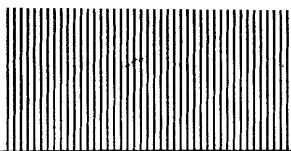
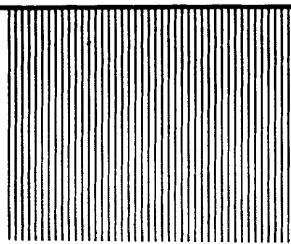


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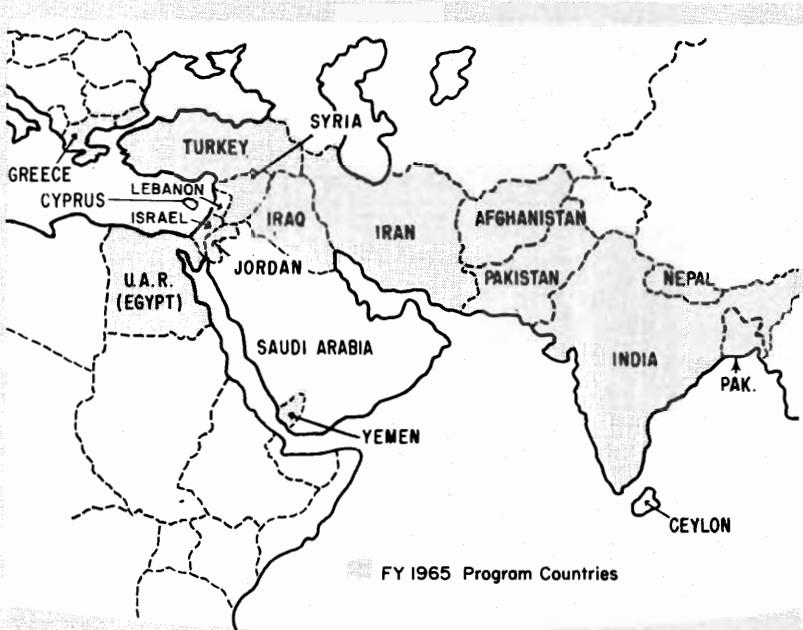


U. S. FOREIGN AID  
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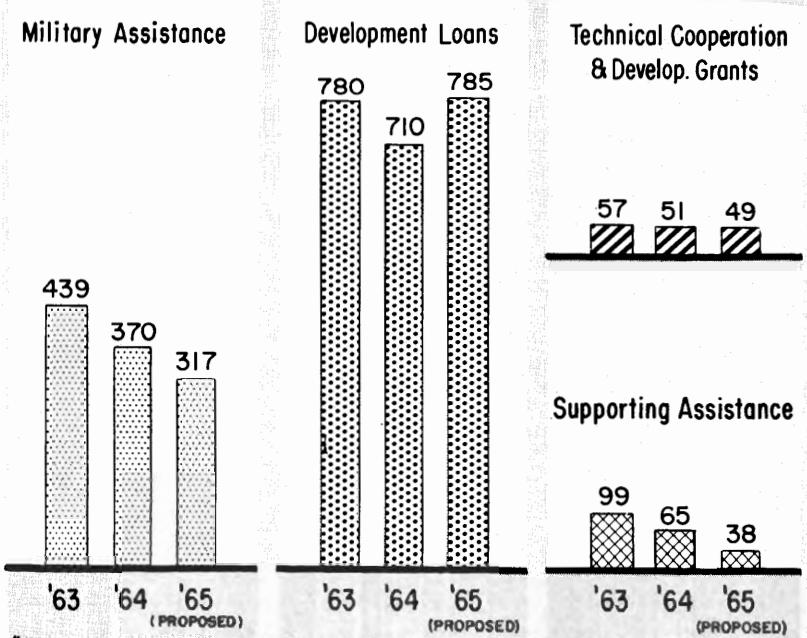
AGENCY FOR INTERNATIONAL DEVELOPMENT



BEST AVAILABLE



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



\* \$12 Million was programmed for Economic Assistance from Contingency Funds in FY 1963.

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

Great stretches of the Near East South Asia region lie along the borders of the Soviet Bloc and Communist China. Communist pressure on border countries and Communist attempts at subversion present a continuing danger.

The region has ample fuel for unrest and conflict: Historic enmities between nations, the struggle between ancient privilege and the attempt to modernize, the challenge of millions who are desperately poor, ill-housed, uneducated, and determined to get something better.

For some years the Near East South Asia has been the "development region", the scene of the largest sustained national development efforts since the recovery of Western Europe and Japan and of the greatest concentration of American technical and capital assistance since the Marshall Plan.

For all its turbulence, the region is characterized by relatively strong national governments committed both to the defense of their countries against aggression, and to the serious self-help and development efforts required to build popular support and effective national strength.

## Aid From the United States

In Near East and South Asian countries whose independence has been threatened by Communist aggression or subversion, the United States has backed national defense programs with military aid. Greece, Turkey, Iran, Pakistan, and India now receive substantial amounts of military assistance.

The relatively large U.S. investment in development assistance is a direct reflection of the serious commitment of most Near East-South Asian countries to economic and social development. The countries of the region recognize that development and reform are essential for their strength, security, and independence. Most have been engaged in development programs for a number of years, and have initiated reforms vital to orderly progress.

Lebanon has become self-supporting and no longer requires assistance from the United States. In Greece and Israel the need for technical assistance has ended and both countries are moving to self-support. In Turkey, Pakistan, and India, where almost 90 percent of the region's AID program

is concentrated, the U.S. contribution is joined with substantial contributions from other free world aid donors.

The South Asian subcontinent, by virtue of its location, its 600 million people, its economic potential, and the military traditions of India and Pakistan, could become a powerful deterrent to the spread of communism from Red China and the USSR. Continued security and stability for Greece, Turkey, Iran, and the Near East are also essential to free world military security and economic and political strength.

## Political Problems

Serious issues divide the countries of the region and pose a continuing challenge to free world diplomacy and the responsible pursuit of their real national interests by the leaders of the countries concerned. Unresolved, these issues could undermine the development efforts of many countries and the security of the entire region.

Progress was made during the past year in resolving the Afghanistan-Pakistan border dispute. The border has been reopened and diplomatic relations resumed.

On the other hand, there seems little immediate prospect of settling the Kashmir dispute, which aggravates relations between India and Pakistan and weakens the security of the subcontinent they share.

Greece and Turkey, with strong security and historical ties with the United States, are confronted with the complex Cyprus issue which, if not resolved, could disrupt existing arrangements for defending the eastern flank of NATO.

In the Near East, the Arab-Israel dispute retains its emotional force. Other divisive issues also contribute to the area's instability. The United States has declared its interest in the security and independence of all states in the area. The integrity of Israel and Jordan are particularly important to the maintenance of peace in the Near East. United States policy towards the United Arab Republic, largest and most populous of the Arab countries, seeks to strengthen the UAR's commitment to internal development.

Ultimately, the stability of the entire Near East-South Asia region depends on how effectively its countries pursue their goals of modernization and economic development. U.S. economic assistance is an investment in continuing this drive for development as an orderly process of change.

## The Fiscal Year 1965 Request

For fiscal year 1965, AID is requesting an appropriation of \$872 million for economic aid programs in the Near East and South Asia. This is more than will be obligated in fiscal year 1964, but less than the fiscal year 1963 program.

## *Near East South Asia Request*

[Millions of dollars]

	Obligations fiscal year 1963	Estimated obligations fiscal year 1964	Fiscal year 1965 request
Development loans . . . . .	\$779.5	\$709.8-729.8	\$785.0-815.0
Supporting assistance . . . . .	98.8	46.4	37.8
Technical cooperation and develop- ment grants . . . . .	56.8	51.3	49.3
Contingency fund . . . . .	12.0	.....	.....
Total economic . . . . .	\$947.1	\$807.5-827.5	\$872.1-902.1

(The totals in this table do not include funding for the United Nations Relief and Works Agency for Palestine Refugees, the UN Emergency Force in the Near East, or the Indus Basin Development Fund, all of which are included in the request for Contributions to International Organizations.)

About 90 percent of the economic assistance funds requested for the region are for Development Loans. Assistance will be extended on a highly selective basis. Three countries—India, Pakistan, and Turkey—are expected to receive 88 percent of all funds programmed for the region.

### *Transition to Self-Support*

Other regional countries such as Greece and Israel are more advanced in the movement towards economic self-support. Their primary reliance for external financial assistance for development will be on the World Bank, Export-Import Bank, and other conventional credit sources, although some loans may still be made under the Foreign Assistance Act. Public Law 480 surplus agricultural commodities will continue to be available to these countries and Military Assistance Programs will continue where appropriate.

Greece and Israel, strongly supported by economic assistance in the past, are the closest to achieving development objectives. Grant assistance has been terminated and loans are now extended on increasingly hard terms in both countries. Iran's revenues from oil, which have increased more rapidly than expected, improve its ability to finance more of its development and its far-reaching reform program from its own resources, and hastens the time when Iran can rely on conventional sources of financing for additional capital needs.

### *Development Loans*

The Near East South Asia region is characterized by a drive for development. While the quality of performance varies, India, Pakistan, Greece, Turkey, Iran, the United Arab Republic, and other countries in the region have made determined efforts to mobilize internal resources through savings and increased taxes, to carry out land and tax reforms, and to hammer out

development plans other donor countries as well as the United States have accepted as the basis for extending help.

With a history of self-help effort behind them and a growing supply of skilled manpower, the region's countries are able to use resources effectively and the major emphasis in AID programs for the region is on Development Loans.

In fiscal year 1963 and fiscal year 1964, Development Loans accounted for 82 percent and 88 percent, respectively, of economic assistance obligations in the region. Loans make up 90 percent of the funds requested for fiscal year 1965.

India, Pakistan, and Turkey are scheduled to receive \$750 million or about 95 percent of the region's Development Loan funds, leaving \$35 million, or about five percent, for loans to some six or seven other countries.

The loans will all be repayable in dollars and will be for procurement of goods and services in the United States. Their terms will vary, depending upon the strength of the foreign exchange position of individual borrowing countries. Loans to Iran and Cyprus, for example, will carry at least 3½ percent interest for a term of about 30 years. Such loans as may be made to Greece and Israel under the Foreign Assistance Act would carry at least 3½ percent interest for terms of 20 to 30 years. Loans to countries such as India, Pakistan, and Turkey will be made at lower rates.

This high Development Loan content means that most of the NESAs region's AID funds—about 95 percent—will be spent in the United States. It is estimated that no more than \$40 million of the \$872 million economic assistance request will be spent abroad, and the impact of the United States balance of payments will therefore be relatively small.

### *Technical Cooperation and Development Grants*

Three years ago, Technical Cooperation programs were carried out in 15 NESAs countries (plus CENTO and regional programs). Greece, Israel, and Lebanon no longer require technical assistance and the program in Ceylon was suspended in February 1963.

In fiscal year 1965, \$49.3 million is requested in Technical Cooperation and Development Grant funds for the Near East South Asia region. Five countries will account for 75 percent of the total: India, Pakistan, Turkey, Jordan, and Afghanistan.

The number of U.S. direct-hire employees working on NESAs Technical Cooperation projects overseas will be reduced by the end of fiscal year 1965, as some activities are eliminated and greater emphasis is placed on other Federal agency or nongovernmental resources for technical assistance.

Through contracts with American universities, the Technical Cooperation program will continue to help develop the extension and research activities of large agricultural universities in India, Pakistan, and Turkey.

In education, a major effort to introduce more mathematics and science teaching in Indian secondary schools will be supported by AID-financed

contract teams from the Universities of Wisconsin and Illinois, Ohio State and Michigan State Universities, Houston University, and Teachers College of Columbia University.

As part of the technical assistance effort, AID will continue to send key "participants" in AID-supported projects to the United States and to third countries for advanced training. The program annually brings to the United States more than 1,000 midcareer professional and technical people from the Near East and South Asia countries for study in U.S. universities and colleges, work with Federal, local and State Government agencies, training in business, industry, trade, and labor organizations.

### *Supporting Assistance*

The reduced Supporting Assistance request for fiscal year 1965 continues a policy of eliminating this kind of aid wherever and whenever feasible. Afghanistan, Greece, Iran, and Pakistan have received none since fiscal year 1962. Turkey will receive no Supporting Assistance after fiscal year 1964.

The \$37.8 million of Supporting Assistance requested for fiscal year 1965 is the minimum necessary to meet essential requirements in Jordan, Yemen, and for CENTO programs. Most of this amount—\$33 million—is for Jordan, the one country in the region where budget support is still required. Jordan's independence is essential to the stability of the Near East. Jordan's resources are as yet insufficient to finance ordinary government services, let alone to carry on a development program which can reduce—and eventually eliminate—its dependence on outside assistance. The Jordanian economy is growing stronger, however, and the amount of U.S. budgetary support is being gradually reduced—from \$40 million in fiscal year 1961 to a proposed \$33 million in fiscal year 1965.

The remaining \$4.8 million of the Supporting Assistance request is needed to continue CENTO and Yemen capital projects—\$400,000 for the former and \$4.4 million for the latter.

### *Military Assistance*

The reduction of Supporting Assistance does not imply a lessening of U.S. interest in the maintenance of adequate security forces.

U.S. Military Assistance Programs in a number of countries of the area are required in pursuit of our mutual security objectives. Substantial programs are carried out in five major countries on the Communist periphery—Greece, Turkey, Iran, Pakistan, and India. Greece and Turkey are attempting to maintain forces consistent with their NATO membership and obligations. Pakistan and Iran, both CENTO members, are modernizing their forces in keeping with mutually agreed plans. India has responded to the Chinese threat by building up its forces. In each of these cases there is a need to acquire from abroad military equipment and supplies to help meet defense objectives.

Economic development has permitted elimination of Supporting Assistance grants previously needed to support military forces in most of these countries, and eventually it should eliminate also the need for Military Assistance.

### *Food for Peace*

AID programs in the Near East South Asia region are supplemented by sales and grants of U.S. surplus agricultural commodities under the Food for Peace program made possible by Public Law 480, the Agricultural Trade and Expansion Act.

Sales to nine NESAs countries under Title I of the program are expected to total about \$712 million during fiscal year 1964 and \$702 million during fiscal year 1965. The largest programs are in India, Pakistan, the UAR, and Turkey. These sales, for local currency, save foreign exchange for other imports needed to support development programs, and at the same time provide the food, feed, and fiber—such as vegetable oils, wheat, corn, rice, and cotton—needed to support increasing populations while domestic agricultural production is still insufficient.

Title IV sales for U.S. dollars have been made to Syria and Iraq. Further sales are expected to be made to these countries in fiscal year 1965.

Under Title III of the Food for Peace program, surplus food is granted to registered American voluntary relief agencies for use in their overseas relief programs. Title III programs are conducted by voluntary agencies such as CARE, Church World Service, Catholic Relief Service, and Lutheran World Relief in 15 NESAs countries. The largest programs are in India, the UAR, Pakistan, Greece, Iran, and Turkey.

Much of the Title III food is provided for school milk and school lunch programs which contribute directly to the educational effort of the developing countries. Under the CARE program alone, more than six million Indian children benefit from milk served at school. In Turkey, more than a million school children receive lunches through programs conducted by CARE and Catholic Relief Services.

### *Assistance to Private Enterprise*

Private investment, domestic and foreign, plays a large role in the economic development of the countries of the NESAs region. Since November 1961, AID has authorized eight loans totaling \$72 million directly to private firms to establish new plants, and expand existing facilities. From 1958 through fiscal year 1963, 18 loans were made to local development banks to help expand their lending facilities to the private sector. The largest part of the machinery, components, spare parts, and raw materials financed by development program loans, which account for about half the loan programs to India, Pakistan, and Turkey, goes to private industry.

The AID Investment Guaranty program continues to stimulate U.S. investment in NESAs countries. AID has Investment Guaranty agreements

covering convertibility and expropriation with 11 of the 18 NESAC countries, including all major aid recipients. Two of these agreements were signed during 1963. Eighteen Guaranties totaling nearly \$20 million were issued under these agreements during the first six months of fiscal year 1964, bringing the region's total number of active Guaranties to 143, with outstanding balances totaling over \$312 million.

Also benefiting the private sector are "Cooley" local currency loans. Some 64 Cooley loans, totaling nearly \$97 million in value were approved between January 1962—when AID assumed administration of the program—and January 31, 1964. Fourteen loans approved during fiscal year 1964 will help increase the production of tires and other rubber goods in Iran and India, steel tubes and other steel products in Turkey and India, fertilizers and other chemicals in Israel, Turkey and India, and sulphur in India. They will assist also construction of a hotel in Pakistan and foreign banking services in Turkey.

Nine investment surveys were approved during the first seven months of fiscal year 1964, for a total of over \$157,000. These surveys will investigate the feasibility of U.S. private investments such as propane gas distribution in Pakistan, paper manufacturing in Turkey, and iron castings in India.

### *India, Pakistan and Turkey*

The two largest economic aid recipients in the region are India and Pakistan. Their continued independence and stability is essential to the security and defense of the South Asian subcontinent. They are both committed to economic development. India is well into its Third Five-Year Plan, and Pakistan will soon begin the last year of its Second Five-Year Plan.

Resources for carrying out these development plans come substantially from within the countries themselves. India is financing some 75 percent of its Third Plan, while Pakistan is financing approximately 54 percent of its Second Plan. Domestic savings are increasing, as are tax collections and investment.

Outlines for India's Fourth Plan and Pakistan's Third Plan call for an even larger share of the Plans to be financed from their own resources. Despite these achievements they still lack the foreign exchange and internal savings necessary to carry out development programs; it is for this reason that they seek external assistance.

For both countries, the World Bank has organized formal Consortia of aid donors to coordinate the provision of aid from 10 free world sources including the United States. In addition to the United States, the Consortia for both countries include Austria, Belgium, Canada, France, Italy, Japan, the Netherlands, the United Kingdom, the World Bank, and the International Development Association.

The third largest recipient of U.S. assistance in the region is Turkey. The United States has a strong national security interest in the political stability and the economic progress of this important ally. The Turkish Parliament approved a Five-Year Development Plan in November 1962 and

important measures have been taken to improve performance: Tax reform, incentives for exports, budget improvements, increased savings and investments.

The Turks finance 75 percent of the Plan's requirements from their own resources, but, as in the case of India and Pakistan, still need a substantial margin of external help to carry development forward. The Organization for Economic Cooperation and Development has sponsored an aid Consortium for Turkey since 1962. Members include Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Portugal, the United Kingdom, the United States, the OECD itself, and the Commission of the European Economic Community (Common Market).

## AFGHANISTAN

The primary U.S. objective is to help build an independent Afghanistan friendly to the free world's broad objectives, by helping Afghanistan to improve its relations with its non-Communist neighbors and strengthen its economy. With Western aid, Afghanistan has become less dependent on the USSR for its economic development. The Afghanistan Government is now attempting to undertake internal political reform and modernization.

The United States is providing limited support to Afghanistan's development on a selective basis. AID's objectives include the development of a Western-oriented education system; improving the government's ability to plan and carry out a development program; investment in power, irrigation, and agricultural development in the Helmand Valley, and completing a road system that will link Afghanistan with its free world neighbors. Financing of new capital projects will be limited to development loans.

### Self-Help and Aid From Other Sources

The Afghan economy is basically agricultural. Industrialization is behind that in Pakistan or India. Early postwar investment was concentrated on the Helmand Valley multipurpose power and agriculture project. Afghanistan's first serious development effort, the first Five-Year Plan (1956-61), amounted to little more than a list of ill-defined projects, although it recognized the need to plan investment according to the economy's needs. The Second Five-Year Plan (1962-67) reflects an improved project definition but does not fully recognize the need for a larger Afghan contribution to local costs of capital improvement.

Progress has been made. Since the First Plan began, hundreds of schools have been constructed, irrigation facilities in the Helmand Valley have been improved, six new airports have been built (four with U.S. assistance), a thousand miles of main highways and many more feeder roads were completed, and production of electric power was multiplied several times over.

Other free world countries are also providing assistance to Afghanistan. West Germany has a technical assistance program underway; it made a \$50 million loan commitment to the Second Five-Year Plan to assist the country's largest textile mill, to build a power dam on the Kabul River, to construct petroleum and grain storage facilities, and to expand the Kabul telephone system. Japan is providing assistance to three small industries: Bicycle assembly, plastics, and bottle manufacturing. France has a small program and U.N. organizations are providing approximately \$1 million a year in the field of education, community development, and health.

### *Soviet Bloc Aid*

In comparison with the \$235 million of U.S. economic assistance between 1950 and 1963, Soviet bloc aid has totaled more than \$500 million over the last decade. Some \$300 million in Soviet aid has been committed to the Second Five-Year Plan since October 1961. These figures exclude military assistance where the USSR contribution is substantial. Russian economic projects include a 700-mile road, development of natural gas resources, a fertilizer plant, a multipurpose dam, a 10,000 hectare irrigation canal system on the Kabul River, and the Salang Pass tunnel. Czechoslovakia also provides technical assistance.

Afghanistan's investment in basic facilities—roads, irrigation and air transport—is assisted principally by the United States and USSR, and it continues to be large. The current policy however, is to place more emphasis on private investment. In keeping with the stabilization agreement reached by the previous regime with the International Monetary Fund, the new Afghan Government is conducting the nation's first thorough budget review. This should result in reduction of the budget deficit and improvement of governmental efficiency.

A new government, led by the first nonroyal Prime Minister, came into power in March 1963. Among the first steps the new government took was to negotiate the opening of the border with Pakistan and to renew trade and diplomatic relations. The two countries had closed their border and severed relations in September 1961 over the Pushtunistan issue. This increased Afghanistan's dependence on Russian trade and communication. Because of the border opening, increased customs and export tax collections have been realized by the government.

### The Fiscal Year 1965 Program

AID's program for Technical Cooperation and Development Grants in fiscal year 1965 will concentrate on the completion of existing projects. No new projects are proposed.

Improvement of Afghanistan's western-oriented education system will continue to be emphasized in the AID technical assistance program. An American contract team will arrive during 1965 as part of the final push in the program to modernize Afghanistan's technical secondary school, the

Afghan Institute of Technology. Equipment will be purchased for the Institute's new building for which funds for construction is expected to be obligated in fiscal year 1964.

For the second year, 35 to 40 Afghan Government officials will come to the United States as participants in a program to improve Afghan Government management. A U.S. advisory team on planning will help prepare a program for the fourth and fifth years of the Second Five-Year Plan.

### *Helmand Valley Project*

AID will continue help with development of the Helmand Valley. The Helmand Valley is in the southwest half of the country, closest to Pakistan. The area was long arid and sparsely populated. Now, irrigation is turning 300,000 acres of flatland along the river course into fertile cropland.

Most of the diversion canals have been constructed by an American engineering and construction firm which has worked with the Afghan Government since 1946. In recent years, AID has helped finance continuation of this construction and has trained an Afghan staff for the Helmand Valley Authority to gather the information on water flow, levels, and source on which successful operation of the irrigation works depends.

The Valley is now linked to markets in Pakistan and to northern Afghanistan by roads AID helped build or is building. AID emphasis in fiscal year 1965 will be on technical assistance to improve the management of existing irrigation works and to increase agricultural output.

In addition, AID has contracted with a U.S. consulting firm to survey electric generating needs and potential power sources (both hydroelectric and thermal) in the Helmand Valley area and to help set up a public utility organization to operate the regional power system.

AID funding of road and airport construction, a large element of the program in earlier years, has ended. Fiscal year 1965 financing will be confined to supervision for completing pending projects: By the U.S. Corps of Engineers of final work on the Kabul-Kandahar road, and by the Federal Aviation Agency of aviation aid and air control systems installation at existing airports.

Loan applications in fiscal year 1965 are expected for Helmand Valley power development and for small manufacturing and food processing plants in the private sector. Favorable loan action will depend on the results of feasibility studies now being carried out by U.S. contractors and the ability of the Afghan Government to raise its share of the necessary financing.

## INDIA

India, the world's largest democracy, has carried forward a sustained development effort since 1951, in the face of gigantic problems at home and, in recent years, armed Chinese Communist aggression. India is firmly

committed to its independence and to economic and social growth within the framework of a free society.

It is in the U.S. interest to support India's development effort, and to strengthen its independence. At stake is the integrity of the largest nation in free Asia and the confidence of 450 million Indians in the ability of a democratic government to improve their level of living.

India's balance of payments is presently under increased pressure because of the need to finance its development program and to acquire military equipment from abroad to shore up its defenses on the Indo-Chinese border. Economic assistance is provided through a Consortium organized by the World Bank. Both the United Kingdom and the United States are also providing substantial Military Assistance.

Despite its many accomplishments there is a need to improve performance of the economy. In the policy field, improvements need to be made in Indian pricing and control policies, in agricultural development, in the allocation of scarce resources, and the promotion of exports.

The United States is a member of a 10-nation Aid Consortium sponsored by the World Bank to coordinate free world assistance to India. In the spring of 1964, the United States will meet with the other Consortium members to consider the final two years of India's Third Five-Year Plan, but will focus on India's external assistance requirements for the fourth year only. For the Plan's third year, Consortium members pledged a total of \$1,052 million, of which the United States contributed \$435 million, or 41 percent of the total. (This does not include U.S. assistance under Public Law 480, Technical Cooperation and Development Grants, and the Military Assistance Program.)

## Self-Help and Aid From Other Sources

In 1951, India began a 25-year development program aimed at ending the need for external aid and building a strong democratic society. India's commitment to development is embodied in its development plans. India is now financing more than 75 percent of this total effort; foreign aid accounts for the balance. Between 1951-61, approximately \$3.3 billion of the investment program has been financed through external assistance. An additional \$1.5 billion was provided from its own foreign exchange reserves. During the period 1951-63, Indian investment rose from 10 to 19 percent of the gross national product.

Indian progress has been marked by some inflation, particularly during the past year. That there has not been more inflation has been due in large measure to substantial increases in taxes and to fairly tight monetary and credit policies. Despite the great burdens inherent in the complex task of managing its development program, India is nevertheless making progress in overcoming obstacles to rapid economic growth by attempting to overcome deficiencies in power, transportation, minerals development, exports, and agriculture.

## U.S. Assistance to India

One of the great bottlenecks in Indian development has been a shortage of electric power. An important U.S.-assisted power project, the Rihand Dam, was completed in 1962 and is now providing the base for large-scale industrial development, including a 101-mile electrified rail line, a cement factory, and an aluminum plant financed jointly by the Kaiser Aluminum Corp., and the Birla interests in India.

To date, the United States has made 21 Development Loans totaling about \$430 million for power projects alone.

When current construction is completed, India's installed capacity will be increased by 3,600 megawatts. Electric power generation more than tripled during the 10-year period, 1951-61, rising from 5.8 billion kilowatt-hours to 19.1 billion.

U.S. assistance also helped India increase agricultural output 46 percent between 1951 and 1961. Through a contract with the University of Illinois, the Uttar Pradesh Agricultural University was established along U.S. land-grant lines. This project will attempt to demonstrate the advantages of integrating education, research, and extension as a means of raising agricultural production. The first class was graduated in 1963 and a number of other Indian states interested in this approach have taken steps to set up similar institutions.

AID has helped improve Indian agriculture in other ways. Recently, a joint AID-Ford Foundation-Indian Government venture was undertaken to demonstrate in 15 districts how cultivators may increase agricultural production. In conjunction with the Rockefeller Foundation, hybrid maize and other high yield seed grains have been introduced. AID is also financing, on a loan basis, construction of a fertilizer plant at Trombay. A privately owned plant financed by the Export-Import Bank is being built as a joint venture between an Indian and an American firm.

### *Industrial progress*

Valuable assistance has been extended to improve the quality of engineering education and to provide training in other skills. An AID-financed Consortium of nine U.S. universities is helping establish the Indian Institute of Technology at Kanpur as one of four leading institutes of engineering education in India.

Between 1958-61, as part of a program to meet a critical shortage in engineering teachers, 300 Indian engineers were given postgraduate training in the United States and 285 are now teaching in Indian engineering institutions.

The Bombay Crafts Training Center, which AID helped to set up in 1962, is in operation. To date, about 1,300 craftsman instructors have completed their training in electrical work, motor mechanics, sheet metal

work, and welding. Assistance here is being provided under an AID contract with the Dunwoody Institute of Minneapolis.

A major activity in the industrial field is the establishment of a National Productivity Council to promote industrial efficiency. Assistance has been provided by a U.S. management consultant firm. Indian staff members will soon be able to conduct the program without AID assistance.

Through INSTEP (Indian Steel Training Program), 300 Indian engineers were trained in the United States in various aspects of steel production between fiscal years 1959-61. The program was supervised by the Carnegie Institute of Technology with assistance from the Ford Foundation, the American Iron and Steel Institute, and a number of major U.S. universities and steel companies. All former trainees are now employed in various supervisory jobs in India's steel industry.

### *Private Enterprise*

Substantial assistance has been granted the private sector. More than \$50 million has been loaned to private firms to expand auto and truck production. Loans amounting to \$45 million have been extended to development banks which provide medium and long-term loans to private firms. Over \$800 million in nonproject imports have been made available, a large proportion of which went to the private sector.

Indian railways, badly run-down after World War II, have received five loans totaling about \$175 million for equipment including about 300 diesel locomotives.

India has an Investment Guaranty treaty with the United States and to date AID has issued \$56 million in Guaranties to U.S. investors against nonconvertibility, and \$36 million in Guaranties against risk of expropriation.

More than \$75 million in Cooley loans has been made available as of January 31, 1964, in such fields as aluminum, cement, rubber goods, chemicals, paper, and machinery. These loans are for joint ventures between Indian firms and such American companies as Kaiser Aluminum, Otis Elevator, Goodyear, Firestone, American Cyanamid, Wyeth Laboratories, and Union Carbide.

Indian rupees for the Cooley Loans were derived from U.S. sales of surplus agricultural commodities to India under Public Law 480. The United States has provided \$2.4 billion in surplus foods and fibers for Indian development to date, most of it sold for Indian currency under Title I of the Agricultural Trade and Expansion Act.

AID's principal health project in India has been malaria eradication. As the result of an intensive eradication program since 1958, virtually no deaths are now caused by malaria, compared to about one million deaths in 1953. The incidence of malaria cases treated in hospitals fell by 96 percent between 1954-63.

## Problems in Development

The Third Five-Year Plan which began April 1, 1961, projected increases of 30 percent in agricultural production, 70 percent in industry, and 30 percent in national income. This called for development outlays of \$25 billion. Two-thirds of this program was in the public, and one-third in the private sector.

However, the Third Five-Year Plan is short of its goals. National income has increased only slightly faster than population. In response to the Communist Chinese attack, defense expenditures have doubled and now account for approximately one fourth of the central government's outlay. Adverse weather conditions, a shortage of fertilizer, and other inadequacies have hampered expansion in agriculture. Other factors, not yet fully assessed, resulted in an under-utilization of existing industrial capacity.

World Bank Consortium members provided the major share of India's foreign aid requirements during the first three years of the Third Plan as follows:

### *Indian Consortium Pledges*

[Millions of dollars]

	1961-63	1963-64	3 year total
IBRD and IDA.....	\$450	\$245	\$695
United States.....	980	435	1,415
West Germany.....	364	99.5	463.5
United Kingdom.....	266	84	350
Japan.....	105	65	170
Six others <sup>1</sup> .....	200	123.5	323.5
Total.....	\$2,365	\$1,052	\$3,417

<sup>1</sup> Austria, Belgium, Canada, France, Italy, Netherlands.

In addition, the Soviet bloc is expected to provide about \$700 million in aid during the five-year period.

## Fiscal Year 1965 Program

AID assistance to India will be continued principally on a loan basis within the framework of the existing World Bank Consortium. AID's share of the U.S. pledge has been \$385 million for each of the past two years of India's Third Five-Year Plan. A comparable lending level for fiscal year 1965 is necessary to cover AID's share of the U.S. pledge to be made in spring 1964 for the fourth year of the Plan, plus a sum for the first quarter of the fifth year of the Plan. The Export-Import Bank's portion of the total pledge has been \$50 million a year.

One half or more of AID loans will finance the import of critically needed machinery, spare parts, fertilizer, and industrial raw materials from the United States. This type of assistance goes largely to private industry and is essential to the investment effort. Other loans will finance high-priority projects in the areas of power, fertilizer manufacturing, and private investments.

AID's Technical Cooperation program will concentrate on agricultural problems and shortages of specialized skills in health, education, and management. AID projects seek to increase the number of skilled people to support the heavy capital investment being made by India. Over half the requested Technical Cooperation funds will be devoted to improving Indian education at the university level. Training of scientists, technicians, and managers both in India and the United States is being financed with 20 percent of the funds.

The United States also expects to provide this year over \$300 million of food and fibres under Public Law 480 to supplement India's domestic production.

## JORDAN

The continued independence and stability of Jordan are important to the political balance of the entire Middle East. U.S. assistance is designed to help the Government of Jordan broaden its base of support and increase the country's ability to meet more of its own development costs.

U.S. capital and technical assistance provided in prior years has helped create a foundation for continued growth and should make it possible gradually to reduce budget support assistance. Jordan is seeking to increase domestic revenues and improve the management of its own financial and institutional resources. Sound project planning and a concentration on income and revenue-producing investments will help reduce Jordan's historic budget and balance of payment deficits.

The tools of AID include: Steadily decreasing grants of Supporting Assistance for the Jordanian budget; carefully selected Development Grants for income and revenue-producing projects; and Development Loans for projects which directly produce income. Public Law 480 will provide food and the proceeds used to substitute for dollar expenditures in grant programs when feasible.

### Progress and Self-Help

Jordan has always been dependent on external aid, formerly provided by budget subsidy from the United Kingdom. After Jordan terminated the United Kingdom-Jordanian Treaty of Alliance in 1957, the United States, taking cognizance of dangers which might develop with a weak Jordanian Government, assumed a large part of the burden and has since helped to finance essential government operations and defense.

Total gross national product in Jordan is increasing by about seven percent per year and per capita income is now about \$200, compared with \$150 in 1959. All major sections and cities are now connected by a network of highways. Earnings from tourism have increased sharply, from \$8 million in 1959 to more than \$14 million in 1962 and to an estimated \$17 million in 1963. Jordan's efforts to effect a realistic allocation of resources are reflected in a revised Seven-Year Development Plan (1963-70) which seeks to eliminate both trade and budget deficits. Military expenditures, now \$52 million, are the largest single budget item and account for approximately half of the total government expenditures.

## Aid From Others

External assistance includes \$15 million annually to Palestine refugees in Jordan from the United Nations Relief and Works Agency. Other foreign assistance includes United Kingdom budget support grants of \$4.2 million a year for fiscal years 1963 and 1964, and noninterest-bearing loans for developing transportation and water resources of \$2 million in both fiscal years 1963 and 1964.

Germany gave technical assistance for geological surveys and vocational training amounting to \$600,000 in fiscal years 1962 and 1963, and a loan of \$3.8 million for the expansion of port facilities. A \$21 million loan from Kuwait, approved in April 1962, is earmarked for development projects. The United Nations and other international agencies also provide technical and loan assistance to Jordan. The International Development Association provided loans in fiscal year 1964 totaling \$6.5 million for agricultural credit and municipal water supplies.

## Fiscal Year 1965 Program

The United States is steadily reducing its Supporting Assistance grants to Jordan. Grants have declined from \$40 million in fiscal year 1961 to \$34 million in fiscal year 1964, to a proposed \$33 million level in fiscal year 1965.

Technical Cooperation and Development Grant assistance totaling \$7.5 million is proposed for fiscal year 1965. Half of this will be concentrated in three priority areas: The East Ghor Irrigation Project, development of ground water resources, and tourism. These are designed to save foreign exchange and increase national income and government revenue.

Agricultural incomes of the 3,000 families served by the East Ghor project should be doubled by the end of the 10-year development period. Water from the East Ghor Canal will provide year-round irrigation for 25,000 acres of land. Construction of the main canal and laterals is now two-thirds complete, with the final section scheduled for completion in 1964. Full benefits from this project will depend, however, on improved farming methods and crop diversification, throughout the area.

Local currency proceeds generated under Public Law 480 programs to meet emergency food deficits will be used to substitute for dollars in Technical Cooperation/Development Grant programs wherever possible. The first Title I sales agreement is being negotiated in fiscal year 1964 and a requirement for further Title I programs is expected in future years. Title I sales will result in balance of payments savings to the United States.

## PAKISTAN

Pakistan maintains an alliance relationship with the United States, continues to cooperate in the Western mutual defense system, and remains committed to a serious development effort. As in the case of Indian development, the success of Pakistan's effort to improve living standards for its people is vital to the stability and strength of non-Communist Asia. The United States will continue to help Pakistan meet its basic needs through both military and economic assistance.

A close and friendly relationship between the United States and Pakistan has been troubled recently by disagreement between Pakistan and India over the Kashmir issue, by Pakistan's dissatisfaction over United States military aid to India, and by recent Pakistani agreements with Communist China.

As in India, the United States coordinates its economic aid to Pakistan with other donors through a Consortium sponsored by the World Bank.

The World Bank Consortium has concluded that Pakistan's Second Five-Year Plan (1960-65) provides an adequate framework for development. External assistance needs for the Plan were estimated at \$1,972 million, with total investment expenditures estimated at \$4,509 million. The United States has selected for special attention several major areas vital to the success of the development effort: Agriculture, industrial development, and public administration among them.

### Self-Help and Aid From Others

With United States and other foreign aid, large-scale industrial investment received priority and expanded significantly during the First Five-Year Plan (1955-60). Supported by U.S. loans to the Pakistan Industrial Credit and Investment Corporation, private enterprise output was almost doubled during this period.

Pakistan's Second Five-Year Plan called for a growth of 24 percent in national income and a 70 percent increase in development expenditures. With the Plan in its fourth year, it is expected that an increase in national income of 22 percent will be achieved.

While Pakistan's progress has been substantial since the country was created in 1947, its 18 percent growth in national income since 1958 has been largely offset by a 14 percent increase in population. Agricultural progress has been disappointing, due mainly to water-logging and salinity in

West Pakistan and insufficient land in East Pakistan. There is a scarcity of most natural resources, although there are ample supplies of natural gas. Pakistan's supply of technical, managerial, and administrative talent is inadequate and the educational system does not yet meet the needs of a developing society.

After completing three years of its Second Five-Year Plan, Pakistan has raised manufacturing output 20 percent, exports have increased, private investment is exceeding announced goals, and a major tax program has provided new revenue. Taxes accounted for 8.3 percent of gross national product in fiscal year 1964, compared to 6.5 percent in fiscal year 1960.

Development expenditures are expected to be more than doubled during the Third Plan which begins in 1965. However, the portion financed from foreign assistance is expected to decline from 44 to 35 percent. If the Plan is successful, per capita income will rise by 16 percent over the period of the Plan. Agriculture will receive increased attention, including an expanded U.S.-supported public works program.

### The Aid Consortium

The World Bank established an international Consortium for assistance to Pakistan in 1961. The Consortium pledged \$945 million for the Plan's second and third years, and \$427 million for fiscal year 1964, as follows:

#### *Pakistan Consortium Pledges*

[Millions of dollars]

	Fiscal year 1962-63	Fiscal year 1964	Total
United States.....	\$500	\$212.5	\$712.5
IBRD/IDA.....	209	80.0	289.0
Germany.....	80	27.5	107.5
United Kingdom.....	48	22.4	70.4
Canada.....	38	19.0	57.0
France.....	25	10.0	35.0
Japan.....	45	30.0	75.0
Belgium.....	1	10.0	10.0
Netherlands.....	1	8.8	8.8
Italy.....	1	10.0	10.0
<b>Total.....</b>	<b>\$945</b>	<b>\$427.4</b>	<b>\$1,375.6</b>

<sup>1</sup> Became members in fiscal year 1964.

The number of donor countries in the Consortium has increased since its establishment and the terms of assistance have improved. However, the United States continues to urge other Consortium members to increase contributions and to further improve their terms.

## Fiscal Year 1965 Program

An increasing number of project loan requests are expected for fiscal year 1965. This prospect is foreseen because of an accelerated development program and completion of feasibility studies for power, water resources, and road projects. Within the framework of the World Bank's Consortium the United States will again make loans to help finance raw materials, equipment, and spare parts essential to the Plan's implementation. Additional loans may be made to the private sector through existing private financial institutions. Pakistani requirements and performance, along with the contributions of other Consortium members, will determine the actual level of assistance to be pledged by the United States at the spring 1964 Consortium meeting.

Principal U.S. programs in Pakistan are directed toward agricultural development in both East and West Pakistan and increasing industrial productivity. In West Pakistan an estimated 100,000 acres of arable land have been going out of cultivation annually due to waterlogging and excess salt deposits on the land. The problem arose because of inadequate irrigation methods. With the support of a special U.S. scientific committee appointed by President Kennedy, the waterlogging and salinity problems are being tackled. Under the program, the water table has been significantly lowered in a large pilot area. Further assistance will help to improve irrigation and soil conservation practices, and land management. In East Pakistan, a program to increase rice production will be supplemented by a public works program financed through Public Law 480 local currency funds (a similar public works program has also been established in West Pakistan).

### *A Larger Base for Growth*

Substantial aid has been provided to develop a basic framework for industrial development. Since the establishment of the Consortium, \$45 million in loans has been extended for the improvement of railroads; \$35 million for development of electric power and transmission facilities; \$11.5 million for telecommunication and port development; and additional loans for agriculture and health. Loans have also been provided to develop air transport linking East and West Pakistan.

In an attempt to increase Pakistan's known mineral resources, AID will continue financing a team of 28 U.S. technicians from the U.S. Geological Survey and the U.S. Bureau of Mines now carrying out a mineral resource mapping and survey project. The survey program is scheduled to end during 1966.

### *Private Enterprise*

Pakistan has negotiated Investment Guaranty agreements covering nonconvertibility and expropriation. As of December 31, 1963, about \$4 million in AID Guaranties for convertibility had been negotiated and \$72 million in Guaranties for expropriation.

More than \$8 million in Cooley Loans has been made available in such fields as pharmaceuticals, tires and hotels, enabling American firms such as Warner-Lambert, Pfizer Laboratories, Lederle Laboratories, Parke, Davis and Company, General Tire and Rubber Company, Singer Sewing Machine Company, and Merck-Sharpe and Dohme to set up production facilities in Pakistan.

Lack of foreign exchange has hampered the growth of private industry in Pakistan. This problem has been eased by commodity loans aggregating \$232 million since the establishment of the Consortium. These loans provide basic raw materials and machinery for Pakistan's economy, including its private sector, necessary to the successful achievement of the Plan's production targets. Private enterprise is also being assisted through the establishment of an investment advisory center now underway. Additional assistance is being provided through support of business education programs at the University of Karachi in West Pakistan. USAID is now discussing with the Pakistan Government the establishment of a national productivity center to help private firms improve production methods.

### *Improving Health*

In the field of health, loans have been made to improve water supply and sewage disposal facilities in Karachi and Dacca. A malaria eradication program is now underway and assistance has been given to the establishment of a postgraduate medical center at the University of Karachi under contract with Indiana University. Educational assistance is being provided in improving and upgrading agricultural education in selected universities, in engineering education, and in teacher training. Harvard University is helping the Government's Planning Commission in the preparation of its development programs. Loans for feasibility surveys have been extended as part of the U.S. program to develop new projects.

An important supplement to the U.S. technical assistance and Development Loan programs is the provision of essential food grains under Public Law 480 to relieve shortages in these commodities. Under a four-year agreement negotiated in 1960, more than \$600 million in commodities is being provided. Part of the local currencies generated by these sales is available for use by the Pakistan Government in support of development programs, including the local currency costs of the World Bank-sponsored Indus Basin Project, which will increase the availability of irrigation water for Pakistan.

## TURKEY

A free and independent Turkey remains vital to the Atlantic Community's defense posture. U.S. interests lie in continuing Turkey's strong Western commitments and close political and military cooperation.

The United States supports Turkey's efforts aimed at rapid economic development and the elimination of foreign assistance. Accelerated eco-

conomic growth and the development of stable political institutions are priority goals. Improvement of existing laws, a wider tax base, more efficient administration and resource management are being sought by the Turks.

For Turkey to meet its deadline of eliminating foreign aid by 1973, it must have assistance on better terms from most European donors. About 35 percent of Turkey's export earnings are presently devoted to principal and interest payments on past debts. During 1963, Turkey's net foreign exchange reserves dropped sharply. Experts for the aid Consortium which coordinates free world assistance to Turkey are agreed that Turkey's foreign exchange earnings must be improved if Turkey is to meet the targets set in its Five-Year Development Plan (1963-67).

## Self-Help and Aid From Others

Turkey has achieved a high degree of success in meeting its security objectives and has increased its efforts to reach its economic goals. Turkey's Five-Year Development Plan calls for an increase of gross national product by approximately 40 percent. About 75 percent of the investment during the Plan period will be financed from Turkey's own resources. Under the Plan, external aid requirements are \$1.8 billion, with total proposed investment set at \$6.6 billion. Priority has been given to agriculture, industry, low cost housing, education, and health.

Development of mineral resources can make an important contribution to the growth of the Turkish economy. In this connection, a \$14.5 million loan was made in 1959 to develop the Zonguldak coal mines. This is an important project because it will furnish coal for the Eregli Iron and Steel Mill which is the largest project the United States has ever undertaken in Turkey.

The Eregli Steel Mill Project, for which \$129 million was loaned to Turkey, is a joint venture between the Turkish Government, private Turkish interests, and three American firms—the Koppers Company, Blaw-Knox, and Westinghouse. Operations are expected to begin at Eregli during the spring of 1965.

Thermal and electric power are important elements in the plan to develop Turkey's economy. A \$31.3 million AID loan was provided for a major thermal and power plant for the Istanbul area and for the financing of electric generators for the already existing Sariyar Hydroelectric Plant. In addition, feasibility surveys for two new projects, the Keban and Ciceroz Dams, were financed by an AID loan in 1963. These are major hydroelectric facilities for which AID would consider financing construction if economic feasibility is established.

## Raising Farm Output

With U.S. assistance, Turkey expanded its water resources development staff from 240 to 12,000 during the decade, 1953-63, and is carrying

out a program to increase to 250,000 acres the amount of new land brought under irrigation yearly. Local currency proceeds from the sale of U.S. surplus agricultural commodities to Turkey under Public Law 480 are used to finance programs to train village farmers in conservation practices and new agricultural techniques. Working under a \$3,163,000 AID contract, the University of Nebraska has been helping to set up a new agricultural institution at Ataturk University, organized to provide advanced training in agricultural extension and research along the lines of U.S. land grant colleges, but keyed to Turkish needs.

Georgetown University, under a \$1,287,000 AID contract which runs to 1965, has been instrumental in the war against illiteracy in Turkey. Georgetown experts, working with the University of Ankara and Gazi Institute, have trained 4,200 Turkish teachers. More than 50,000 Turkish youths are taught to read and write each year as part of their service in the Turkish Army. To date, more than 207,000 Turkish Army recruits have completed the basic literacy training courses. Georgetown also provides intensive English language training for Turkish officials, managers, and technicians scheduled to come to the United States for specialized training under the AID program. Other American schools working under AID contracts in Turkey are Cornell University, which is helping to upgrade the staff and curriculum in public and business administration at Middle Eastern Technical University, and the Spring Garden Institute, which is establishing schools for auto mechanics and electricians for the Ministry of Education.

Seven AID technicians are at work on Turkey's forestry program; the costs of two of these are being reimbursed from Export-Import Bank loan funds. Progress in supplying a portion of Turkey's needs for wood products was made possible because of advances in the production of mine timbers and raw pulpwood—advances due in large part to the training given Turks by AID instructors. AID has also been active in helping the Turks exploit other mineral resources such as lignite, copper, and iron ore.

## Growth and Private Enterprise

Economic growth in 1963, first year of the Five-Year Plan, is estimated at more than six percent. Turkey's industrial production increased 10 percent and there was an exceptionally good harvest. With new taxes, better tax enforcement, and increased revenues resulting from good business conditions, government revenue rose by 20 percent. Legislation was passed providing incentives to increase exports and seeking more tax revenue from formerly exempt categories. Operations of major ports have been improved through standardization of procedures.

The U.S. program has placed emphasis on providing assistance to the private sector. An Industrial Development and Credit Bank has been established to meet the need for long-term credit on reasonable terms for private ventures. AID has also helped to generate a significant amount of American private investment in Turkey. AID Investment Guaranties

covering convertibility and expropriation are available in Turkey. "Cooley" local currency loans are also available. To date, U.S. firms and their affiliates have borrowed more than \$20 million in U.S.-owned Turkish lira through AID to open sewing machine, automobile, rubber tire, soap, corn products, and pharmaceutical plants in Turkey.

### Aid From Other Sources

The Organization for Economic Cooperation and Development (OECD) has sponsored an aid Consortium for Turkey since 1962. Members include Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Portugal, the United Kingdom, the United States, the OECD and the Commission of the European Economic Community (Common Market).

During 1963 external capital assistance from non-U.S. sources was as follows:

Amount:	<i>Millions of dollars</i>
Germany -----	\$40.0
United Kingdom -----	10.8
Italy -----	10.0
Other European -----	5.3
Total -----	\$66.1

An additional \$65 million of foreign exchange needs was covered by a rollover of short-term European Monetary Agreement credits and a standby credit from the International Monetary Fund. The 1963 flow from International Development Association credits was about \$9 million against total projects of \$26.7 million.

### Fiscal Year 1965 Program

U.S. assistance will be provided largely through the OECD Consortium formed to help Turkey finance its Five-Year Development Plan. It is likely that AID project loans will be made in fiscal year 1965 for power installations, mineral processing and manufacturing industries. Program loans will finance the import of raw materials and semifinished commodities from the United States to help maintain production and the pace of investment.

Approximately \$60 million in surplus commodities will be needed in fiscal year 1965 to cover the food deficit. They will be supplied under a three-year Public Law 480 Title I program of \$161 million signed in 1963.

AID technical cooperation in agriculture during fiscal year 1965 will stress increased production on irrigated land through better water use, the provision of agricultural credit, and improved cultivation methods. U.S.-owned Turkish lira will be used to make loans to farmers under this program and AID technical assistance is being furnished Turkey's Agricultural Bank to improve the operation of its supervised credit facilities.

Assistance in such fields as planning, organization, management, and statistics will strengthen government institutions. The U.S. Census Bureau,

through an interagency agreement with AID, is providing technical assistance to help Turkey develop a sound, modern statistical system.

The Turkish private sector will be helped by projects to encourage small industry, improve Turkey's Chambers of Commerce, and promote mineral exploration. The AID program will continue to emphasize vocational and technical training to increase the supply of skilled workers. Some of this work is being carried out for AID by the U.S. Department of Labor.

Turkey has moved ahead with feasibility studies, particularly in water resource development, industry and tourism and has accelerated project preparation in these and other fields. It is likely that AID project loans will be made in fiscal year 1965 for power installations, mineral processing, and manufacturing industries. Program loans will finance imports of raw materials and semifinished commodities to help maintain production and the pace of investment.

## CYPRUS

Cyprus receives help from non-U.S. sources for its major development needs. Foreign exchange earnings from British bases alone average \$45 million per year. The United Kingdom gave Cyprus \$4.9 million in budget support in 1963 and lesser amounts will be made available during 1964-65. The World Bank made a \$21 million loan to increase power output and distribution. West Germany has loaned \$2 million for water development projects and is expected to loan \$1 million to the Cyprus Development Bank. The United Nations has a technical assistance program of \$200,000 a year and its total outlays will rise above that figure as major Special Fund projects reach full implementation.

United States aid to Cyprus during fiscal year 1965 will depend upon settlement of the current political problem on the island. Present plans call for \$700,000 worth of technical assistance primarily in economic planning, development banking, and water resources development. A small amount of development lending may also be authorized if suitable project applications are received. Loans will bear at least a 3½ percent interest rate.

## GREECE

Greece is making favorable progress towards economic self-support. Supporting Assistance and Technical Cooperation programs were ended in fiscal year 1962. AID loans in fiscal year 1963 were made at two percent and 3½ percent interest and those proposed for fiscal year 1964 will be at a minimum 3½ percent interest. Such loans as may be made in fiscal year 1965 would bear at least 3½ percent interest rates.

Greece is also eligible for Export-Import Bank loans and surplus agricultural commodities under Public Law 480. Military Assistance will continue. Increased financing of Greek development by European countries and international agencies such as the World Bank is expected. Foreign private investment (including U.S.) is on the increase.

## IRAN

For the past decade, Iran has been working to modernize and develop, depending on oil revenues for most of its investment. Iran's Second Five-Year Development Plan, successfully concluded in 1962, increased the gross national product by an average of five percent a year; a six percent annual growth rate is the target of the Third Plan, which ends in March 1968.

AID technical assistance has helped organize an agricultural extension service, improve education and teacher training, organize farm cooperatives, modernize government administration and begin the difficult task of extending public services to the remotest villages.

Because of the progress already achieved, AID has been able to reduce the scale of its technical assistance activities in Iran slowly but steadily since fiscal year 1961. This trend will continue in fiscal year 1965.

A land reform program which is changing the traditional feudal social structure of Iran is now a key element in Iran's modernization drive and AID Technical Cooperation in fiscal year 1965 will concentrate on agriculture, particularly on improving rural advisory and credit services to the new peasant landowners.

Assistance will also be continued to educational institutions such as the Industrial Vocational School at Narmak and the University of Pahlavi Medical College at Shiraz, the latter through an AID contract with the University of Pennsylvania.

The United States has helped Iran close the gap between the investment resources it needs to attain development goals and the domestic resources it actually has available by providing both AID and Export-Import Bank loans to finance development projects. Development loans in fiscal year 1965 will carry interest rates of 3½ percent. Iran has also received offers of loans to help finance its Third Plan from the World Bank, the United Kingdom, France, Germany, Poland, and the USSR.

## ISRAEL

Along with other external assistance, more than \$900 million in U.S. assistance to Israel since 1948 has helped create one of the highest economic growth rates in the world. Supporting assistance was terminated in fiscal year 1961; technical assistance ended the next year. Loan terms have hardened from three-fourths of one percent interest in fiscal year 1962 to two percent in fiscal year 1963 and 3½ percent in fiscal year 1964. Loans in fiscal year 1965 would bear an interest rate of at least 3½ percent. Israel is also eligible for Export-Import Bank loans and surplus agricultural commodities under Public Law 480. Public Law 480 sales are expected to amount to approximately \$15 million in fiscal year 1965. During fiscal years 1964-65, Israel is expected to ask for Export-Import Bank loans totaling around \$12 million for each year.

## NEPAL

U.S. aid serves to strengthen Nepal and helps maintain the independence of this country which lies between Communist China and India. The U.S. program is designed to help Nepal build a base for economic and social development, emphasizing assistance to agriculture, industry, education, and public administration.

Two-thirds of the AID program in Nepal is financed with U.S.-owned Indian rupees (also local currency in Nepal). These are rupees the Indian Government has paid the United States for surplus agricultural commodities bought under Title I of the Food for Peace program. In fiscal year 1965, about \$9 million in rupees will be made available to help Nepal carry out its development program. In addition, AID plans to continue technical assistance to primary and secondary teacher training, agricultural extension, community development, and forestry. Timber is a major unexploited resource which, properly developed, can increase government revenues and foreign exchange earnings. AID will also continue a public administration program which is helping Nepal modernize government management. Nepal is taking steps to reorganize its agriculture by improving its land tenure system, guaranteeing tenants' rights, and limiting the landlord's share of agricultural production. The United States is helping agricultural reorganization by assisting in the development of agricultural credit facilities and agricultural cooperatives.

More than 50 percent of Nepal's external economic aid has been provided by the United States. India has provided a third, the United Nations and other free world sources about seven percent, and the Sino-Soviet countries about seven percent.

## UNITED ARAB REPUBLIC

The UAR is the largest, most populous, and in many ways the most influential of the Arab countries. U.S. policy seeks to help the UAR channel its energies into economic development.

The UAR started its first economic development plan in mid-1960, with a goal of doubling national income in 10 years. The experience of the past 3½ years suggests that investment goals were too high. A number of observers believe UAR pricing and social welfare policies have inhibited economic growth. On the other hand, the government's land, tax, and education reforms are significant steps toward redistributing wealth and raising the status of the peasantry. Annual per capita income in the UAR is only about \$125.

The major form of U.S. assistance to the UAR in fiscal year 1965 will continue to be sales of agricultural commodities under Title I of Public Law 480, under a three-year agreement, with sales for the year valued at approximately \$140 million.

Technical assistance funds will be used in fiscal year 1965 to continue groundwater research and development in the Western Desert, and to assist the UAR in improving its agricultural extension service. The Radio Corporation of America, under an AID contract, is establishing a telecommunications training center. Assistance in improving civil aviation facilities will also continue.

To alleviate a balance of payments crisis in 1961-62, the International Monetary Fund set up a \$112 million stabilization program in which the United States and European countries participated. The U.S. contribution was a \$30 million loan.

The United Arab Republic has requested an additional loan from the United States to support a new effort to settle its balance of payments difficulties. The U.S. response will be based largely on evidence that the United Arab Republic is taking sufficient steps to reduce and ultimately eliminate its foreign exchange imbalance.

Other free world aid sources from which the UAR has received loans and supplier credits are the World Bank (\$54 million), United Kingdom (\$47.8 million), West Germany (\$59.5 million), Italy (\$98.4 million), Japan (\$26.1 million), and smaller amounts from the Netherlands, Sweden, and Switzerland. The Communist Bloc has provided a total of about \$740 million in credits and loans.

## YEMEN

The United States undertook an aid program in Yemen in 1960 to assure a friendly attitude toward Western interests on the part of all governments in the Arabian Peninsula. Civil strife since the September 1962 revolution has threatened the stability of the entire area, and the assistance of the United Nations has been enlisted in working toward a settlement of the problem.

The United States is entering the final stages of work on projects initiated in fiscal years 1960 and 1961. The major project, a road from the port of Mocha to the capital at San'a, via Taiz, will be completed by the end of fiscal year 1965, as will a Taiz water supply project. Construction of a 34-mile spur road from Taiz to the Aden border is under consideration. A scholarship program for Yemeni students will also be continued with the objective of providing Yemen with badly needed administrators and technicians.

Other countries continue to assist Yemen. The Chinese Communists completed a \$17 million road in January 1962. The Russians built a port at Hodeida in 1962 and constructed an airfield at San'a in 1963. West Germany has been conducting a program of technical assistance in agriculture and has also established credit of more than \$4 million for other projects. Kuwait, the UAR, Iraq, and Yugoslavia have provided budget support in the form of commodity loans.