establish 24-36 rural electrification cooperatives. These funds would be used for (1) imported materials and equipment for the distribution systems, (2) purchase of electrical equipment from U.S. excess property sources, and (3) engineering and construction supervision costs. The loan would also provide capital and technical assistance for the Philippines National Electrification Administration (NEA) which serves as an intermediate credit institution responsible for the selection, financing and implementation of small electrification systems throughout the Philippines. Other lenders such as the IBRD, ADB, and Japan are also expected to support the program.

ECONOMIC SUPPORTING ASSISTANCE
Proposed FY 1972 Program

Economic Supporting Assistance funds are provided to friendly foreign countries to help them carry necessary additional defense burdens without incurring unsupportable political or economic costs.

In previous years, funding requests for this form of assistance have been submitted to the Congress as a part of the budget authorized under the Foreign Assistance Act.

On April 21, 1971, however, President Nixon recommended to the Congress a major reorganization of foreign assistance, including the separation of Economic Supporting and Military Assistance from Development Assistance. The President recommended that Economic Supporting Assistance be made a part of a new International Security Assistance Act, along with grant military assistance, military credit sales and the Contingency Fund.

The FY 1972 Economic Security Assistance request is presented as a separate chapter in this booklet in order to reflect accurately the division proposed in the President's recommendations.

ECONOMIC SUPPORTING ASSISTANCE – SUMMARY
OF PROGRAMS BY COUNTRY
FISCAL YEAR 1972

(In thousands of dollars)

Area and Country	FY 1972 Proposed ECONOMIC SUPPORTING ASSISTANCE
EAST ASIA – TOTAL	202,750
Cambodia	110,000
Korea	
Laos	50,550
Philippines ^{a/}	800
Thailand	40,000
Regional	1,400

^{a/} Public Safety only.

EAST ASIA REGIONAL PROGRAM

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Economic Supporting Assistance..	-	0.2	1.4
Total	-	0.2	1.4

The major objective of U.S. regional programs in East Asia is to help improve the prospects for long-range peace and stability in the area. The U.S. supports Asian proposals for cooperative economic and social development involving several countries working together on common problems. The U.S. also encourages maximum involvement of other developed nations and international organizations in such programs. One major program objective is to assist the Mekong Committee and the four riparian nations develop the resources of the lower Mekong Basin.

The Mekong Development Program is sponsored by the Committee for Coordination of Investigations of the Lower Mekong Basin (MCC), consisting of Cambodia, Laos, Thailand and South Vietnam. The Committee was formed in 1957 as the result of ECAFE initiative and it has a Secretariat funded by UNDP.

The United States has been a leading outside supporter of the MCC and its program since its earliest period. The U.S. has played a major role in organizing a consortium to fund the Nam Ngum project in Laos (U.S. 50%, World Bank administrator). Another multilateral Mekong project is Prek Thnot in Cambodia, (no U.S., Japan 1/3, Cambodia 1/3, other donors 1/3, Cambodia/UNDP administrator).

The Mekong program has now reached a turning point. Up to now, the activities undertaken have been largely limited to data-gathering and multi-purpose projects on the tributaries which required capital investment in the range of \$10-50 million. Now, however, major studies on mainstream projects in the \$400-\$1,200 million range have been completed (Tonle Sap by India, Sambor by Japan, Pa Mong by the U.S., and Delta Development by the U.S. for Vietnam and by the Netherlands for Cambodia). In addition, the Mekong Coordinating Committee Secretariat has completed a first version of an Indicative Basin Plan which provides detailed system considerations and identifies priorities for funding the major projects.

In July 1969, the World Bank accepted a suggestion by the UN Secretary General to become more closely associated with the development of the Mekong Basin. Following a review of progress to date at the annual meeting of the Bank in Copenhagen, 1970, the Bank proposed that it establish and manage a fund for the purpose of developing and managing a series of related agricultural projects

in the Basin. The Bank's work would be carried out under the aegis of the Mekong Coordinating Committee. Specifically, the Bank proposed that \$2 million be sought for the engineering and other costs involved in developing a series of agricultural projects in the riparian states. The U.S. plans to provide up to \$500,000 in FY 1971 technical assistance funds for these project development costs.

Further, the Bank recommended that a \$50 million fund be established probably on a grant basis for the construction and operation of the projects. The U.S. has consistently urged the Bank to become more involved in the Mekong Program and has supported the Bank's efforts. Reaction by other potential donor nations has also been favorable to the Bank's concept. Assuming the project comes to fruition, we plan to contribute up to 25% of the foreign exchange costs which are estimated at one half of the \$50 million construction fund. The total of \$6,250,000 would be spread over a six year period, i.e. approximately \$1 million a year for six years. For the first year, \$1.0 million in FY 1972 Economic Supporting Assistance funds are requested.

Also, \$400,000 in Economic Supporting Assistance funds are requested for the completion of the Mekong River Crossings Project. Following a feasibility study by Transportation Consultants, Inc., the U.S. contributed \$216,000 in FY 1971 funds towards the first phase of a \$600,000 program of improving river crossing facilities between Laos and Thailand. The \$400,000 requested for this year will complete the project.

CAMBODIA

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Economic Supporting Assistance..	-	70.0	110.0
Total	-	70.0	110.0

OBJECTIVES OF U.S. ASSISTANCE

The fundamental objective of U.S. economic assistance is to enable Cambodia to withstand the abnormal economic dislocations caused by the North Vietnamese and Viet Cong invasion. This objective is being pursued through a program of A.I.D.-financed imports to help offset losses in Cambodia's domestic production and export earnings caused by the war. The program will provide a flow of imports at approximately pre-war levels in an attempt to prevent serious deterioration in living standards. The economic disruption which would occur without such outside aid would inevitably contribute to political instability.

A second important objective of U.S. economic assistance is to complement U.S. support of Cambodian military efforts to confront and ultimately push back and expel the North Vietnamese and Viet Cong. This will be of great assistance to our Vietnamization program by denying Cambodia to the North Vietnamese and Viet Cong as a logistics base and staging area for mounting attacks on South Vietnam. This Cambodia effort will be supported through application of local currency generated by A.I.D.-financed imports to Cambodia's wartime budget expenditures, thereby sustaining the Cambodian Government's determined efforts to re-establish control over North Vietnamese-occupied areas inside Cambodia.

Achievement of these two-fold objectives of U.S. economic assistance to Cambodia will contribute to the overall objective of U.S. policy in Cambodia under the Nixon Doctrine – by permitting U.S. troop withdrawals from South Vietnam to continue as scheduled, and by helping Cambodia block North Vietnam's access to South Vietnam through Cambodia.

It is our policy to implement these objectives with a minimum of direct U.S. involvement – keeping American staff to a minimum consistent with sound management, relying heavily on existing Cambodian institutions and encouraging Cambodia's use of multilateral advice and assistance. In response to a Cambodian request, an IMF Mission visited Cambodia in March (following an earlier visit in September 1970) to discuss with the Cambodian Government necessary monetary, budgetary and fiscal improvements. Japan, Australia and New Zealand have also recently provided modest amounts of aid. France, Denmark

and the Asian Development Bank have approved loans for development projects which will, however, require renegotiation as to their purposes if they are to be used in the immediate future.

PROBLEMS AND PROGRESS

Economic

The outbreak of hostilities in March 1970 has had a far-reaching impact on the Cambodian economy. Trade and commerce have been disrupted by North Vietnamese/Viet Cong control or interdictions of several key lines of communication and the destruction of rail lines and bridges. Mobilization of men and women volunteers for the Cambodian Armed Forces, as well as forced conscription in enemy-controlled areas has deprived the economy of an important segment of the civilian labor force. By August 1970 some 200,000 Vietnamese, including many skilled workers, had been repatriated to South Vietnam; and some 500,000 Cambodians had moved from war-afflicted areas to the capital city, Phnom Penh. Lately there have also been signs of an increasing exodus of members of the Chinese business community, which plays a key role in the marketing of goods.

North Vietnamese occupation of rubber plantations and other crop-producing areas, combined with the interdiction of internal transport and the Government's mobilization of part of the agricultural labor force, has reduced Cambodia's projected foreign exchange earnings from exports drastically — from a level of \$62 million in 1969 to an estimated \$14 million for 1971. The possibility of expanding the previous level of foreign exchange earnings through tourism has obviously disappeared.

Imports declined sharply from \$90 million in 1969 to about \$40 million in 1970. This decline stemmed from the Cambodian Government's drawdown of relatively ample stocks of imported commodities available at the outbreak of hostilities as well as from importers' uncertainties. The Cambodian Government is currently projecting import requirements for 1971 at about \$90 million — \$70 million of which will be financed from U.S. FY 1971 funds under the Commodity Import Program.

In some sectors disruption has not been as great as anticipated. The primary rice-producing areas are held by the government, and favorable growing and harvesting conditions have resulted in a relatively plentiful rice crop with no significant food shortages as yet. However, sugarcane, corn and tobacco availabilities have declined due to enemy invasions; and rice distribution and export are subject to bottlenecks and closures of key arteries. Petroleum shortages were further aggravated by the North Vietnamese/Viet Cong attack on Cambodia's only oil refinery in early March of 1971.

Prices in 1970 were not adversely affected, although they rose sporadically at times in relation to temporary fluctuations in the money supply. From March through October 1970 the price index rose only 17 percent and consumer reaction seems to have been an important factor in stemming any serious price spiral during that period. However, underlying inflationary pressures remain.

Political-Military

The internal political situation in Cambodia has remained remarkably stable under the circumstances. The same government which was in office prior to Prince Sihanouk's deposition remained in office after March 1970 with only some minor subsequent changes, and criticisms of the government from various urban groupings, including students and Buddhists, have been largely constructive. Even Prime Minister Lon Nol's unexpected illness and hospitalization outside the country in early February produced no apparent instability and Deputy Prime Minister Sisowath Sirik Matak took over the functions of Acting Premier smoothly.

The war is currently being fought primarily along lines of communication. The North Vietnamese/Viet Cong control roughly half of Cambodia's territory, in which about one-third of its population lived as of March 1970. The enemy also has the capability to harass or conduct hit-and-run raids throughout most of the rest of the country. The Cambodian Armed Forces have expanded from a pre-war level of almost 40,000 to the estimated level of over 200,000; and Cambodia is making a concerted effort to train and arm new recruits, almost all of whom are volunteers.

FY 1972 PROGRAM

Proposed economic assistance to Cambodia in FY 1972 totals \$110 million to finance a continuing program of non-agricultural commodity imports. There will also be a program of up to \$20 million of agricultural commodities under PL 480 Title I, largely for cotton and wheat flour.

The economic assistance program proposed for FY 1972 represents a continuation of the import pattern which the United States financed in FY 1971. Economic Supporting Assistance totalling \$110 million will be used to procure essential commodities primarily from the United States, under a commercial import program. The major part of these funds will finance petroleum products, transportation equipment and spare parts, chemicals industrial raw materials and machinery and other equipment. It is anticipated that certain other essential imports as well as humanitarian aid will be financed by other donors, while Cambodia will utilize its own foreign exchange to finance mainly consumer goods imports. Local currency generated by U.S.-financed imports will be used

by the Cambodian Government for support of its budget, the major element of which is for military expenditures.

LAOS

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Technical Assistance.....	8.3*	7.5*	-
Economic Supporting Assistance..	43.6	38.4	50.6
Total	51.9	45.9	50.6

* Includes Development Loan funded grants of \$1.1 million in FY 1970 and \$0.9 million in FY 1971 for population programs under Title X of the Foreign Assistance Act.

OBJECTIVES OF U.S. ASSISTANCE

The primary U.S. objective in Laos is to maintain an independent Laos, neutral within the framework established by the 1962 Geneva Agreements and capable of protecting itself and the security of the Mekong River Valley from North Vietnamese and Lao People's Liberation Army aggression.

U.S. economic assistance toward this objective is concentrated primarily in two areas: (1) control of inflationary pressures which threaten the country's economic and political stability and (2) helping the Royal Lao Government provide essential services and facilities in rural areas in order to relieve war-imposed suffering and promote public confidence in the Government.

PROBLEMS AND PROGRESS

The war in Southeast Asia continues to be the most significant factor affecting Laos. With a population of less than two million in the territory under Government control, Laos is forced by communist aggression and insurgency to maintain nearly 20% of its military-age men under arms.

The Lao army has resisted continued assaults by the North Vietnamese and the Lao People's Liberation Army on territory held by the Government. However, the largely non-monetized subsistence agricultural economy falls far short of providing an adequate tax base to finance this military effort. Although increasing, total domestic revenues still equal only the non-military costs of the Lao Government — less than half of total budgeted expenditures. The deficit financing thus required to pay for military operations of the Government creates new spending power within the country each year and consequent strong inflationary pressures.

Stabilization programs financed by the United States and other donors have brought relative price stability to Laos since 1964 despite the deficit spending by the Lao Government. For its part, the Government has made a continuing effort to limit its deficit spending in the face of mounting needs.

FY 1972 PROGRAM

The proposed FY 1972 program totals \$50.6 million, divided into \$18.2 million for the stabilization program and \$32.4 million for project activities.

In addition P.L. 480 Title II assistance of \$1.9 million will provide food aid and cotton cloth for refugees. Aid totalling \$15 to \$17 million is expected from other donor countries (principally Japan, France and the United Kingdom) and the U.S. for support of a variety of developmental activities and for the Laos stabilization program.

Stabilization Assistance

Support of the multilateral economic stabilization program must be accorded highest priority if economic and, therefore, political stability is to be maintained.

Prior to 1964 the United States and other donor countries financed commodity import programs to absorb excess domestic spending power in an effort to maintain price stability. These programs did not adequately serve the needs of most Lao importers for small amounts of quickly available foreign exchange. In 1964 the Lao Government and a group of donor nations instituted a comprehensive, multilateral stabilization program recommended by the International Monetary Fund. The core of this program is the Foreign Exchange Operations Fund (FEOF), which reduces kip in circulation by buying local currency on the open market with foreign exchange contributed by the United States, Australia, France, Japan and the United Kingdom.

A resident representative of the International Monetary Fund (IMF) provides advisory assistance in monetary and fiscal affairs, and the governments contributing to FEOF follow Lao Government fiscal performance closely in order to help assure continued improvement. IMF teams visit Laos periodically to study and make recommendations on monetary and fiscal problems. The United States provides technical assistance in these and other areas of public administration.

A small United States Import Program (USIP) supplements FEOF by financing the foreign exchange costs of selected equipment and raw materials needed to promote local industries.

The \$18.2 million requested for the stabilization program for FY 1972 includes \$16.7 million for FEOF and \$1.5 million for the USIP.

Project Assistance

The project program will in FY 1972 continue to help the Lao Government provide basic services and facilities for which its own financial resources and supply of skilled personnel remain inadequate and without which political stability would be seriously jeopardized.

Refugees. The United States furnishes refugees with food, clothing, medical care and supplies; provides air services for emergency relocation of refugees and for delivering supplies to them, and helps refugees resettle and become self-sufficient. The United States also helps train junior Lao Government officials to perform refugee work at both the national and provincial levels. The provision of refugee assistance is carried out not only through the Refugees Relief and Resettlement Project but also as important elements of projects that have other purposes as well – e.g., air support, public health and rural development.

The number of refugees and amount of support required vary with military actions and crop conditions. North Vietnamese/Pathet Lao offensives of 1969, 1970 and early 1971 have greatly increased the number of refugees in the areas under Lao Government control. At the beginning of FY 1971 the total was about 250,000; it rose to almost 280,000 by January 1971 and is now about 300,000. In FY 1971 A.I.D.-assisted refugees will average, we estimate, about 275,000; in FY 1972 the average may be around the current total, 300,000. We are proposing \$4.7 million for the Refugee Relief and Resettlement Project in FY 1972.

Rural Development. For this project \$4.1 million is proposed. U.S. activities in this field are concentrated on institutional development and on fostering economic links between producers and markets. American and Lao Community development advisors help villagers and refugees identify basic needs, organize local resources and work together through local leaders and government officials. Activities financed include construction of schools, dispensaries, wells and rural roads and improvement of local skills and techniques, particularly in agricultural production. While the initial aim is to bridge the gap between the central government and the rural population, the program also lays the groundwork for expanded agricultural production, the key to ultimate economic independence.

During the past four years the use of local resources has been encouraged by making rural construction contingent upon the provision of local materials and labor by villagers. Many local projects are now proceeding without U.S. financing. Increasing emphasis is being placed on organizational and leadership training, formal and informal, and on technical training for farmers and villagers.

Public Health. The country has only a few Lao doctors and nurses to combat the high prevalence of such diseases as malaria, dysentery and influenza and to reduce a high infant mortality rate. In addition the prolonged military action in Laos produces refugees and civilian casualties who must be given medical care. The public health project provides medical services in rural areas through 290 A.I.D.-supported facilities. Seven municipal hospitals are operated by Filipino medical personnel under A.I.D. contracts. Training programs provide medics to operate dispensaries, as well as assistant nurses and midwives. However, the dearth of qualified candidates for university medical study limits the development of a long-range program to improve public health standards and services.

In FY 1972 we will continue to provide technical assistance and supplies to Government health facilities. The project will require \$3.9 million in FY 1972 funds.

Roads. Laos has an extremely poor system of surface transportation. It has no railroads, the navigability of its rivers and streams is seasonal and its road system is primitive. The United States assists in the construction and maintenance of major arteries and roads. This program contributes to security objectives and also helps join villages hitherto unreachable, except by boat or air to the rest of the nation and its commerce.

The program also develops local capacity to build and maintain the road network needed for national integration and economic growth. Improvement in the Government's capability is demonstrated by the growth in its maintenance activities. Maintenance mileage has increased by about 50 percent over the past four years. Through FY 1970, about 800 Lao, from supervisory to semi-skilled levels, have completed training programs in skills such as engineering, drafting and equipment maintenance. In FY 1972 both academic and on-the-job training will continue.

The FY 1972 funding requirement for the roads program is \$2.4 million for commodities and personnel needed in construction and maintenance and for training activities.

Agriculture. Expanding rice production is a major undertaking in our assistance to Laos. As security permits, project activities center on building the necessary infrastructure — roads, irrigation systems, storage facilities — and farmer motivation. The immediate objective is to eliminate the chronic need for rice imports.

The use of improved seed varieties, fertilizers and insecticides has already yielded dramatic production increases in selected areas. A widespread and successful campaign to distribute new seeds, demonstrate new methods and train farmers in villages and in refugee resettlement projects was begun in FY 1968. Introduction

of double cropping has demonstrated that, with use of improved seed varieties, farm chemicals and irrigation, production can be expanded up to five times the present yield.

In FY 1971 and 1972 the United States will continue to help the Government develop more effective and expanded facilities for providing credit to small farmers and assure markets for increased production. The agriculture program will continue to require the import of fertilizer and insecticides, assistance in developing rice milling and storage facilities and in developing vegetable crops and livestock production as well as U.S. advisory assistance. With development of credit facilities and expanded production, farmers have begun to pay for some equipment and other supplies previously furnished by the United States on a grant basis.

In FY 1972, \$2 million will be required. Of this amount, \$365,000 is earmarked for purchase of commodities and \$1.62 million for continuation of technical advisory services and support of ongoing irrigation projects.

Education. The extreme shortage of trained manpower in Laos is one of the chief obstacles to national unity and effective government services. In addition the continuing popular demand for education in the rural areas is a challenge to the Government's efforts to retain popular support. Consequently, the Lao Government devotes about 20 percent of its civil budget to education.

A.I.D. has been helping the Government expand the elementary education base and increase the number of trained teachers. The United States will concentrate during the next few years on the Lao normal schools, aiming at a total enrollment of 3,500 by 1975 – compared to about 3,000 in FY 1969 – and on expanding the Lao-language secondary education system, begun in FY 1968, which includes both vocational and academic training. Assistance is provided for village self-help elementary school construction. The Lao Government has set up a system of local contributions or taxes to provide long-range financing for adequate teachers' salaries, operating costs of the elementary system and expansion of the Lao-language secondary school system.

Assistance totalling \$1.7 million is proposed in FY 1972, mainly for assisting six normal schools, providing advisory services to the elementary school system and constructing a fourth Lao-language comprehensive secondary school under supervision of a University of Hawaii contract team.

Public Administration. The United States provides advisory and training assistance designed to improve the administration and operations of two key Government ministries, Finance and Planning. The program includes the upgrading of personnel skills and advising the Finance Ministry of means of improving budgeting, taxation and expenditure controls. U.S. advisory and training services help in economic and manpower research and planning. (During

FY 1970 the Government published a general, broad-gauge development plan for the years 1970-1975). For FY 1972, \$762,000 is proposed to continue this program.

Industry. A major aim of our industry program is to increase Lao foreign exchange earnings by promoting local industries which have potential export as well as domestic markets. Initial emphasis from 1968 through 1970 was placed on developing the timber industry, which has an immediate market in Thailand. Export earnings from timber increased from \$80,000 in 1966 to an average of over \$900,000 per year from 1968 through 1970. A.I.D. and other donors have provided technical services for a forest inventory and for training of Lao foresters.

With local currency (kip) generated by the United States commodity import program, the Lao Government has established an Industry Loan Fund, which has made loans to local sawmillers to help them modernize their operations. The kip loans have been used to buy U.S. equipment through the U.S. import program at a subsidized price. Technical and loan assistance to furniture and veneer manufacturers was begun in FY 1969 and continued in FY 1970 and 1971. In addition to continuing support to the timber and secondary wood products industries, studies and technical assistance are planned for development of small agro-industries such as farm-implement manufacturing, food and fiber processing and for development of crop marketing and storage facilities. Medium-term loans from the Industry Loan Fund will be available for expansion or creation of new enterprises which will also be supported by the U.S. Commodity Import Program (USIP) where feasible.

\$245,000 will be required in FY 1972 for these activities.

Civil Police Administration. The United States assists the Lao Government in developing the capability of its national police to enforce law, maintain public order and combat subversive elements. This assistance involves advisory services, training for public officials, provision of communications and transportation equipment and development of physical facilities.

Completion in 1968-1969 of the primary national police radio network linking Vientiane police headquarters with the provincial headquarters has improved the coordination and efficiency of police operations. The installation of the most important segments of an intra-province radio network will be completed during FY 1971. The scope and effectiveness of police training has expanded steadily as the staffing of the central police academy, construction of which was completed during CY 1970, has progressed.

For this project, \$425,000 is proposed in FY 1972.

Family Planning. The United States is giving assistance to the Lao Government for the development of a national maternal and child health center. A beginning has been made on extending maternal and child health services to rural areas. This program will provide improved clinical care, additional medical training and channels for dissemination of information on improved mother and infant health care and family planning.

This project will require \$515,000 in FY 1972.

Support Projects. Under an Air Technical Support Project, for which we propose \$6.8 million in FY 1972, air services required in the economic assistance program across the board are provided. Under a General Technical Support Project, for which we propose \$4.9 million in FY 1972, administrative services and facilities such as housing and communications are provided for the economic assistance mission. Also provided within this total are salaries for about one hundred U.S. technicians to support the overall program in Laos.

THAILAND

PROGRAM SUMMARY (In millions of dollars)			
	FY 1970 Actual	FY 1971 Estimated	FY 1972 Proposed
Technical Assistance.....	7.7*	7.5*	-
Economic Supporting Assistance..	18.8	15.6	40.0
Total	26.5	23.1	40.0

* Includes Development Loan Funded grants of \$1.3 million in FY 1970 and \$1.4 million in FY 1971 for population programs under Title X of the Foreign Assistance Act.

OBJECTIVES OF U.S. ASSISTANCE

Thailand's importance to the United States lies in its geographic position in Southeast Asia, its key activist role in the economic and political development of the region and its close cooperation with the United States. A communist-supported insurgency has been threatening Thailand's security for the past six years, and more recently events in Cambodia and Laos have brought active communist military operations closer to Thailand's border. The basic U.S. assistance objective, consistent with the Nixon Doctrine, is to help improve Thai capacity for dealing with internal and external security threats and to support Thai leadership to strengthening Southeast Asian political and economic organizations for regional cooperation. Both the United States and Thai Governments recognize, however, that the fundamental responsibility for defending their nation belongs to the Thai.

PROBLEMS AND PROGRESS

Communist-supported insurgency has existed for some time in Thailand; however, it was not until late 1965 that it became disruptive. The number of assassinations of village chiefs and local officials and armed encounters with the police and military units increased slowly from that date and then turned sharply upward in late 1966. These incidents were concentrated primarily in the Northeast.

In 1965 the Thai Government moved to combat this insurgency threat by strengthening its police presence in the security-threatened areas and by increasing its rural development efforts in an attempt to remove the underlying economic and social circumstances which nurture an insurgency movement. Beginning in 1967 army units together with the police conducted military sweeps against the insurgents and carried out civic action programs. These

actions contributed to the decline in overt insurgent activity in the Northeast in 1968 and 1969, with the insurgents placing greater emphasis on recruitment and strengthening their organizational structure rather than directly challenging government presence.

Insurgency spread in 1968 to the mountainous border areas of North Central Thailand inhabited by hilltribes. During 1969 it steadily intensified, with increased harassment of government forces. Military and police operations also have been conducted in these regions since 1968 but with much less success than in the Northwest.

In 1970 a Thai Liberation Army was officially announced by the insurgents. Organizational activities increased significantly in the Northeast, and the insurgents continued their recruitment of hilltribesmen and harassment of government forces. During the latter part of the year the intensified warfare in Laos and Cambodia caused the Thai Government to redeploy army units to these border areas to meet what the Thai view as heightened external threats to their national security. This shift in army manpower has reduced pressure on the insurgents giving rise in part to the increase in insurgent activity.

ECONOMIC

For the past decade the performance of the Thai economy has been quite impressive. GNP has grown at an average annual rate of about 8% in real terms since the early 1960's. This has been accomplished with negligible inflation. In the past three years, however, the economy has run into some difficulties. A bad harvest in 1967/1968 and deteriorating world markets for rice and kenaf caused merchandise exports to stagnate. U.S. military construction in Thailand is phasing down, and U.S. troops are being withdrawn, further reducing Thai foreign exchange receipts. In 1969 there was a loss of about \$36 million in official reserves, and a further reduction of \$69 million occurred in 1970, representing the first draw-downs after ten years of steady accumulation. Government revenues have risen, but expenditures have increased still more rapidly, with defense expenditures in the forefront. The government has borrowed from the Central Bank on a large scale to finance the expanding budget deficits which have occurred since FY 1968. The government has also raised some taxes and limited budget expenditures to keep the deficit down. It has also raised tariffs to restrict imports and to protect the foreign exchange position. However, the growth rate of the economy can be expected to decline.

The annual growth rate of GNP is projected at about 5% over the next few years. With exports increasing at about 5% a year and imports rising even as little as 4% a year it is probable that official foreign exchange reserves may decline as much as \$300 million in the next two to three years bringing them to a level of about \$600 million, or approximately five months of imports. Given Thai concern over

this decline, further restrictive import measures, possibly quantitative in nature, can be anticipated within the coming year.

Government revenues are expected to grow at about 6% to 7% annually over the next few years, or well below the experience of the past decade. This trend together with Thai concern that rising budget deficits will add indirectly to already mounting pressure on foreign exchange reserves has prompted the Thais to plan on budget increases of only 6% during the 1972-1976 period, about half the rate of the 1960's. Despite overall budget constraints, the Thais feel compelled by the recent military developments in Indo-China to strengthen their defense posture and have projected a 10% annual increase for defense expenditures. To accommodate this increase they are holding down planned expenditures for economic development in the next few years to a growth of about 3% to 4% a year, markedly lower than in past years.

Other things being equal, it should be within Thai capacity to deal with these conditions without a major change in U.S. assistance levels. Future events, however, are unpredictable particularly from a security point of view. If the security situation worsens as a result of developments in Cambodia and Laos, the Thais will be forced to strengthen their defense further against an external threat thereby diverting additional resources from counterinsurgency efforts as well as from economic development programs.

FY 1972 PROGRAM

In light of recent external developments affecting Thailand's security and the possible implication they pose for Thailand's counterinsurgency and economic development efforts, a U.S. economic assistance program of \$40 million is proposed for FY 1972. A two-year PL 480 program totalling \$25 million is also planned beginning in FY 1972. Local currency proceeds from the PL 480 program will chiefly be used to help the Thais finance the agriculture sector of their economic development plan. Primary emphasis in the U.S. program will continue to be placed on bolstering Thai efforts to improve security in rural areas and to support Thai counterinsurgency-oriented rural development programs. At the same time we will assist the Thais to address certain fundamental impediments to longer range economic development which have an important bearing on the Thai security effort.

Rural Security

About \$9 million is proposed in FY 1972 for rural public safety activities. Our primary objective continues to be to help develop a rural security capacity of sufficient strength and efficiency to counter threats of communist terrorism and subversion. The police must improve their ability to react quickly to acts of

subversion, and they must strengthen their capacity in the intelligence area as well. Improvement in police performance of normal law and order functions is also important in meeting the insurgency threat.

Consistent with these objectives we will continue to provide commodities to equip newly constructed district-level police stations and the personnel being assigned to them. Advisory and commodity assistance will also support the counterinsurgency training program recently established by the Thai National Police Department (TNPD), through which they plan to send their entire rural security force. We also will place increased emphasis on overall organization and management problems affecting the performance of the TNPD particularly in the rural areas.

Rural Development

About \$22 million of the FY 1972 program is planned for assistance to Thai rural development efforts. We will continue to support the Accelerated Rural Development project in the form of advisory assistance and construction equipment for impact projects such as feeder roads, wells and small ponds. To help further increase village incomes, assistance will be continued in the fields of agriculture extension and research.

We have expanded the scope of our Labor Intensive Water Project to include the completion and rehabilitation of nine small irrigation systems in the Northeast. More importantly, we will be working not only with the Royal Irrigation Department but also the Agriculture Extension Department and Land Development Department in carrying out this newly defined and titled Agriculture Water Development project. We are also considering assistance in FY 1972 for such types of activities as regional highway maintenance centers, rural electrification systems, technical and feasibility studies and an agricultural sector study.

FY 1972 is the final year of funding for the Community Development and Mobile Department Units projects. Our objective in helping create a viable Community Development Program has been achieved, and no further U.S. assistance is required. We will also not be providing further assistance to the Mobile Development Units project, since Thai military personnel and budget, in support of this activity, have been diverted to more urgent requirements along the Cambodian border.

Health

We propose about \$2 million in FY 1972 to assist the Thai Government to extend and improve its medical services to rural areas. The need for these services is enormous, and the project also provides an effective way of establishing rapport with the rural populace. Rural Health Centers will be assisted in the form of

medicines, clinical instruments, vehicles and training. Thai research efforts to improve nutrition in rural areas will receive limited support.

Family Planning assistance in the form of advisory services and commodities will be continued in support of Thai efforts to reduce the population growth rate estimated at 3.3% per year.

Education

About \$4 million is proposed for U.S. assistance to education in FY 1972. Despite rapidly rising expenditures for education a major task still faces the Thai Government. It is estimated that less than 50% of Thai children in the 5-to-19 age group are in school, and many villagers lose their scant literacy skills after they leave school.

Some elements of our Rural Education project have achieved their objectives, we propose to continue our assistance to the Mobile Trade Training Units and to institutions providing vocational training to villagers in rural Thailand.

New sub-projects in adult education and village school reading materials are proposed to remedy basic literacy deficiencies. New sub-projects also are being proposed this year to assist in overcoming other fundamental problems affecting rural education in Thailand. A teacher training project is planned to enable the Thai to expand the number and improve the quality of teachers in rural areas. In order to help the Thais strengthen and become self-sufficient in developing their own science and mathematics education program, we also are proposing to provide assistance in the form of participant training beginning in FY 1972 in these areas to selected university departments.

FY 1972, as planned, will be the final year of U.S. advisory services to the IBRD Vocational Education project.

Government Administration

U.S. projects in support of Thai efforts to improve government administration account for about \$1 million of our program proposed for FY 1972. Narrowing the gap between the villager and government officials continues to be a primary aim of this form of assistance, and we again are proposing assistance in the field of local government. We have also recognized that improvement in administration at the central government level is important to our security objectives and will continue to work with the Thai Civil Service Commission to reform their civil service structure and to assist the Labor Department to extend and improve their services to rural Thailand.

Because of Thailand's worsening economic situation and its need carefully to examine the economic consequences of any further requirement to strengthen

Thailand's defense posture, we are proposing a new project in National Economic Policy Planning to follow the Northeast Economic Development project due to end in FY 1971. The economic situation also indicates a growing requirement for the Thais to find ways to expand their traditional manufactured commodities. A new private enterprise project is proposed in FY 1972 to assist the Thais in these efforts.

PUBLIC SAFETY

Developments in Southeast Asia have had major consequences affecting the nations of the area. Communist insurgency in Thailand remains a serious problem and the internal situation in Cambodia and Laos has required a greater concentration of Thai internal security resources in areas contiguous to the borders with these countries. Laos is directly involved in conflict with North Vietnamese and Viet Cong elements in their country, placing a heavy burden on the police for maintaining internal order. In the Philippines, the crime rate, long recognized as a serious problem, remains generally high and shows evidence of increasing.

During fiscal year 1972, Public Safety assistance will be provided to three countries in East Asia; Laos, Philippines, and Thailand.

It is in the U.S. interest that the police forces of these countries develop a self-sufficiency that will allow them to deal effectively with externally directed subversion in addition to combating lawlessness and disorders within their respective countries. The police forces of the three aided countries have not yet reached this degree of proficiency. U.S. assistance to these countries is designed to encourage acceptance of the public service concept of policing and to provide advice in organization, management, various functional activities and training. The ultimate thrust of Public Safety programs in these nations is not to impose the U.S. police system, or U.S. solutions to foreign national problems, but to emphasize basic professional methodology and to concentrate on advising on the management of their own resources effectively toward the development of a viable institution so that outside assistance eventually will not be needed.

In general, Public Safety objectives are designed to strengthen the capability of civil police and paramilitary forces to enforce the law and maintain public order with the minimum use of physical force, and to counter communist-inspired or exploited subversion and insurgency. More specifically, the Public Safety programs will focus on the development of key institutional elements, such as communications networks and training systems; on better administration and management leading to the effective use of resources; the improvement of rural paramilitary police ability to prevent and deal with guerrilla activities; the

provision of effective police services at the hamlet level; the improvement of urban policing, including the humane control of civil disturbances and riots; and the development of the police ability to prevent the infiltration of enemy agents.

A total of \$10,225,000 is requested for the three programs; \$1,930,000 of which will be for 64 Public Safety Advisors and 3 American secretaries; \$270,000 will be for training police officers at the International Police Academy; \$7,773,000 will be for essential police equipment and \$252,000 will be for contract services and other costs.

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