

FY 1966

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U. S. FOREIGN AID  
IN THE  
NEAR EAST  
AND  
SOUTH ASIA

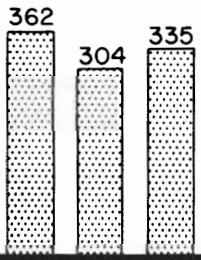
AGENCY FOR INTERNATIONAL DEVELOPMENT

BEST AVAILABLE

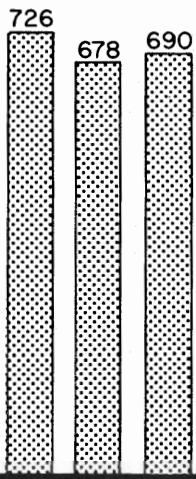


**NEAR EAST & SOUTH ASIA Program by Function**  
(Millions of Dollars)

**Military Assistance**



**Development Loans**



**Technical Cooperation**



**Supporting Assistance**



# FOREIGN AID IN THE NEAR EAST AND SOUTH ASIA

Successful development in the Near East and South Asia, within a framework of free and stable societies, is of critical importance not only to the countries of the area, but also to the United States and the free world. The region encompasses 18 countries containing three-quarters of a billion people. The annual population growth rate averages two and one-half percent, and average per capita GNP is less than \$100.

The region is undergoing fundamental social, economic and political changes as its people reach out for a better life. U.S. assistance is designed to help the region's countries achieve social and economic progress and, at the same time, maintain political stability and internal security.

The successful development of Greece and Israel demonstrate that external aid, combined with constructive country economic and social policies, can produce rapid growth. The Greek economy is now growing at better than six percent a year, and Israel's at about ten percent—one of the highest growth rates in the world. The progress in both countries permitted the United States to terminate grant aid in 1962 and thereafter to extend development loans on a declining scale and on harder terms. Self-support has already been achieved in Lebanon, which received no aid grants or loans after 1963. Iran is in transition to self-support, with AID loans now extended at higher rates of interest.

Nearly ninety percent of U.S. aid in the Near East and South Asia region is programmed for India, Pakistan, and Turkey, all of which have development plans accepted by the major free world aid donors as a basis for extending assistance. Turkey's plan to eliminate reliance on foreign aid by 1973 is a practical objective. For India and Pakistan, the task will take longer.

India and Turkey now finance over three-fourths of their development programs from their own resources. Pakistan is succeeding in increasing the share it finances, which exceeds 60 percent. Each country has undertaken important reforms and changes in policy which will support growth—Turkey, tax reform; Pakistan, the removal of restrictions on imports; India, incentive prices for producers of foodgrains.

Both the economies and the societies of these countries are undergoing profound changes. All of them now produce many industrial products which formerly had to be imported—an important step on the road to self-reliance. Construction, power, mining, and transport all show gains. Agricultural output, particularly in Pakistan in recent years, has also increased somewhat. In India, there are three times more children in school (almost 50 million) than in 1947. The numbers of technically trained people,

although still not sufficient, continue to increase. Although they all face a problem of rapid population growth—about two and one-half percent in India and Pakistan, and close to three percent in Turkey—they are managing under their development programs to provide their people with some improvement in consumption, while devoting more resources to investment in order to increase incomes in the future.

### Consortia and Other Aid

Other free world countries also have a large stake in the independence and development of this region. Most of the free world's major developed countries and the principal multilateral institutions have joined in formal aid consortia to finance development assistance needs. Although the U.S. share is large—to date about 45 percent of funds pledged through the consortia—it is no longer alone in its efforts to assist countries such as India, Pakistan and Turkey. Program loans—the financing of essential equipment, raw materials, spare parts, components—have proved to be a particularly effective way of providing U.S. assistance under these consortia, especially since the private sector is the chief beneficiary of this form of assistance. Other donors also have provided program assistance through the consortia.

In 1963 and 1964, India, Pakistan and Turkey received pledges of \$3,362 million through consortia. The United States provided \$1,505 million (\$1,355 million from AID and \$150 million from the Export-Import Bank). Most of the U.S. aid took the form of long-term, low interest loans. Loans from International Development Association (IDA) and from Canada are more liberal than our own. In addition, Canada provided grants. Terms from other donors have ranged from 3½ to 6½ percent, from 12 to 25 years maturity and from no grace periods up to seven years grace.

### Major Issues in Development

Aid recipients in the Near East and South Asia region face a growing problem of debt servicing, especially for short-term, high interest loans. Turkey already has reached the point where about 40 percent of its foreign debt will fall due in the next few years. Servicing this debt will require about half its export earnings. Possibilities for increased foreign exchange earnings are limited, at least in the short run. Therefore, financing must be extended on better terms if we are to see continued growth of these economies. Since it will be some time before development can take place without external concessional aid to countries such as Turkey, India and Pakistan, aid to these countries from the United States and other sources must be on the best terms possible.

In the recent past, other donors have begun to take steps to make loan terms compatible with the debt-servicing capacity of recipient countries. Primarily as a result of U.S. initiative, they have reduced interest rates and lengthened grace and repayment periods. Loans from West Germany bore

an average maturity of five years in 1959; by 1963 the average maturity was 20 years. Moreover, interest rates on West German loans have been reduced and average grace periods lengthened within the past two years. The United Kingdom now provides loans with maturities up to 30 years and grace periods of seven years. Moreover, the United Kingdom waives interest payments for up to seven years, thereby effectively reducing the interest rate to about three and one-half percent. Canada has adopted IDA lending terms—three-quarters percent interest, 50 years maturity with ten years grace.

### ***Agricultural Production***

One of the gravest weaknesses in Near East and South Asia country economies is that not enough food is produced to feed rapidly growing populations. This has been offset in part by imports of U.S. surplus agricultural products under the Food for Peace Program, but these countries will not be able to attain balanced development if their agricultural sectors cannot keep pace with demands. More internal resources and external assistance must be allocated to the agricultural sector to increase agricultural productivity through technical assistance, soil conservation, use of fertilizers, and the like.

Institutional inadequacies, antiquated methods, lack of adequate data, and shortages of skilled administrators plague almost all governments of the region. Skills are needed to carry out the business of governments and development. Most of U.S. technical assistance is directed toward helping build the institutions and technical and managerial skills needed for successful development.

### ***Political Problems***

Difficult political problems consume energies and resources which could be used better for development purposes. The United States makes constant efforts to keep these problems from interfering with orderly growth.

The most persistent are the Kashmir problem and related frictions which keep India and Pakistan from devoting their full efforts to development, the problem of Cyprus' future which has strained relations between NATO allies Greece and Turkey, and the Arab-Israeli dispute which remains unresolved. There are also intra-Arab rivalries in the Arabian Peninsula which have not yet been resolved, although some progress is being made in settling United Arab Republic (UAR) and Saudi Arabian differences over Yemen.

### **Fiscal Year 1966 Program**

Lebanon, Syria and Iraq no longer receive AID grants or loans on concessional terms, and other countries are approaching the point where their developmental requirements can be provided either from their own resources or through conventional arrangements from international financial sources. Greece and Israel are good examples of countries which have

used external aid successfully in achieving their developmental objectives. Iran's increasing oil revenues have shortened the period during which it needs external concessional capital assistance.

### *Program Summary*

[In millions of dollars]

	FY 1964 actual	FY 1965 estimated	FY 1966 proposed
Development Loans . . . . .	\$726.2	\$677.5-747.5	\$690.0-805.0
Technical Cooperation . . . . .	50.5	50.0	46.4
Supporting Assistance . . . . .	66.6	38.5	34.5
<b>Total AID Assistance . . . . .</b>	<b>\$843.3</b>	<b>\$766.0-836.0</b>	<b>\$770.9-885.9</b>

The fiscal year 1966 economic aid request for Near East and South Asia includes funds for ten countries, The Central Treaty Organization (CENTO) and regional projects, as compared to 15 countries in fiscal year 1964. Development Loans account for 90 percent of the request. The Supporting Assistance request is about four percent, while Technical Cooperation funds account for about six percent.

### **Development Loans**

About 80 percent of world-wide Development Loan funds are concentrated in the Near East and South Asia countries. Over 90 percent of the regional request for loans will be concentrated in three of these—India, Pakistan and Turkey. All three have well-defined development plans, all of them have given evidence, through measures they have themselves taken, of a desire to move steadily along the road to development and all have exhibited an ability to use resources effectively. It is of great importance to the United States that these countries be provided the margin of external resources they need to improve industrial productivity, strengthen social infrastructure, and increase agricultural output.

In each of these countries there are many important projects that require large amounts of capital for equipment and services which can be obtained only from abroad. Development Loan project assistance is necessary to build the power plants, irrigation systems, and transportation networks on which to base economic and social development. Large projects like these can usually be undertaken only by governments or large private concerns. Other project loans are made to finance feasibility studies, or to provide equipment for a specific private industrial concern to increase productivity in a key sector, or to provide funds for development banks for relending to medium and small-size industries.

Project loans, however, can finance only part of the external capital needs of India, Pakistan and Turkey. The needs of these growing econo-

mies for imported raw materials, spare parts and machinery, components and semi-finished materials are spread over the whole economy and cannot be met by project loans alone.

For this reason AID also provides program loans for essential imports, broad enough to cover a range of needed items, but specific enough to exclude non-essential imports and luxury goods. Growing experience in administering these loans, carefully compiled lists of allowable items, the close cooperation of host country governments, import liberalization, and regular end-use audits insure the effectiveness of the program loan technique. Since these imports go to widely dispersed concerns of all sizes, they serve in large part to support investment in the private sector.

The balance of the region's Development Loan request will be used mainly for selected projects in Afghanistan and Jordan. If suitable Development Loan applications are submitted by Cyprus and Nepal, they will be considered. Depending on the circumstances at the time, applications from Israel may also be considered.

### *Loan Terms*

Just as important as the volume of development lending are the terms on which the loans are made. All countries to which Development Loans are expected to be made in fiscal year 1966 suffer from chronic shortages of foreign exchange. Since their development is on a long-range basis, they cannot afford commercial-type terms—high interest, short-term repayments—without over-committing foreign exchange reserves and earnings. Internal development needs will absorb the bulk of their production for some years.

AID loan terms to individual countries are, of course, based on the foreign exchange position and forecasted debt-servicing capability of each. For example, a loan was made in fiscal year 1964 to Greece for hydroelectric power development at three and one-half percent for 25 years with a five year grace period. In contrast, loans to India and Pakistan are made at two and one-half percent, with 40 year maturities and ten year grace periods, during which one percent interest is charged.

While a country's capacity to service dollar loans may be limited and call for the most favorable loan terms, a given enterprise can pay commercial terms, reflecting the true cost of capital in the currency of the country. Therefore, the "two-step" loan procedure was adopted. For example, in 1962 a dollar loan was made to Premier Automobiles, a private Indian company, to import U.S. car and truck dies. Under the two-step procedure, Premier will repay the *rupee equivalent* of the loan to the Government of India over a 14-year period, with two years grace, at five and three-quarters percent. The Government of India will repay the United States in dollars over 40 years, with a ten years grace period at the lowest AID interest rate in effect at the time of the loan, three-quarters percent. Thus, the enterprise pays a competitive price for capital, but the country's

balance of payments is not unduly burdened during its period of intensive development.

## Technical Cooperation

A slight decrease in AID's Technical Cooperation request for fiscal year 1966 reflects the completion of a number of projects within the region and the reduced scale of others. It results also from a gradual reduction of the technical cooperation program in Iran.

Technical assistance is planned for nine countries, CENTO and for regional programs. Over 75 percent is concentrated in five countries: Afghanistan, India, Jordan, Pakistan and Turkey.

Within the next few years, Technical Cooperation will be increasingly concentrated on rural development, including agricultural productivity, strengthening administration and management, and training for skilled manpower.

Through AID-financed contracts, American universities play a large role in the technical cooperation program. Through a consortium of universities, a new technique is being used in India to improve the teaching of science, mathematics, engineering and vocational education through summer institutes. American professors spend their summers in India conducting workshops and seminars in these fields. This program is carried out by contract teams from the Universities of Wisconsin and Illinois, Ohio and Michigan State Universities, Houston University and Teachers College of Columbia University.

Other American universities on contract with AID, such as the Washington State University and the Universities of Wyoming, Missouri, Tennessee, and Kansas, are assisting agricultural universities or university departments in Afghanistan, India, Pakistan and Turkey, especially in agricultural research and extension. AID-financed assistance to engineering education is given by U.S. educational institutions to universities in Afghanistan, India, Turkey and the UAR. Under an AID contract in Iran, the University of Pennsylvania is helping to develop Pahlavi University at Shiraz after the pattern of American universities.

Increasing use is made also of other U.S. government agencies. Bureau of Public Roads personnel are helping build roads in Yemen; Public Health Service officers are working in several countries; and Bureau of the Census specialists are advising the Government of Turkey on statistical matters.

AID Technical Assistance is also helping to establish cooperatives in the region. In Jordan, assistance is given in the East Ghor area to finance credit, marketing and other cooperative services. In Iran the Agricultural Credit and Rural Development Bank receives assistance in expanding its credit program and developing an effective credit organization. Agricultural credit institutions in Nepal and Turkey also receive assistance as part of the effort to increase agricultural productivity.

Over 1,300 present and potential leaders were brought to the United States for advanced, specialized training during fiscal year 1964 under

AID technical assistance programs. These people will return to key positions in government and private enterprise from which to influence their countries' development.

### Supporting Assistance

The Near East and South Asia Supporting Assistance request has again been reduced from previous levels. It is now about four percent of the total regional request and is planned only for Jordan and Yemen. The amount requested for each of the two countries has been reduced.

Continued support of Jordan as an independent country is part of the U.S. effort to maintain reasonable prospects of peace in the Near East. Supporting assistance is expected to be necessary, on a declining scale, for some years to help cover ordinary budget expenditures in Jordan.

### Military Assistance

U.S. interests in the Near East and South Asia are served also through military assistance programs to a number of countries, most of which share borders with Communist countries. Greece and Turkey maintain large defense forces to meet NATO requirements. Pakistan and Iran, members of CENTO—and in the case of Pakistan, the Southeast Asia Treaty Organization (SEATO)—also maintain substantial forces. India, attacked by Communist China in 1962, still needs help to build up its defensive strength. The forces of these countries must be kept as modern as possible within the funding limitations of the military assistance program.

### Food for Peace

Agricultural products furnished under the Food for Peace Program are an important supplement to AID economic assistance. Rapidly growing populations, slowly rising agricultural productivity, the drive for higher standards of living and better diets have required food, feed and fiber imports by a number of countries. Because foreign exchange shortages limit normal procurement for most of these countries, sales are made for local currencies under Title I of the Food for Peace program. Part (country uses) of the sales proceeds is allocated to the country to be used for mutually agreed development purposes. A part is used for loans to U.S. investors (Cooley Loans). Another part (U.S. uses) is used to defray U.S. expenses of various kinds in the country.

Assistance under Title I has been particularly important to India, Pakistan and Turkey. In the UAR, U.S. surplus food supplied under this Title has represented the bulk of U.S. assistance.

Title III programs using donated surplus food are conducted by voluntary agencies such as CARE, Church World Service, and the Catholic Relief Services, in 15 countries. Over 21.5 million people are reached through these programs in the Near East-South Asia region, including 16.8 million children reached by school milk and lunch programs.

Small Title IV dollar credit sales have been made in the past to Iraq and Syria. Sales to Iran and Greece will be made in fiscal year 1965.

Future sales may be made to these countries and to others as their foreign exchange positions enable them to pay for these products in dollars on reasonable terms.

## Assistance to Private Enterprise

Private investment, domestic and foreign, plays an important role in the economic development of Near East and South Asia countries. Since November 1961, AID has authorized 17 loans totaling \$146 million directly to private firms to establish new plants and extend existing facilities. Twenty loans to Development Banks have been authorized since 1958, enabling these institutions to expand their lending to the private sector. Moreover, the largest proportion of imports financed by program loans to India, Pakistan, and Turkey goes to the private industry sectors in those countries.

One of the important ways in which the private sector is benefited is by "Cooley" local currency loans. From January 1962, when AID assumed administration of the Cooley Loan program, through June 30, 1964, 79 such loans were approved for use in Near East and South Asia countries. These loans totaled a local currency equivalent of more than \$108 million. In fiscal year 1964 alone, 32 loans totaling almost \$59 million were made. Such loans will be used in Iran, Turkey and India to manufacture tires; they will help produce chemicals in Israel, Turkey and India, and pharmaceuticals in Pakistan. They will assist in the expansion of a steel plant in Turkey and a cement plant in India. Almost all of the borrowers are owned by or affiliated with U.S. companies.

Technical assistance also helps to foster private enterprise. In Nepal assistance is being given to the Nepal Industrial Development Corporation to help marshal private domestic and foreign capital. Technical assistance projects in Jordan are directed toward the development of managerial and technical capabilities needed in the private industrial sector. In Pakistan, private industrial development is being spurred by AID technical assistance to the Pakistan Investment Advisory Center and by AID training programs in mining methods and engineering.

The Investment Guaranty program continues to provide a strong stimulus to U.S. firms investing abroad. AID has Investment Guaranty Agreements with all major aid receiving countries in the Near East and South Asia. As of September 30, 1964, there were 227 active contracts of over \$390 million. To date, no payments have been necessary under any of these guaranties. In the first three months of fiscal year 1965, 37 contracts of guaranty, amounting to over \$15 million, were signed. Sixteen of these contracts are in India and six in Pakistan.

Since fiscal year 1962, 29 investment survey grants have been authorized for a total of nearly \$400,000. These surveys investigate investment opportunities such as constructing cement plants in Greece and Pakistan, producing abrasives in India, and establishing canning facilities in Turkey.

# INDIA

India, with 475 million people, is the world's largest democracy and, next to the Soviet Union and Communist China, the largest land power in Asia. In 1951, the Indians launched the first in a series of Five Year Plans aimed at doubling the country's per capita GNP by 1975.

This goal may seem modest for a country where per capita GNP is now estimated to be about \$83 (per capita GNP already exceeds \$3,000 in the United States). But in India, it could signal achievement of the most difficult single step in development: pushing production far enough ahead of subsistence needs to begin the process of self-sustaining growth.

India's sustained development effort, now in its 14th year, remains a critical test of whether or not a free society can maintain the discipline needed to move a large country from extreme poverty to self-supporting growth.

The 1962 Chinese Communist attack on India increased the burden on India's limited resources, forcing an increase in defense expenditures from \$700 million in 1961 to an estimated \$1.8 billion in 1964.

Despite this defense burden, the government is trying to accelerate the pace of the development program as the best means to improve living standards and provide the resources required for defense.

Assistance from the United States and other free world sources provides a critical margin of resources India needs now to continue its drive towards self-support. India's size, its potential, its record of self-help and the importance of its successful development to the free world make it a major recipient of U.S. assistance. Of the seven countries where the United States currently provides substantial general development support, the Indian program is the largest.

## Progress and Self-Help

Since 1951 India has increased industrial production 110 percent. Coal production has been doubled, steel capacity increased five-fold and installed electrical generating capacity quadrupled. Agricultural output has been increased by 40 percent, but in agriculture the rate of increase has not been rapid enough to keep pace with both population growth and improved diets.

Malaria, which formerly incapacitated 100 million people each year almost has been eliminated in India. Wells for potable water have increased at a rate of 85,000 a year.

India has succeeded in tripling school enrollment at all levels since independence. Three-fourths of all 6-10-year olds are now enrolled in school, about 25 percent of children from 11 to 13, and some 13 percent of those in the 14-17 age group. The number of primary schools has doubled, and secondary schools have almost tripled in number.

Indian government revenues, which amounted to only about five percent of GNP in 1951 have risen to about 12 percent in 1964. The rate

of investment has been increased from 13 percent of GNP in 1961 to 16 percent of GNP in 1964, a relatively good rate even when compared to advanced countries. During the first two Five-Year Plans, India succeeded in investing about \$24 billion in development without creating serious inflationary pressures.

India finances about 80 percent of its development investment from its own resources, but U.S. assistance, which accounts for more than a third of external aid, has contributed significantly to progress in several key fields including power, transportation, agriculture and education.

In power development alone, the U.S. has made 22 development loans totalling \$435 million for the purchase of American-made hydroelectric and thermal generating equipment. When the U.S.-assisted plants under construction have been completed, the country's total installed electric generating capacity will increase by 4,300 megawatts—compared with a total generating capacity of 2,300 megawatts for all of India in 1951.

Power shortages have been a serious bottleneck to industrial growth. The impact these new projects will have as they begin operation is demonstrated by the U.S.-assisted Rihand Dam hydroelectric project, completed in Uttar Pradesh state in 1962. The Rihand installation has a capacity of 250 megawatts—one and one-half times as much power as was available in the entire state previously. It now powers, among other things, a new U.S.-Indian owned aluminum plant with a 20,000 ton annual capacity, a cement factory, two new chemical plants, 140 miles of electrified rail line and other rail lines serving the Jharia coal mines in the neighboring state of Bihar. In addition, the storage dam for the project feeds a nearby irrigation project with water for the dry season irrigation of 500,000 acres.

Construction is near completion at two other AID-assisted power projects, the 420-megawatt Chandrapura thermal power plant and the Maithon storage dam. Both projects are a part of India's giant Damodar River Valley project which already serves the most highly industrialized region in India, in the states of Bihar and West Bengal. Power shortages had held back production in the area's large-scale iron and steel, cement, textile, glass and engineering plants. Completion of the Chandrapura thermal station will relieve pressure on five overloaded stations and permit a long-deferred boiler overhaul at the Bokaro thermal station.

Another bottleneck, in railroad transportation, was eased by \$190 million in AID loans to the Indian railways to finance the purchase of 380 diesel and 138 electric locomotives from the United States. This new equipment helped the Indian railway system more than double its freight hauling capacity since 1951, and increase the actual amount of freight hauled by 63 million tons between 1956 and 1963.

AID loans have also financed the expansion of fertilizer plants in India. The American equipment needed for the 130,000-ton Trombay fertilizer plant was financed by a \$30 million AID loan. In the largest "Cooley loan" ever extended, AID is lending up to the equivalent of

\$22,597,000 in rupees (proceeds from Title I Food for Peace sales) to help finance a 365,000-ton fertilizer plant being established by U.S. and Indian private interests.

In education, AID has financed technical assistance through contracts with a large number of American colleges and universities in the expansion of India's scientific, engineering, agriculture and teacher training institutions. For example, an AID-financed consortium of nine American universities is helping establish the Indian Institute of Technology at Kanpur. Five American schools—the Universities of Illinois, Missouri and Tennessee, and Ohio State and Kansas State Universities—have been working with seven Indian agricultural institutions to strengthen their contribution to agricultural development.

Under another AID contract, teams from Ohio State University have helped train teachers for multi-purpose secondary schools, which turn out graduates with vocational, commercial and technical skills as well as academic training and have expanded from 503 in number in 1957 to more than 2,000 by 1963. Since the project began in 1956, the Ohio State University teams have helped to develop the first 54 extension centers to train secondary teachers (there are now 92 centers in operation) and to select and develop 26 "model" multipurpose high schools through India. Since 1962 the Ohio State team has worked on the development of four Regional Colleges of Education, with demonstration multi-purpose schools attached.

AID has helped the rapid growth of India's thriving private industry with technical assistance, loans to finance new firms or expand existing ones, or to establish industrial development banks and, increasingly important, commodity loans which provide the dollar credits Indian industries need to purchase American supplies and equipment to maintain or expand their operations. In fiscal 1964 alone, the major part of a total of \$275 million in AID commodity loans directly financed American exports needed by the Indian private sector.

AID has approved more than 100 specific risk guaranties for American private investments in India since 1958, and loaned the rupee equivalent of \$75 million in Cooley loans for private American ventures in the manufacture of paper, aluminum, heavy engineering equipment and machine tools in India since January 1962.

## New Problems

By the end of the Third Five-Year Plan in March 1966, India will have channelled an additional \$25 billion into investments for development. But despite impressive gains in industry and in the expansion of power and transportation facilities, the production goals of the Third Plan will not be reached.

Unemployment will be higher at the end of the Plan than it was at the start, even though the number of employed workers will have risen significantly.

The more pressing problem, however, is the inadequate growth in farm output. Rising food prices and concern over the lag in agricultural development have led to a growing debate within India over development priorities in general and agricultural policies in particular. This is a healthy sign and may indicate that some of the past policies will now be changed.

Agriculture will have to receive a higher investment priority in India's Fourth Five-Year Plan than it did in the preceding three. The tentative outlays now envisioned for agriculture under the Fourth Plan are double the estimated investment under the current Third Plan, but still may not be enough.

Immediately, efforts are underway to set up buffer stocks of food grains and improve the organization of food marketing to prevent unnecessary local shortages and price increases. With assistance from the U.S. Department of Agriculture, some states are experimenting with a system of incentive prices to encourage greater production by farmers. With the support of AID commodity lending, India plans to increase the imports of fertilizer by about one-third during 1965. An ambitious plan to double fertilizer output, with the help of private American capital, is being seriously studied.

### Aid From Others

U.S. development assistance to India is provided through a Consortium sponsored by the World Bank to coordinate economic aid from free world sources. The Bank and free world countries other than the United States provide about 60 percent of the assistance India receives through the Consortium. The United States provides the other 40 percent. In addition, the Soviet Bloc has extended more than \$1 billion in aid outside the Consortium.

### *India Consortium Pledge for the First Four Years of Plan*

[Millions of Dollars]

	1961-64	1964-65	4-year total
Total .....	\$3, 417. 0	\$1, 028. 0	\$4, 445. 0
U.S. Total <sup>1</sup> .....	1, 415. 0	435. 0	1, 850. 0
AID .....	1, 242. 5	385. 0	1, 627. 5
Ex-Im Bank .....	172. 5	50.	222. 5
Total Others .....	2, 002. 0	593. 0	2, 595. 0
IBRD & IDA .....	695. 0	245. 0	940. 0
W. Germany .....	463. 5	95. 0	558. 5
U.K. ....	350. 0	84. 0	434. 0
Japan .....	170. 0	60. 0	230. 0
Six Others <sup>2</sup> .....	323. 5	109. 0	432. 5

<sup>1</sup> Excludes P.L. 480.

<sup>2</sup> Austria, Belgium, Canada, France, Italy and Netherlands.

Despite the size of external assistance to India, aid from others provides only one-fifth of the country's development costs. India finances the remaining four-fifths from its own resources.

Most assistance to India is provided on a loan basis, and debt service on past loans—particularly those made on relatively short terms with comparatively high interest rates—is becoming an increasing problem. Service on India's external debt is expected to total more than \$1 billion during the five year term of the Third Plan. If lending is continued on the current terms by other donors, the debt service burden will exceed \$2.5 billion during the Fourth Plan (1966–1971). Working through the Consortium, the United States will continue to press for a substantial improvement of terms on all new loans.

### Fiscal Year 1966 Program

Development loans will continue to account for the largest share of the AID program in India during fiscal 1966. Program lending, which finances a variety of essential imports from the United States, will receive somewhat more emphasis than project lending during the year ahead.

Thanks to prior assistance and the growth of Indian industry, India now produces much of the machinery and other capital goods required for development. For example, the project loans which financed the import of American locomotives for India's railways in the early 1960's are no longer necessary because Indian factories can now supply enough locomotives to keep pace with demand. Through other AID project loans, basic investments such as the rapid expansion of power generating capacity are nearing completion.

India imports a wide variety of American products and raw materials to maintain the expansion of India's economy, particularly its private industrial sector. These needs involve hundreds of individual Indian enterprises and a wide range of American exports: such things as copper and other non-ferrous metals, machinery and hand tools, semi-manufactures, and replacement parts. Few of the needs are large enough individually, to justify a project loan, yet each need is critical and together their unavailability presents serious obstacles to continued growth. AID program loans make it possible to finance American imports like these.

In view of India's increased emphasis on agriculture, project loans will be needed to finance expanded fertilizer production. Other project loan applications may be made to supplement power and transportation facilities.

The actual size of the total AID loan pledge at the Indian Consortium meeting to be held in the spring of 1965, however, will depend on studies now underway by the United States and the World Bank, and on the contributions of other Consortium members.

In view of India's food shortage, requirements for food grains, vegetable oils and other products supplied through Title I Food for Peace sales are

expected to be about \$400 million during fiscal year 1966, which is above the average of such sales during the three preceding years.

The \$8.5 million technical assistance program proposed for fiscal 1966 would concentrate on raising operating and management competence in agriculture and industry. AID will continue to help improve the quality of technical, engineering and agricultural engineering education through contracts with such American universities as Ohio State, Teachers College of Columbia University, Purdue, California Institute of Technology, Massachusetts Institute of Technology, the University of Illinois, Kansas State and the University of Missouri. Technical assistance funds will also be used to send scientists and technicians from India's agricultural extension and research services to the United States for advanced training.

AID will also cooperate with the Indian Ministry of Education in the major expansion of an unusual program to introduce Indian college and secondary school teachers to modern methods in teaching mathematics and science. The first pilot program was held in the summer of 1963, with the Indian government covering local costs of four, six-week summer institutes and the U.S. Information Agency paying the travel costs for four American educators to work with the institutes.

The pilot program was so successful that in 1964, the number of institutes was expanded to 44, with an attendance of 1,700 Indian college and secondary teachers. This time, AID technical assistance grants financed the books and equipment for the institutes, and the travel and expenses for 80 American educators from the University of Houston, Ohio State University, Teachers College of Columbia University, the University of Wisconsin, University of Illinois and Michigan State University.

For 1965, 90 institutes are planned, using 200 American educators and involving about 3,500 Indian teachers. AID technical assistance grant funds will again finance the services of the American educators, but the \$1.4 million cost of texts and equipment will be assumed by the Government of India, through a dollar-repayable development loan.

## JORDAN

The continued independence and stability of Jordan is important to the stability of the entire Near East. Its collapse could disrupt the political balance of the region and perhaps lead to renewal of Arab-Israeli hostilities.

Jordan has always been heavily dependent on external assistance, formerly provided by budget subsidies from the United Kingdom. But in 1957, Jordan ended the Anglo-Jordanian Treaty of Alliance. In view of the rapidly deteriorating situation and the danger that Jordan's dismemberment might produce area-wide violence, the United States assumed the burden.

Since then, the United States has provided the major share of external support required to finance essential government operations in Jordan, although other donors have provided additional amounts.

## Progress and Self-Help

Until recently, prospects for eventual economic self-support in Jordan were dim and U.S. assistance was primarily a political holding action. But with the help of substantial external aid over the past decade, Jordan has succeeded in building the economic and administrative foundations on which to base a self-help and development effort.

All of the country's sections and major cities are now connected by highways. Irrigation projects and the successful exploitation of underground water resources have produced water supplies to help expand agriculture, establish industry and service the country's growing tourist industry.

U.S. assistance provided the imported materials and much of the engineering services required to carry out the East Ghor irrigation project, which draws water from the Yarmouk River to irrigate 25,000 acres of land. Distribution of land to the 3,000 farm families is now virtually complete and two-thirds of the area already is under full irrigation. Produce from the area now in irrigation includes vegetables, grain, citrus fruits and bananas.

Increased output from the East Ghor development, plus an unusually good rainy season, contributed to a record \$112 million farm crop in 1964, which exceeds the combined production of 1962 and 1963.

AID also helped in the development of ground-water resources, working through a Central Water Authority established in 1961. The Authority has tapped ground-water supplies for 11 major cities, drilled 166 deep wells, located more than 1,300 springs and constructed five water storage dams. Eight ground-water irrigation projects serving 69 villages have been designed and six of the systems already constructed. The Authority has played an important role in expanding tourism by locating and tapping new water supplies for hotels, rest houses, archeological sites and other tourist areas. Training of a Jordanian staff for the Authority continued in 1964 and a Jordanian engineer was named director in place of the American engineer who had guided operations since the Authority was established.

Through technical assistance and specialized training in tourism and hotel administration in the United States for Jordanians, AID has helped establish a thriving tourist industry. The industry now employs 2,500 persons, and is expected to employ 12,000 by 1967. Foreign exchange earnings from tourism have increased from \$8 million in 1959 to an estimated \$22 million in 1964.

Despite successive changes in government, Jordan has continued to carry out improvements in government management, budgeting and tax administration. After several years' debate, the Jordan Parliament enacted a new income tax law in 1964 which provides for expanded coverage, more equitable assessments and more effective collection. Customs duties were raised, and a new Central Bank, established in 1963, began operations in 1964. Jordan also moved in 1964 to eliminate several unsound policies in

civil service administration, such as paying pensions to personnel still on active duty and making salary advances to all employees at the beginning of the fiscal year.

These improvements are significant, but just a beginning. For some time to come, Jordan will face difficult problems which require continued budget support. Outlays for defense and public security total nearly \$60 million and account for half of total government expenditures. To cut its budget deficit further, Jordan must limit increases in recurring expenditures and take stronger action to capture the tax proceeds that stem from rising production in agriculture, industry and tourism.

### Aid From Others

The United Kingdom shares with the United States the cost of budget support to Jordan and has provided \$4.2 million in untied support funds annually since fiscal year 1963, as well as technical assistance and non-interest bearing development loans amounting to about \$2 million a year. West Germany has provided about \$600,000 in technical assistance annually for the past three years, and signed a loan agreement of \$3.8 million in 1962 to expand Aqaba Port facilities. Additional German capital assistance is earmarked for future use—another \$3.8 million for further port expansion, \$5 million for the Aqaba Railway, and \$200,000 for a hotel training center. Kuwait extended a \$21 million loan in 1962 to finance development projects that include phosphate production and a storage dam on the Yarmouk River. In 1964 Kuwait extended a \$14 million loan in untied assistance, nearly all of which will be devoted to Jordan's capital budget. The UN and other international agencies also provide technical and loan assistance to Jordan. International Development Association loans in fiscal year 1964 totalled \$6.5 million for agricultural credit and municipal water supplies. In addition, United Nations Relief and Works Agency assistance to Palestine refugees in Jordan totals \$15 million annually.

### Fiscal Year 1966 Program

The beginnings of development progress in Jordan have made it possible for the United States to reduce the size of its Supporting Assistance grants to that country, from \$40 million in 1961 to the \$32 million proposed for fiscal 1966.

Subject to the Government of Jordan's performance in raising domestic revenues and restraining ordinary government expenditures, AID will consider development loans for projects that would earn foreign exchange and enlarge the country's tax base. Possibilities include potash production, establishment of an industrial development bank and further expansion of irrigation and water storage facilities.

One-half of the \$4.6 million AID technical assistance program proposed for fiscal 1966 will continue support of the East Ghor irrigation project, development of groundwater resources, and the expansion of

tourism. AID will also continue to provide Jordan with tax and budget advisors to help increase revenues and improve administration, and furnish advanced training and advisory help for other government departments.

## PAKISTAN

Pakistan's alliance with the United States and its membership in the Central Treaty Organization and the Southeast Asia Treaty Organization reflect the long-standing close relationship of the two countries. In recent years, this relationship has been subjected to stresses arising out of complex international developments.

The objectives of U.S. assistance are to help Pakistan maintain its independence and strengthen its national unity and continue its major development effort.

The achievement of these objectives, although they will require substantial external aid, depends primarily on Pakistan's ability to use its own and external resources effectively in the orderly development of its economy. This development has been taking place within the framework of Pakistan's Second Five Year Plan (1960-1965). The United States and other members of a Consortium organized by the IBRD to support Pakistan's general economic development carefully reviewed this Plan. U.S. assistance to Pakistan is also channeled through the Indus Basin Development Fund, another consortium administered by the IBRD. (The Fund is covered in another portion at the end of the section on Pakistan).

The United States is concentrating its resources on several major areas of the Plan which are vital to its overall success. Primary attention is being focused on agricultural development which must be accelerated sharply to meet growing demands on the food supply and to improve the living standards of the majority of the population. A second major objective is to increase private industrial expansion. This will include the development of adequate transport and power facilities, the training of managers, administrators, and skilled personnel of all types, and the creation of policies which permit and stimulate the most rapid growth possible. AID loans and technical assistance support specific activities designed to achieve these goals as well as to urge and support changes in policy and programs.

### Progress, Self-Help and Aid From Others

The International Bank for Reconstruction and Development (IBRD) organized an international Consortium for free world assistance to Pakistan. Since 1961, the United States has contributed about half the total committed in the IBRD Consortium.

Since 1960, Pakistan's GNP has risen about five percent a year and the per capita increase has been over two percent a year. Private sector investment has grown by 75 percent, exceeding plan targets. There have

	U.S. \$ million equivalent		
	FY 1962-64	FY 1965	Total
United States*	\$712.5	\$212.5	\$925.0
A.I.D.	(637.5)	(187.5)	(825.0)
Export-Import Bank	(75.0)	(25.0)	(100.0)
All Other Consortium	662.7	218.5	881.2
IBRD & IDA	(289.0)	(80.0)	(369.0)
Germany	(107.5)	(38.1)	(145.6)
Japan	(75.0)	(30.0)	(105.0)
United Kingdom	(70.4)	(22.4)	(92.8)
Canada	(57.0)	(23.6)	(80.6)
Others**	(63.8)	(24.4)	(88.2)
<b>Total Consortium</b>	<b>\$1,375.2</b>	<b>\$431.0</b>	<b>\$1,806.2</b>

\*Excludes P.L. 480.

\*\*Belgium, France, Italy and the Netherlands.

been major increases in manufacturing, construction, mining, and public utilities. Agricultural production has increased, due in part to favorable weather conditions in three of the four years.

Economic policy changes in several areas—often AID-assisted—have had a favorable impact on the development effort. The most significant self-help measures undertaken by Pakistan have been the recent rise in domestic savings, passage in 1963 of the largest tax increase in Pakistan's history, and the import reform in 1964. Savings rose from an estimated 2.5 billion rupees in 1960-61 (seven percent of the gross national product) to 4.6 billion rupees (11 percent of GNP) in 1963-64. The import reform (instituted largely as a result of U.S. initiative and with U.S. and Consortium support) plus increased import taxes, made it possible to remove controls over imports on many raw materials and spare parts.

It is expected that by the close of Pakistan's Second Five Year Plan in June 1965, the increase in national income will have exceeded the 24 percent projected in the Plan. This will be accomplished through the mobilization of greater internal resources and with less dependence on foreign assistance than originally contemplated. With the end of a successful Second Plan, Pakistan will be in a position to accelerate its development even further.

The Third Plan, which will extend through fiscal year 1970, is now being prepared. It aims at a growth in GNP of 30 percent, a reasonable target considering recent successes. While the Third Plan envisages substantial increases in development expenditures, the relative external assistance portion is expected to decline from 44 percent of total development expenditures to about 35 percent.

## *Agriculture*

Waterlogging, salinity, insufficient water for irrigation, and inefficient cultivation and management have made the Indus Plain area of West Pakistan one of the least productive agricultural areas of the world. Through an integrated program of reclamation, desalinization, and the introduction of improved farming methods, effected by support to the Provincial Agriculture Department as well as by a major extension program, we expect to double production in a pilot area by 1975. The Indus Basin Development Program will help to provide water for these activities.

The groundwork for this program was laid by a project begun in fiscal 1954 to help the Government of West Pakistan train personnel to survey soil and groundwater resources. Since that time, the United States has provided equipment, technicians, a drilling contract, and training for Pakistani technicians. Plans for 25 proposed reclamation and desalinization projects will be based on the results of the surveys conducted through this effort.

The first of these projects, financed by a DLF loan, has led to the installation of 1,768 tubewells, 246 additional ones were incorporated from existing projects, and about 300 were installed by the private sector. More than a dozen U.S. technicians are at work on this project seeking to double the area's agricultural production by 1973. Waterlogging—which was the chief problem in a 1.2 million acre area—has been virtually ended, due to the tubewell pumping which has lowered the water level six feet. Emphasis now has been shifted to better land use, irrigation, credit and cooperatives, improved seed, fertilizer usage, plant protection, and the like.

Two other reclamation projects are under way, involving contracts with U.S. engineering firms. AID loans will finance a major portion of these projects which will result in the installation of more than 1,800 tubewells.

The counterpart of the reclamation program in West Pakistan is a drive to double rice production in East Pakistan by 1975 through improved irrigation procedures, extension services, and large scale rural works programs supported by local currency generated by Food for Peace. Washington State University and Texas A&M are assisting two Pakistani agricultural colleges with their expansion programs.

Since 1961, Washington State University teachers and administrators have been working to make the West Pakistan Agriculture University at Lyallpur into an important source of trained agricultural personnel and research center.

Thirteen members of a Washington State team are assisting in all phases of the institution's development (curriculum content, layout of buildings and facilities, teaching methods, etc.) under an AID contract which will continue for five more years. A master plan was completed in 1962 and construction and renovation have been going on ever since. The University has accepted many teaching principles introduced by the Washington State staff, including regular examinations, laboratory work, wide

reading assignments, and practical research projects as part of the students' training.

The student body has increased from 700 in 1962 to about 2,000 this year, and an increasing number of the graduates are working in government posts, the agriculture field service, and on land reclamation projects in the Indus Basin. Twenty-five Pakistani faculty members are studying for advanced degrees at Washington State and will be returning to replace U.S. teachers on the University's staff as they complete their studies.

A team of advisors from Texas A&M is working at the East Pakistan Agriculture University at Mymensingh to help raise academic standards, expand the physical plant, and increase the supply of skilled agricultural manpower.

The faculty has grown from 53 in 1961 to 120 in 1964. Thirty-two faculty members have returned to the staff after having received advanced degrees abroad, and 49 more are currently doing further study overseas. New faculties have been added to the school in agricultural engineering and agricultural economics. Additional land has been acquired, 15 of the 35 buildings proposed for construction have been completed, and a World Bank loan has been approved to permit further expansion. Research work has been started in agronomy, animal husbandry, poultry raising, dairy farming, and agricultural economics. Enrollment is up to about 2,000 and the first class is expected to graduate in 1966.

### ***Education***

Institutes of Education and Research (teacher training facilities, for the most part) are being established at two Pakistani universities with assistance from two American universities under AID contracts. Indiana University has been helping to improve and expand the Institute at the University of Punjab at Lahore. Twenty-two Pakistanis are now serving on the teaching staff; 14 of whom were trained in the United States. The number of Pakistani nationals on the staff will eventually be raised to 80. Over 196 have been graduated with master's degrees in education and another 200 will receive their degrees during the current academic year.

The Institute of the University of Dacca is being aided by a ten-man team from Colorado State College. The construction of expanded facilities is moving forward and the research projects have already produced significant results. The student body has grown from 33 in 1960 to about 190 in 1964, and 120 will receive M. Ed. degrees this year. Twelve of the 18 Pakistani staff members are returned participants.

In both universities, the majority of the graduates take jobs as teachers or school administrators.

### ***Administration and Private Enterprise***

The Harvard Advisory Group has been providing a team of economic planning advisors since 1954 under a contract initially financed by the Ford Foundation. In fiscal 1962 and 1963, AID paid part of the

costs to expand this program to provide advisors at the provincial level. Under this program, new techniques have been introduced and demonstrated in economic planning and national income analysis and provincial and national planning bodies have been assisted in organizing and executing their planning activities.

To encourage private enterprise, the United States has continued to support the Investment Advisory Center, established with AID assistance to identify and develop new investment opportunities. Since January 1962, AID has authorized some \$8.4 million in Cooley Loans to help stimulate domestic and foreign private investment in Pakistan. These loans were used to build manufacturing facilities for tires, pharmaceuticals, and sewing machines, as well as hotels and jute mills. Under the Investment Guaranty Agreement with Pakistan, 22 contracts are in force valued at more than \$85 million.

### FY 1966 Program

Pakistan's needs are many. Agricultural development must be sharply accelerated to increase the supply of food and raise living standards. Private enterprise must be given the proper incentives and materials for increased industrial expansion. The health, skills, and education of the entire population need to be upgraded to supply the human resources required for sustained progress. Exports, savings, and tax revenues must be increased, and resources applied more effectively to the nation's development problems.

Within the framework of the Consortium, AID program loans will be made to finance essential raw materials, equipment, and spare parts. The bulk of this type of assistance will go to the private sector. These loans have allowed Pakistan to liberalize its import requirements in order to support higher production levels. Acceleration of the development program and the completion of surveys of roads, power, and water resources are expected to produce a sharp increase in the number of project loan requests. Additional financing may also be made available through existing private financial institutions in Pakistan for the flourishing private sector of the economy. Food for Peace Title I sales in fiscal 1966 are expected to amount to about \$200 million, somewhat higher than the level of recent years. Technical cooperation will stress agricultural progress, especially in the land reclamation program. Loans will also be made to support this program.

Assistance will continue to improve administration in the major public and private institutions concerned with development activities. The Harvard Advisory Group will go ahead with its program to provide planning assistance to the two provincial planning and development departments and select units in key development agencies. Technical cooperation to improve the ability of the police to maintain order will also be continued.

## Indus Basin Development

A part of our aid benefiting Pakistan is channeled into the Indus Basin Development Fund, a 10-year, multi-nation enterprise administered by the World Bank. The program's objective is to achieve maximum productivity for some 23 million acres of land in the Indus Plain area which produces 75 percent of West Pakistan's food and fibre. The Indus program will replace water to be diverted for India's use by 1970/71, thus smoothing over one of the principal causes of friction between the two countries. It will also increase the supply of electric power and irrigate arable land serving millions of people, thereby advancing Pakistan's economic development. This endeavor will include the largest earthmoving task ever undertaken, and the construction of one major dam, seven river-diversion barrages, and 430 miles of canals in a complex of four watercourse systems.

The dam is being built by an American firm under a \$354 million contract; the diversion tunnels have been completed and actual construction is under way. One of the four canal systems is about 95 percent finished and should be ready by mid-1965. Another canal system is under way and contracts for two more are expected to be awarded this year.

Total commitments for the Indus Basin projects in Pakistan are estimated at \$1,037 million, including \$774 million in foreign exchange and \$263 million in local currency. The United States has pledged about 54 percent of the foreign exchange, the World Bank about 18 percent, the United Kingdom about 13 percent, and smaller amounts from the Federal Republic of Germany, Canada, Australia, and New Zealand, as well as Pakistan, which has also pledged the equivalent of \$28 million in rupees.

## TURKEY

Turkey has been a staunch United States ally since World War II, and is a valued member of both the NATO and CENTO alliances. It was one of the first countries to volunteer troops during the Korean War and today provides important strategic facilities to NATO and the United States.

U.S. military and economic assistance to Turkey began in 1947 when the Turks were facing a direct threat of aggression from Soviet Russia with ill-equipped armies and an economy near bankruptcy and collapse.

Economic aid in the late 1940's and 1950's was directed to the general support of Turkey's economy and concurrent build-up of the country's defensive strength. Emphasis began shifting to long-term development in the late 1950's.

In 1962, Turkey launched its first comprehensive development plan and under sponsorship of the OECD, a consortium of free world aid donors was formed to coordinate external assistance to support the country's drive for economic growth. Turkey's goal is an annual 7 percent increase in gross national product and the achievement of self-sustaining growth by 1973.

A Turkish national election is scheduled for the fall of 1965, but since both major parties are dedicated to the country's economic development, the major self-help, reform and development programs now under way are expected to continue.

## Progress and Self-Help

Turkey's Development Plan for the five year period 1963-1967 called for an annual investment of over \$1.3 billion, of which over 75 percent was to come from her own resources. Since adopting the Plan, Turkey has made relatively good progress in maintaining monetary and fiscal stability.

GNP rose 7.5 percent in 1963 (a year of exceptionally good cereal crops) and better than 5 percent in 1964. The per capita GNP increase for the first two plan years was almost 7 percent. In 1963 total investment exceeded the 18 percent target set for that year. Investment slowed in 1964, because of the uncertainties of the Cyprus situation, but still reached 17 percent of GNP. With the help of reforms in tax structure and collection procedures, government revenues increased nearly 20 percent in 1963 and are expected to rise by another 13 percent in 1964.

Turkey has made progress in using its own resources more effectively and in directing investment into priority areas. Through selective tax policies and licensing criteria, the government has discouraged investment in luxury housing and promoted investment in manufacturing. However, Turkey has not yet succeeded in stimulating substantial investment in new industries which the country's resources could support. Lack of ready capital and a shortage of efficient management personnel in both the private and public sectors have hampered Turkey's efforts to expand industry.

In developing the industrial sector in Turkey's mixed economy, Turkish planners have tended to over-rely on the state-run enterprises. Within the past year, however, they have been studying ways and means to improve the performance of these enterprises.

Specifically, following recommendations by U.S. and OECD experts, the Turks passed legislation in 1964 to establish a State Investment Bank and a high-level committee to recommend reform of the State Economic Enterprises, which account for nearly 40 percent of industrial output in Turkey. By the end of 1964, the committee had completed its review of many of the enterprises. One important outcome of its continuing work will be a further clarification of the role of the private sector in the Turkish economy.

## Accomplishments and U.S. Assistance

U.S. assistance has already helped the Turks attack some of their major development problems. AID has helped to strengthen domestic capital markets with dollar and local currency loans to intermediate credit institutions such as Turkey's Industrial Development Bank (\$15 million

in AID loans and the equivalent of \$30 million in Turkish lira loans); the Industrial Investment Credit Bank (\$6.6 million in Turkish lira); the Tourism Bank (\$2.2 million in Turkish lira); the Small Industries Loan Fund (\$2.2 million in Turkish lira); and the Mining Assistance Loan Fund (\$1.1 million in Turkish lira).

To raise the management skills of Turkish businessmen, AID has brought key personnel from Turkish business and industry to the United States for training in management, has conducted in-service training programs and management seminars throughout Turkey, contracted with Michigan State University to help establish schools of business administration and, in 1962, was instrumental in establishing the Turkish Management Association to which more than 300 of Turkey's most progressive businessmen now belong.

AID has helped the Turkish Government encourage more private investment from abroad. More than \$40 million in AID "Cooley loans" (Turkish lira paid the United States for surplus American farm products) have been made for joint U.S.-Turkish ventures in the manufacture of such products as tires and pharmaceuticals, and in the assembly of vehicles.

AID Investment Guaranty protection has helped to generate investments by 40 American firms in Turkey in fields such as banking, pharmaceuticals, electrical products, tire manufacturing and steel fabrication.

With technical assistance from AID, the Turkish Union of Chambers of Commerce is expanding its services to the private sector with the issuance of an Investors' Guide, the publication of preinvestment surveys of various industrial sectors, and provision of technical and management services for new private ventures.

U.S. assistance has played a key role in helping the Turks develop many of the basic facilities—power, highways, railway transport and irrigation facilities—needed to support further industrial and agricultural growth.

Turkey's per capita consumption of electric energy, for example, was less than 150 KWH in 1961—about half that of Greece and one-tenth that of Italy. To increase power availability, AID has made \$51.7 million in loans to finance American equipment for three major plants now under construction. These plants will generate 600 megawatts, increasing Turkey's present power generating capacity by about 45 percent. Another \$6 million AID loan is financing the American imports needed to construct transmission lines that will distribute the new power to 35 cities in Western Turkey.

American road-building and highway maintenance equipment for the Turkish road system was financed by an \$18.1 million AID loan, and three loans totaling \$29.2 million to the Turkish State Railways have been made to improve and expand the railroad system, purchase diesel engines, and establish an electronic control system over sections with the heaviest traffic.

Equipment financed by two loans totaling \$15.6 million for expansion of coal mining and processing facilities has helped increase coal output per

worker 50 percent in the Zonguldak mines, which supply coal to Turkey's new Ereğli Steel Mill.

In agriculture, AID has helped the Turks launch a major expansion of irrigation, including the establishment of national agencies to administer irrigation and soil conservation, the development of centers to train irrigation service employees and training programs to show Turkish farmers how to use irrigation facilities. AID provided the equivalent of \$2.1 million in U.S.-owned Turkish lira to establish an irrigation loan fund that finances the individual farmer's initial investments for terracing, soil testing, and cement for water-regulating "turnout" gates.

## Continuing Problems

A serious balance of payments problem is the most immediate threat to continued Turkish development. Heavy external debts incurred in the 1950's as a result of imprudent financial policies, coupled with difficulties in increasing export earnings, make it difficult for Turkey to meet both its external obligations and its development targets.

The problem is aggravated by a concentration of short-term, high-interest debts which will make the repayment burden particularly heavy in the next two to three years, when 40 percent of the debt is to be repaid. Under the present schedule, debt service alone will consume half of the country's export earnings during this period.

To increase foreign exchange availabilities, Turkey is encouraging remittances by emigrant workers (expected to total \$25-30 million in 1965 against a negligible amount in 1963), providing tax incentives to stimulate exports, developing import substitutes and promoting tourism. In addition, a cabinet committee was recently established to eliminate "bottlenecks" in export production.

Substantial foreign exchange savings are expected to result from recent oil discoveries and the opening of Turkey's first steel mill. In the past year, affiliates of American oil companies have made strikes of high quality oil. The companies estimate that output from these new fields will permit significant cutbacks in imports of oil products which cost \$66 million in 1963.

The AID-financed Ereğli Steel Mill began rolling flat steel products in January 1965, with fully-integrated steel production scheduled to begin in March. The company expects to produce about 190,000 tons of finished steel products by the end of calendar 1965 and reach its 350,000 ton capacity by 1967. Turkey now spends about \$15 million annually to import flat steel products of the kind the Ereğli mill will supply.

## Aid From Others

An improvement in the terms of external assistance is also required to ease Turkey's difficult balance of payments situation. Working through the OECD-sponsored aid consortium for Turkey, the U.S. continues to press for more aid, on better terms, from other free world sources.

In calendar 1964, Turkey received \$240.5 million in program and project assistance from members of the consortium. In addition, Turkey was able to meet about \$40 million of its requirements with surplus American agricultural commodities provided through the Food for Peace Program. However, consortium assistance was short of total requirements by about \$40 million and Turkey was forced to resort to short-term borrowings through the International Monetary Fund and European Monetary Agreement (EMA). The major pledges in 1964 were:

(in millions)

	Program assistance	New project commitments	Total
United States .....	\$76.0	\$50.1	\$126.1
United Kingdom.....	19.0	8.4	27.4
West Germany.....	37.0	3.0	40.0
Other Bilateral <sup>1</sup> .....	18.0	.....	18.0
IDA.....	.....	29.0	29.0
<b>Total.....</b>	<b>\$150.0</b>	<b>\$90.5</b>	<b>\$240.5</b>

<sup>1</sup> Austria, Belgium, Canada, Denmark, France, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland.

Turkey's request for nonproject assistance in 1965 is about \$200 million, excluding a scheduled EMA repayment of \$55 million. In addition, project requirements are estimated to be \$150 million. A working group of the consortium has undertaken a special review of Turkey's debt problem. The United States has proposed that debt schedules be revised to permit repayments over a longer period and that terms of the contributions from donors be improved to ease Turkey's debt repayment burden.

### Fiscal Year 1966 Program

U.S. program loans as well as project loan assistance to Turkey during fiscal 1966 will be provided through the consortium. AID program loans will be used to finance imports of raw materials, semi-manufactured goods and spare parts to improve the use of existing plant capacity, helping to maintain the pace of investment in high-priority areas.

With U.S. assistance, Turkey has undertaken feasibility studies in power, irrigation and transportation, and in private sector projects with high import-substitution and export-earning potential in the field of mineral development, manufacturing and tourism. These studies will provide a basis for project loan applications in 1965 and 1966 for consideration by the United States, other free world donors and international agencies. Negotiations will be undertaken in 1965 for a new Food for Peace agreement to provide surplus American agricultural commodities to cover Turkey's estimated \$50 million food deficit.

Technical assistance in agriculture will continue to emphasize water resource development and the development of university-level technical training. In education, AID will continue to help the Turks improve educational planning and teacher education, and expand vocational and technical education to provide more skilled industrial and clerical workers. AID will continue to strengthen the Turkish private sector by providing technical assistance to the Union of Chambers, the Industrial Development Bank and other private institutions, and financing advanced management and technical training in the U.S. for Turkish participants.

## OTHER NESA COUNTRIES

### AFGHANISTAN

The United States is helping Afghanistan develop a more progressive society and carry out a development program consistent with its capabilities. U.S. economic aid in selected priority areas provides Afghanistan with an alternative to excessive dependence upon the USSR, and supports the independence of a nonaligned Afghanistan friendly to the broad objectives of the free world.

The new government which took office in March 1963 has made far-reaching changes. A liberal constitution adopted in September 1964 lays the foundation for a Western-type political system including an independent judiciary and a free press. Afghanistan has reestablished good relations with Pakistan by reopening the border. A new trade agreement with Iran has been negotiated.

The new government inherited a deteriorating economic situation. The 1962-63 deficit of the combined current and development budgets, to be covered from domestic borrowing, was the highest in recent history. Money supply and prices were rising. In an effort to correct the situation, economic reforms were introduced, nonessential imports curtailed, and customs duties and internal taxes increased. The Ministry of Planning is reexamining the size and composition of the Second Five-Year Development Plan, initiated in March 1962.

Afghanistan's development program depends heavily on foreign technical and capital assistance. Germany is assisting technical schools and Kabul University, and has made a \$50 million loan commitment to the Afghan Plan. Japan helped set up a small industries and production training center in 1963. The United Kingdom is lending approximately \$2.3 million for the expansion of a beet sugar plant, cotton ginning facilities and a cotton seed oil processing plant. France and Yugoslavia are providing small amounts of technical assistance. The UN allocates one million dollars annually for technical services in education, community development and health.

Soviet aid has totaled nearly \$550 million for the last ten years of which about half is committed to the support of the Second Five-Year

Development Plan. Russian projects include assistance for roads, hydro-power dams, irrigation projects and industrial plants.

The U.S. aid program in Afghanistan includes technical and capital grant assistance, development loans and assistance under Title II of the Food for Peace program. Loans have been authorized for construction of a road in northwest Afghanistan and for transportation equipment. A Title II program for 100,000 tons of wheat has been approved, and the local currency generated by this program has been earmarked for local costs of the technical assistance program and development projects. A Title I program for edible oils is being considered in fiscal year 1965.

A nine million dollar AID technical assistance program is planned for fiscal year 1966. This will finance programs in agriculture and education, which represent Afghanistan's greatest needs. AID will expand assistance in agricultural planning, research and extension, continue development programs for irrigated lands in the Helmand Valley and provide an overall planning and management team for that area. Under contracts with Educational Services, Inc. (a consortium of American schools), the University of Wyoming and Teachers College, Columbia University, the United States will assist the faculties of engineering, agriculture and education of Kabul University and will expand assistance to the Afghan Institute of Technology and the secondary schools. The technical cooperation program also will include projects for strengthening the highway and equipment maintenance organizations, the reorganization of the administration of the judiciary system, and the modernization of management in the ministries.

Loan applications are expected for the further development of irrigation in the Helmand Valley, the creation of small industrial enterprises, and additional transportation equipment. Continued Food for Peace programs will be considered.

## CYPRUS

In December 1963 fighting erupted between the Greek and Turkish-Cypriot communities on the island, which had received its independence only three years earlier. The crisis opened the possibility of disrupting the NATO alliance, as Greece and Turkey were drawn into the conflict. Although no political settlement has been reached, a truce has been in effect for the past several months under the supervision of the United Nations, which by its efforts as peacekeeper and mediator has achieved some degree of normalization of relations between the two communities.

Cyprus has shown an increasing tendency to look to the Soviet bloc as an outgrowth of the bloc's support of the Greek-Cypriot position before the UN. A recent agreement between the USSR and Cyprus has resulted in the delivery of some equipment for the Greek-Cypriot security forces. A commercial trade agreement between the USSR and Cyprus has once again solved the problem of surplus agricultural products to Cyprus' benefit.

The U.S. objectives in Cyprus are a settlement of the conflict which preserves Greek and Turkish membership in NATO and the solution of economic and social problems inherent in rehabilitation.

Virtually all AID projects in Cyprus were either terminated or suspended in early 1964. Before the outbreak of fighting between the two communities, the AID program had helped the Government of Cyprus establish a Central Bank and a Development Bank, define a three-year economic program, begin a long-term water resources development program, and undertake the reorganization and improvement of the agricultural extension service. Two water engineers have continued to work with their Cypriot counterparts in fiscal year 1965. In addition, Cyprus is expected to receive assistance under the Food for Peace program.

We plan to expand technical assistance in the water development field in fiscal year 1966 and return advisers in planning and statistics. If the political situation permits effective use of additional technical assistance, AID may increase the Technical Cooperation program by a modest amount above the presently planned \$100,000 level. Cyprus is eligible for development lending in fiscal year 1966, should conditions justify it. Should loans be made, they would bear at least 3½ percent interest rate.

## IRAN

Iran's improved economic position has permitted a substantial reduction in U.S. assistance over the course of the past four years. In earlier years much of the assistance was on a grant basis. Supporting Assistance grants were terminated in 1962. AID loan terms have also been hardened as Iran's capacity to repay has improved. Iran is approaching the point where it can rely on other sources of financing for its development effort.

Iran is well launched on its modernization program and is at the midpoint of its Third Development Plan. Like its predecessors, the Plan uses the government's oil revenues for investment in development. The land reform program is breaking down the feudal structure of rural Iran and is the main element of the government's social development program. Iran has embarked also on a major literacy drive in the villages by using army conscripts as instructors. The government is modernizing its administrative structure and its civil service code, and is moving toward increased village autonomy. Improved budget and fiscal procedures are being worked out.

Oil revenues have been rising rapidly and Iran is able to finance an increasing portion of its development effort, and to service foreign loans on harder terms. Iran has obtained sizable European commercial credits and has negotiated new loans from the World Bank. The Export-Import Bank has offered a \$68 million loan for the electrification program. AID also is planning to provide a \$10 million loan for the electrification program.

Since 1952, AID advisors have been helping Iran establish and improve educational and training institutions and programs. They have also helped to improve agricultural extension and public health services. As a result of

the progress achieved in 1953-62, it has been possible to reduce the scale of the AID Technical Cooperation program. AID plans to continue programs in rural development, public administration and higher education.

## ISRAEL

U.S. policy firmly supports Israel's continued existence as a secure and economically viable state. Acceptable solutions to those issues which heighten Arab-Israeli tensions would permit both sides to allocate larger amounts of their scarce resources for development rather than military uses.

U.S. and other external assistance, combined with Israel's own efforts, has resulted in one of the highest economic growth rates in the world. As a result of this progress, supporting assistance was terminated in fiscal year 1961, and technical assistance ended the following year. Loan terms have been progressively hardened from  $\frac{3}{4}$  percent interest in fiscal year 1962, to two percent in fiscal year 1963, and  $3\frac{1}{2}$  percent in fiscal year 1964. Loans made in fiscal year 1965 will bear an interest rate of  $3\frac{1}{2}$  percent. If development loans are made in fiscal year 1966, they will bear at least this rate. Israel will continue to be eligible for loans from the Export-Import Bank.

In fiscal year 1965, Israel will receive \$32 million surplus agricultural commodities under Title I of the Food for Peace program. In fiscal year 1966, dollar credit sales of approximately \$30 million are expected to be made under Title IV.

## NEPAL

The United States aid helps Nepal to maintain its independence and to build a base for economic and social development. The AID program is directed toward five essential areas of the nation's economy: (a) education and training; (b) public administration, to create the administrative machinery for development; (c) industry, to develop revenues; (d) rural development, to draw the outlying areas into the nation's development; and (e) transportation and communications in a country with few roads and limited means of communication. In 1964, the United States, in coordination with India and the United Kingdom, also began a small military assistance program for the Nepalese Army.

Nepal, which lived in near-isolation from the rest of the world (until 1951), has a very low development base, but progress is beginning. With U.S. help, a national education system has been started; primary school enrollment has increased from 26,000 to 230,000 in the past nine years. An American adviser has introduced new accounting and estimating systems which are contributing to improved national budgets. Administrative training programs, worked out with the AID Mission, have been conducted in two-thirds of the country. Private industrial investment through the U.S.-assisted Nepal Industrial Development Corporation has risen from less than \$100,000 equivalent in fiscal year 1960 to more than \$2,500,000 in fiscal year 1964. The United States has also helped Nepal institute its

new "Panchayat" system of village councils, intended ultimately to provide representative government throughout the country. A U.S.-financed cargo-carrying ropeway into the Kathmandu Valley was completed in 1964, as was a small telecommunications system which links Nepal to India.

The Nepalese Government is undertaking social and administrative reforms. It has started on a difficult program of land reform aimed at redistribution of land to tenant farmers. The Government's budget for fiscal year 1965 continues a trend toward fiscal responsibility and self-help. Although tax revenues have been increasing sharply, regular budget expenditures are being held to a minor increase. The Government is bearing a greater share of the costs of the development program—a program previously financed mainly from foreign aid. The Government plans to finance 40 percent of the current development budget; four years ago it was financing only 12 percent.

Less than a third of the U.S. aid program in Nepal is financed with dollars; the bulk comes from Indian rupees paid us by India for surplus agricultural commodities sent to India under the Food for Peace program. India, too, provides significant assistance to Nepal—roads, power, irrigation, education, and agricultural projects—and its aid this year, may exceed that of the United States. Other major aid donors are Communist China, the Soviet Union, and the United Kingdom. Chinese and Soviet aid commitments total over \$60 million, though outlays have reached only about 10 percent of that amount.

In fiscal year 1966 the proposed U.S. program of \$3.6 million and the equivalent of \$11.5 million in U.S.-owned Indian rupees will continue to be concentrated on the same basic sectors, but with less emphasis on education; we will complete most of our aid to the education sector in the next two years. Of the Indian rupee total, \$3.5 million equivalent is planned for loans to the Nepal Industrial Development Corporation and the new Agricultural Cooperative Bank.

## UNITED ARAB REPUBLIC

The UAR is the most influential of the Arab countries, with the largest population, the largest number of educated people, and the greatest industrial capacity. Because of its strategic position in the Near East and in Africa, because of the Arab-Israeli conflict, because of the West's interests in the oil of the Middle East—for these and other reasons, a UAR which is unstable or which is hostile to basic U.S. objectives in this area is contrary to our interests. The declared policy of the UAR is one of nonalignment between East and West. In pursuit of this policy, it takes positions in line with the West on some issues and in line with the East, on others.

In the past year or two, the UAR has followed a number of political policies which are not to our liking and are contrary to our interests. Examples are the UAR's involvement in Yemen and its support of the rebels in the Congo.

But while devoting substantial resources to what we believe to be ill-advised and undesirable political adventures, the UAR has also made progress towards economic development. It has maintained a reasonable rate of growth for a number of years.

However, its performance leaves something to be desired. Economic growth has been accompanied by increasing inflationary pressures, domestic shortages and rapid accumulation of external debt. There also has been some misdirection of investment. These problems call for careful attention to economic problems by UAR officials if development is to be successful.

In the spring of 1964, the UAR entered into a stabilization agreement with the International Monetary Fund. Late in the year UAR officials publicly recognized the need for further action and announced plans for additional economies in government spending and greater incentives to domestic production and savings. The United States welcomes this evidence of greater concern for domestic development.

Title I sales of agricultural commodities under the Food for Peace program are and have been the most important element of U.S. assistance to the UAR. These have been furnished pursuant to a multi-year agreement which will expire in 1965. AID is carrying on a small technical assistance program in the fields of agriculture, water, development planning and management. AID authorized no development loans in fiscal year 1964 and has authorized none to date in fiscal year 1965.

The UAR receives extensive assistance from many other sources. A \$280 million Soviet credit for the Second Five-Year Plan in May 1964 and assistance commitments from East European Communist countries brought total Communist economic assistance commitments to the UAR since 1955 to more than \$1 billion. Some \$835 million of this was from the USSR. In late 1964, Communist China extended a \$50 million loan to the UAR. The Soviet bloc also has extended massive military aid. Since 1959, economic assistance from the Free World has exceeded \$1 billion. In addition to the United States, major lenders were the World Bank, the United Kingdom, West Germany, Japan, Kuwait, and Italy.

## YEMEN

The principal U.S. objective in Yemen is to deny its use as a base for forces hostile to vital Western interests in the oil-rich Arabian Peninsula. Attainment of the objective is endangered by Yemen's continued political instability, economic assistance by the Soviet bloc and the Chinese Communists, and the continuation of internal civil strife. The United States is making efforts to get the UAR and Saudi Arabia to compose their differences in Yemen.

U.S. assistance began in fiscal year 1959 with an agreement to construct the Mocha-Taiz-Sana'a road. Approximately 80 percent of this 226-mile road is now completed. In addition, through the road project about 700 Yemenis have received training which will enable them eventually to staff

a Roads Department. AID plans to build a 34-mile spur road connecting the Mocha-Taiz-Sana'a road with the border town of Rahida, thus strengthening Yemen's traditional economic ties with the West through Aden. Work on the spur is to start during fiscal year 1965 with completion scheduled in fiscal year 1966.

In fiscal year 1961, the United States agreed to construct a potable water system for the city of Taiz and help establish a Department of Public Water Supply and Sanitation. This project is scheduled for completion in fiscal year 1966, when headquarters facilities with laboratories, work shops and a U.S.-trained Yemeni staff are expected to be fully operational.

The Soviet Union and Communist China have provided substantial assistance to Yemen since 1957. Soviet aid was used to purchase military equipment, construct an airfield at Sana'a and provide military training. In addition, \$15 million in economic credits were used to construct the Port of Hodeida. The Chinese Communists provided nearly \$15 million to build the Hodeida-Sana'a road. The Soviets are planning a Hodeida-Taiz road and a fish processing plant. The Communist Chinese have plans for a Sana'a-Saada road and a textile factory.

West Germany has a small technical assistance staff in Yemen to improve agricultural practices. Kuwait is financing an economic study to document projects for possible Kuwaiti financing. In the past, Kuwait has financed construction of a number of schools and hospitals.

The greater part of the \$2.5 million Supporting Assistance planned for fiscal year 1966 will be used to complete the Mocha-Taiz-Sana'a road, including the Rahida Spur, and the Taiz Water System. With the completion of the U.S.-financed capital assistance projects in fiscal year 1966, U.S. efforts will be directed toward technical assistance. A project for urban and rural development will seek to bring improvements to sections of Yemen previously unaffected by U.S. aid projects. Assistance based on community self-help is planned to provide village water supplies, farm-to-market roads, school buildings and improved agricultural practices.

#### CENTO

The U.S. supports Central Treaty Organization (CENTO) economic programs in order to promote a community of interest among the CENTO countries, encourage cooperation in economic development, and increase the orientation of the regional members toward the West.

Assistance to CENTO capital projects has been concentrated on multi-country communications projects such as roads, a railroad link between Iran and Turkey, a telecommunications system and a civil airway navigation net connecting Ankara, Tehran and Karachi. Loan proposals for further regional capital projects will be considered only within individual country loan programs.

Forty U.S.-financed technical assistance conferences and training activities involving mutual problems in the economic and public administra-

tion fields have been completed. These regional projects act as catalysts for action on national problems. For example, as an outgrowth of two U.S.-financed conferences on narcotics control, Turkey and Iran have established over 100 guard stations along their common border. Aid has been given also to a regional, mutual self-help program under the CENTO Multilateral Technical Cooperation Fund (MTCF), which uses institutions and experts located within the region.

In fiscal year 1966, technical assistance activities will follow the pattern of those carried out in fiscal year 1965. Regional training activities and conference seminars will be undertaken in fields such as agricultural credit, cooperatives and marketing; geological field mapping; problems in implementing national economic development plans; labor and business statistics development and application; and new methods of teaching mathematics. Further grants will be made to the MTCF.

### REGIONAL PROJECTS

The major regional project in the Near East-South Asia is participant training at the American University of Beirut. It was begun in 1951 to extend training opportunities in certain technical fields to countries of the area and help the University expand its curricula and establish new departments.

Between 1951 and 1965, 2,748 participants have received training in agriculture, business administration, public administration, engineering, nursing, pharmacy, and public health. They were drawn from 20 countries in the Near East and Africa, with about 45 percent coming from Iran, Jordan and Pakistan. In 1964-65, 625 scholarships are planned and for fiscal year 1966, 645 are proposed. In both years, 500 will be filled by students from Near East and South Asian countries.