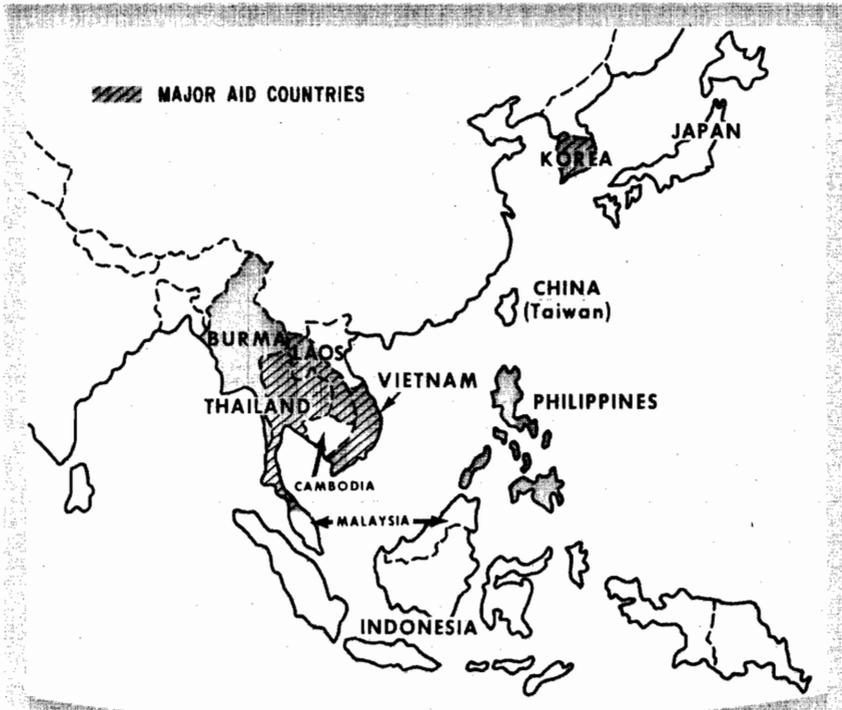
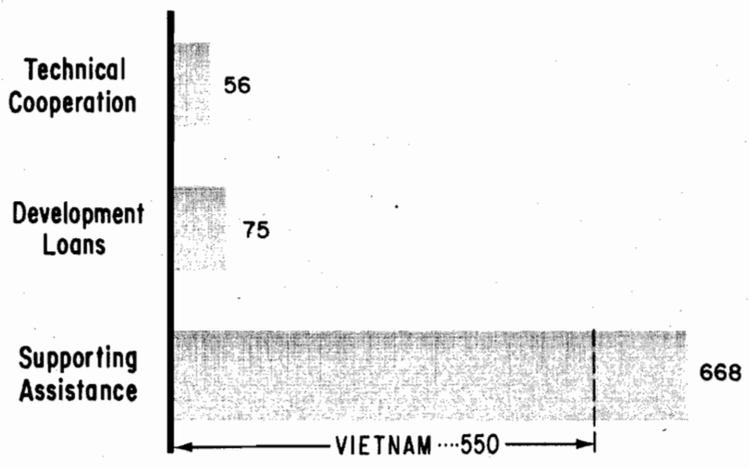


AID Programs
in the
Far East

AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C.



FAR EAST — FY 1967 PROGRAM — \$799 million



THE FAR EAST

Fundamental security interests and historical commitments have required this country to provide the major bulwark against Communist expansion in the Far East.

Part of the role is military. The United States has two divisions of troops in Korea, over 215,000 combat troops in Vietnam and a large back-up force in the Pacific theater. Korea, Taiwan, Vietnam, Laos, and Thailand are, with U.S. military assistance, maintaining or building forces beyond their own economic capacities.

Part of the role is political and economic. AID's economic programs in the Far East contribute to building independent and viable nations. Governments are assisted in developing an economic and social climate in which violence and subversion will no longer be necessary to satisfy the "revolution of rising expectations."

The scale and direction of AID's Far East programs in fiscal year 1967 are heavily influenced by the threat of Communist subversion. Our assistance efforts, however, are also in recognition of the American tradition of lending a hand to other peoples in need—and especially to those who try to help themselves.

U.S. economic aid programs in the Far East are in four major categories:

- Programs in support of a large scale military and counterinsurgency effort, as in Vietnam and to a degree in Laos;
- Programs aimed primarily at preventing the emergence of threatened Communist insurgency, as in Thailand;
- Programs designed to achieve long-range economic and social development and stability, as in Korea; and
- Regional integration and development efforts in Southeast Asia.

These broadly descriptive categories are not mutually exclusive. Elements of several of these categories may be found in a single country program.

Support to Vietnam

The AID program in Vietnam is now geared almost exclusively to the requirements of a politico-military war. Fund requirements in fiscal year 1966 are more than twice those in fiscal year 1965. This level will be maintained in fiscal year 1967. The commitment of American and other free world troops to augment the Vietnamese forces has denied the Viet Cong a military victory.

As the military build-up continues and the intensity of the war increases, a combination of larger Vietnamese budget deficits, increased U.S. military expenditures, and Viet Cong destruction or seizure of productive and trade facilities puts increasing pressure on the Vietnamese economy. The AID commercial import program has now become the principal instrument for preventing disastrous inflation. This program has quadrupled since 1962, when the insurgent movement again became active.

AID's previous efforts to expand the country's infrastructure, during the period 1956-1962, have been superseded by the need to maintain that which now exists. Long-range plans for institution building have given way to immediate objectives directly associated with counter-insurgency and rural reconstruction and to strengthen responsive local government which can earn and hold the commitment of the people.

Countering and Preventing Insurgency

Another group of AID programs in the Far East aims at the prevention or eradication of those conditions in which Communist subversion can take root. In Thailand, Laos, and to a degree in the Philippines, AID is concentrating its assistance in the rural areas where up to 80 percent of the people of these nations live and work. The AID program in fiscal year 1967 will help strengthen and extend the capacities of local government to provide security, economic opportunity, health and education services, and a popular sense of participation in the processes of government.

In helping accelerate rural development, the United States tailors its objectives to the capabilities of the government, while at the same time attempting to expand those capabilities. Marshalling and applying the technical and political resources for this undertaking may prove to be the greatest challenge ever faced by the U.S. foreign aid program. But, as the Vietnam experience has so dramatically proved, U.S. efforts to assist nation-building in Southeast Asia will depend in large measure on successes in the countryside.

Long-Range Development

Long-range economic development is the third major category of AID programs. South Korea has become a very promising example of development, with an accelerating drive toward self-support. Despite a heavy defense burden, South Korea has made remarkable progress in the past two

years. There have been major increases in the level of investment, savings, tax revenues, production, and exports during the past year.

In calendar year 1965, AID approved about \$90 million in development loans to Korea of which \$10 million was to finance commodity imports and the remainder for specific economic development projects. This increase in U.S. lending to Korea reflects an increasing ability on the part of the Koreans to present acceptable loan proposals, to raise local capital for development projects, and to sustain the financial and fiscal discipline necessary for efficient use of limited resources.

Southeast Asia Regional Development

President Johnson called last April for Asian nations to take the initiative in working together toward peaceful alternatives to war in Southeast Asia. In furtherance of this call the United States is encouraging development of a regional framework for Asian cooperation in achieving economic and social progress and long-range political stability in the area. The creation of the Asian Development Bank and the work of the Mekong Development Committee are significant starts in this effort.

The proposed AID legislation will emphasize and encourage our participation in Southeast Asian regional cooperation by creating a separate title in the Foreign Assistance Act concerning aid to multilateral programs in Southeast Asia. The new title will include special authorities to provide the flexibility needed for effective multilateral cooperation. The highlighting of the international nature of these proposals should encourage other developed countries to participate in this effort and elicit their interest in making contributions for multilateral programs in the area.

The Fiscal Year 1967 Program

Fund requirements in fiscal year 1967 for the Far East are now estimated at \$799 million, about the same as present fiscal year 1966 estimates, but a sharp rise from fiscal year 1965 obligations of \$450 million. The increase directly reflects mounting costs in Vietnam. Estimates for fiscal year 1967 are subject to all the uncertainties of the Southeast Asian situation. For example, increased evidences of Communist agitation in Northeast Thailand in recent months may herald a new Chinese offensive. The economic policies and the development programs of the new administration in the Philippines have not yet been made clear—nor has the degree of self-help measures to be undertaken.

These and other developments may dramatically alter present estimates of requirements. The unpredictability of events in Southeast Asia is illustrated by the fact that in fiscal year 1966, it was necessary (in June 1965) to request an additional \$89 million for a Southeast Asia Contingency Fund, and in January 1966 to request supplemental appropriations of \$415 million, of which some \$290 million is directly for use in Southeast Asia.

SUPPORTING ASSISTANCE

Supporting Assistance of \$668 million for the Far East for fiscal year 1967 is requested as compared with an expected fiscal year 1966 outlay of \$671 million and fiscal year 1965 obligations totaling \$341 million. This rise is attributable to Vietnam increases from \$216 million in fiscal year 1965 to an expected \$532 million in fiscal year 1966 and the \$550 million being requested for fiscal year 1967.

TECHNICAL COOPERATION

Technical Cooperation funds of \$56 million are requested for the Far East for fiscal year 1967. In fiscal year 1965 Technical Cooperation obligations totaled \$39 million and will rise in fiscal year 1966 to about \$53 million. This increase is attributable to the impetus given to Southeast Asia regional development and to new initiatives in education, health, and rural development. Technical Cooperation funds financing multilateral and regional programs will rise from \$1.9 million obligated in fiscal year 1965 to an expected \$5.5 million in fiscal year 1966 and \$15 million requested for fiscal year 1967.

Rural Development and Agricultural Production

AID uses a variety of approaches to the central problem of rural development and the expansion of agricultural production in the Far East. Large-scale industries can absorb only a small part of the labor force in this part of the world. Rates of increase in population exceed rates of increase in food supply. The underemployed leave the countryside to complicate the problems of the cities. The vast majority of the population can share in the benefits of economic development only if there is real growth in farm income and diversification of rural economic activity.

Rural Development: The development of rural areas is not a new area of interest for AID. What is relatively new in AID programs in this field is the concept of coordinating a wide range of rural development efforts and concentrating them in critical areas. Thus, in Vietnam, Thailand, Laos, and the Philippines, rural development programs aim not only at expanding agricultural productivity but also at bettering village and provincial leader-training; and at improving educational systems, health services, farm-to-market roads, and potable water supplies.

This integrated approach to the needs of the rural population requires personnel sensitive to the problems of village life, and who possess the imagination and the administrative ability to marshal the proper combination of resources to meet these problems. To prepare rural advisors for this challenging assignment, AID is developing an enlarged training program averaging ten months in duration.

Americans working in this field will now receive intensive instruction in local language and communication techniques, in local and area social

attitudes and institutions, in geographic and political factors, and in the techniques of operating in situations of actual or potential insurgency. This training will increase the capacity to deal with the problems of the rural areas in more comprehensive terms, to establish priorities in the light of the needs of the entire community, and to view the rural areas as an integral part of the country and of the region as a whole.

Food and Agricultural Production: Expanding food production is an important part of AID's rural development activities. Southeast Asia has traditionally served as the rice bowl of the Far East. In recent years, however, population growth and other factors have forced a number of countries to become net importers of food grains. Malnutrition continues a serious problem in most of the area. Even in grain-surplus countries like Thailand and Burma, there is a need for a more varied diet. The United States attempts to deal with this problem both through the use of surplus agricultural commodities and, increasingly, through the acceleration of local food production.

AID is now launching an experimental regional nutrition program in six Southeast Asian countries to overcome vitamin and protein deficiencies in the diet of children. This program attempts to:

1. evaluate the acceptability of enriched surplus American food as supplements in traditional diets; and
2. determine the potential for broader use of these processed foods in combating malnutrition in pre-school age children.

Farmers need a great variety of assistance to increase agricultural production: agricultural credit—improved cooperative purchasing and marketing associations—fertilizer, improved seed, etc. U.S. programs in the Far East aim at assisting farmers in these fields as well as in helping develop small agriculture-related industries, such as fruit canneries or kenaf mills. A substantial part of U.S. agricultural aid to Korea has taken the form of loans for construction of chemical fertilizer plants.

Assistance also goes to improve farming techniques and village practices, and to introduce fertilizers, insecticides, and fungicides. AID helps local governments improve vegetable seed production, propagate and distribute fruit trees, and test new crop varieties. The United States is helping increase livestock production, improving and expanding the fishery industry, constructing irrigation dams, improving cropping practices, and building simple roads to open up new markets.

Health: Malnutrition, poor sanitation, malaria, and other communicable disease create substantial human suffering in the Far East. All contribute to widespread debility and poor health that represent a major obstacle to economic development. In Thailand, Laos, and elsewhere the construction of village wells insures year-round supplies of safe water and has already resulted in a marked improvement in the health of village people.

AID is helping the governments of Vietnam, Thailand, and the Philippines to eradicate malaria. This program supports the World Health Assembly's 1955 resolution endorsing the objective of world-wide malaria eradication. In Laos, AID directly supports and assists the only medical services received by the majority of the population, especially outside urban areas. These services include basic medical treatment as well as sanitary facilities, immunization, and education in personal hygiene. In Vietnam, AID doctors and nurses, as well as medical teams, help local personnel treat the wounded and war-injured victims of the Viet Cong, in addition to establishing hamlet health stations for the recurring needs of the rural populace.

But the treatment by U.S. medical personnel, although important, is only a stopgap measure. AID's ultimate goal is to help train indigenous doctors, nurses and medical technicians. In the Philippines, AID assists a relatively sophisticated system of higher medical education already developed under local initiatives, and in Vietnam AID supports the development of the Saigon Medical School.

Education: AID's educational activities aim at raising the level of skills needed for significant progress in development. The need for strengthening a national education system is particularly apparent in Laos where much of U.S. technical aid is devoted to teacher training, to educational facilities and materials, and to improvement of curricula and administration. Until recently, AID concentrated on primary education; to this is now added efforts to expand secondary education.

Thailand already possesses a relatively well-developed educational system. Accordingly, AID activities there are concentrated on secondary school training programs geared to the needs for craftsmen in fields such as construction, trades and industry, agriculture, and other vocational skills. U.S. educational aid in the Philippines is concentrated in a textbook project and a program to improve the faculty and physical plant of the University of the Philippines. In Vietnam, an extensive program of hamlet schools is a cornerstone of the rural reconstruction program.

Improving Government and Maintaining Security: Many of the nations of Southeast Asia today were created with boundaries that gave inadequate regard to natural geographic divisions and ethnic groupings. Furthermore, the people of these countries still live for the most part in isolated villages. They have little to do with people in neighboring villages, and generally fail to grasp the concept of "nation." Central governments tend to concentrate on problems and activities in the modernized sector of the economy. With AID assistance they have made some headway in developing administrative skills at the national level.

Often, however, these skills are possessed only by people in capital cities and other urban areas. Because of inadequate communication and transportation, the central government is often unaware of and unresponsive to the needs of the remote areas. It is, however, important to translate

the changes created by 20th century technology to those living in traditional rural societies. Thus the United States, is increasingly directing aid to rural development and coordination of provincial and village administration with traditional local government.

AID is extending its support in Korea to the improvement of local revenue and budgetary practices. In the Philippines, where local governments are more developed than in many countries of the Far East, AID is helping to bring about coordination among numerous local activities. The Accelerated Rural Development Program in the remote areas of Northeast Thailand aims, in part, at improving administration at provincial, district, and local levels. Part of the Village Cluster and Forward Areas Program in Laos is aimed at developing local leadership and otherwise strengthening local government.

AID's provincial representatives in Vietnam provide on-the-spot advice to provincial and village governments. Vietnamese civilian cadres, with American advisors, go into areas recently cleared of the Viet Cong to assist in re-establishing local government. Concurrently, AID continues to assist central governments and central government services to increase their capacity to deal with problems of local government.

Law and order is an essential ingredient in the development of both national and local government. The Governments of Vietnam, Thailand, Korea, Laos, and the Philippines, supported by AID public safety programs, are equipping and training local police forces to combat banditry and subversion. Police forces are in the front line of combat against armed insurgency and subversive elements, and are an important factor in the re-establishment of law and order. In Vietnam and in Thailand, particularly, emphasis is placed on improving local police capabilities to identify and counter communist subversive elements, and to deny to them both physical resources and freedom of movement.

The development of technically competent security forces does not in itself, however, insure equality of treatment for all people; insurgency feeds largely on discontent and lack of social justice. In its public safety training programs, AID emphasizes the relationships between police and populace, the need to serve the community and to earn the respect of the people. Beyond this, AID and other U.S. agencies are increasingly involved in improving the legal profession and judicial systems.

Economic Stabilization and Resource Mobilization

The high rate of population growth in the Far East (averaging 2.6 percent annually) is a formidable obstacle to individual economic improvement and private savings. With more mouths to feed and children to educate, most governments of the Far East run a hard race in finding resources to invest in economic and social infrastructure. A high rate of unemployment and underemployment often exists with a low level of government income, an inadequate tax base, and a growing need for gov-

ernment investment to meet the needs of a growing population. The goal of U.S. balance of payments support program is, therefore, to permit a higher level of government expenditures than would be possible without such aid—to make possible economic growth and meet defense needs without serious inflation.

In providing commodity aid as a means of generating local savings for investment, the United States makes possible:

- (1) Efficient allocation of domestic and foreign resources, including tax and savings policies;
- (2) Increased efficiency and use of industrial production capacity;
- (3) Improved training and use of manpower; and
- (4) Continued development and expansion of needed infrastructure.

Private Enterprise and Industrial Development

Basic to industrial development of many Far Eastern countries is creation of an environment conducive to private capital formation. Economic and political stability are essential elements in the encouragement of private enterprise, both domestic and foreign, and of industrial development. Technical advisory services are being provided in Korea to projects in industrial development, vocational, technical and in-service training, and in banking and credit. In Thailand, AID projects include low-cost housing, aeronautical ground services, and means of communication. AID offers encouragement in the Philippines to the Economic Development Foundation and to projects in labor education.

KOREA

Korea's increasing capacity to rely on loans rather than development grants or supporting assistance as a mainstay of outside economic assistance tells much about the progress in the country since the 1953 armistice. In fact, the unfolding success story of Korea's economic development can be summarized best by noting that Korea is becoming a good risk for American loans.

In the seven-year period ending with fiscal year 1964, loans to the Republic of Korea by AID totaled about \$104 million. In fiscal year 1965 and the first half of fiscal year 1966, lending to Korea totaled slightly more than \$89 million. Put another way, AID loans to Korea in the last one and one-half fiscal years reached 87 percent of the total of the previous seven. The increase in lending paralleled a reduction in supporting assistance grants.

Although Korea wrestles with severe problems—a divided country, few natural resources, a large and growing population, postwar rebuilding, too few trained managers and technicians, maintenance of one of the world's

largest defense forces—it continues to move toward the time when aid on “soft” terms will not be needed.

Although the absence of American support to Korea at this time would expose it to the risk of absorption by Red China, its progress gives solid promise of its ultimate ability both to sustain growth and resist take-over through its own skills and resources.

Korean Performance

Korea’s own efforts, assisted by United States financial aid and recommendations on economic policy, have brought the country to the threshold of rapid economic expansion. For example:

- Over the last five years Korea has invested in national development an average of more than 14 percent of its gross national product;
- Gross national product itself rose by nine percent in both 1963 and 1964 and by an estimated eight percent in 1965;
- Industrial production in 1965 went up an estimated 16 percent;
- After a period of inflation which saw a 30 percent rise in prices in 1964, the cost of living increase in 1965 was held to less than half that figure;
- 1965 was a better-than-average year in terms of agricultural production despite drought and floods;
- Exports in 1965 were up about 50 percent over 1964;
- Domestic savings reached seven percent of gross national product in 1965. Only three years earlier the figure was 0.7 percent;
- Export earnings have climbed 300 percent since 1961 and in 1965 increased to about \$167 million, 40 percent over the previous year. Although an unfavorable trade balance continues, it is down eight percent from 1961 and more than 46 percent lower than the recent peak year of 1963.

Helping in this expansion were a number of fiscal management steps taken by the Korean government with the advice and assistance of experts from abroad. They include:

- The establishment of an annual stabilization program;
- Freeing the Korean won to reach an exchange rate in accordance with market conditions; and
- Realistic interest rate ceilings.

Strength in the economic sector of Korean performance has led in turn to a rising confidence of its government in the political field.

In the face of strong internal opposition, the government acted to normalize relations with Japan, which had occupied the country for 40 years before 1945. An agreement reached in December 1965, two decades after Korean independence, will bring increased opportunities for normal trade and investment between the two countries as well as \$300 million in Japanese grants to Korea over the next ten years in addition to \$200 million in soft loans and other Japanese capital.

U.S. Goals and Methods

The objective of American assistance to Korea is development of its economic resources under conditions of political stability, a process intended to lead to a capacity for fulfilling its own needs and realizing its national aspirations. The United States recognizes the role played by Korea as a defensive bastion on the flank of Red China and the burden—30 percent of Korea's national budget—placed upon its economy.

To meet this objective, United States economic assistance is provided in three principal categories:

- Raw materials, food, machinery and other needed imports—which Korea cannot finance itself—through loans and supporting assistance funds and through the Food for Peace Program;
- Loans in both public and private sectors, to permit the Koreans to develop essential enterprises contributing directly to the growth process;
- Technical assistance in the form of advisors on economic policy, on public and private management, and on programs aimed at reducing causes of social and political instability.

Since the end of hostilities in the Korean War—between 1953 and 1965—the United States has provided \$3.3 billion in American assistance. American aid to Korea has concentrated on measures to keep the country going and massive reconstruction needed in the wake of war. Development of infrastructure, systems of transportation, communications, electric power and water supply, was given special emphasis to provide a solid foundation for expansion.

Korea now, for the first time in its history, has enough electric power generating capacity to meet demand without rationing. There are 600 million watts installed now and 300 million more to be added by 1968, an achievement assisted by \$42 million in AID loans.

The country's railroads have more than 3,000 miles of track in good condition and are able to handle 50 percent more freight than in 1950. Diesel engines were financed by AID, which has put \$17.9 million in loans

into a Korean railroad system which also received assistance from the World Bank and Great Britain. In 1964, the railroads carried 20 million tons of freight and 118 million passengers.

Telephone and radio communications have similarly been modernized, with AID contributing loans of \$11.9 million. Support for this sector worth \$8.8 million also came from West Germany, and the United Nations Special Fund contributed \$1.3 million.

The effective use of water supply is expanding too, both through construction of dams for irrigation, electric power, and flood control, and from improvements in domestic and industrial water service to urban areas. Well advanced, for example, is a system to provide 80,000 more metric tons of water daily to Taegu, largest industrial city in Korea. AID is helping with a \$2.4 million loan. Seoul, the capital, will benefit from doubled supplies of fresh water through a waterworks project which is receiving \$3.76 million in loan support from AID.

With reconstruction accomplished and solid foundations for further progress laid, the emphasis of Korean development is now moving more rapidly to investments in productive enterprises. This is not to say there were no investments in such enterprises in the previous period. This involves concentration on long-range planning, training of technicians and managers, and expansion of industries holding greatest potential for increasing foreign exchange earnings.

The U.S. intentions to provide further assistance to Korea were announced last May when President Johnson, in a joint communique with visiting Korean President Chung-Hee Park, said that \$150 million in development loans would be provided "as rapidly as the Korean Government develops and presents acceptable programs and projects."

The loans, the communique said, would finance import of commodities plus "projects which will expand power resources and social overhead capital, increase efficiency and consequently output in agriculture and fisheries, and further technical and industrial development—small, medium and large—benefiting all segments of the population and promoting balanced economic growth."

AID has since approved five loans to Korea totaling \$41.26 million. They provide:

- \$2 million for feasibility studies to determine priorities for further investment of Korean resources. Possible study fields include energy resources, ports and harbors, urban development and transportation, communications, banking and agriculture;
- \$10 million for the import from the United States of industrial raw materials and spare parts;
- \$22.5 million to help finance a 125,000 kilowatt thermal power station on the Han River near Seoul;

- \$3 million to expand a privately-owned, American-designed and equipped cement plant at Tanyang;
- \$3.76 million to help build Seoul's new waterworks.

In the same period AID sent to Korea a team of experts from the Battelle Memorial Institute, Columbus, Ohio, to plan establishment of an Institute for Industrial Technology and Applied Science. The study further implemented the recommendation of Dr. Donald F. Hornig, Special Assistant to President Johnson for Science and Technology, that such an institution be founded in Korea.

Another major AID-financed study began in January 1966 on extensive multi-purpose development of the Han River Basin, a rich and fertile region comprising a fourth of Korea's area and supporting some seven million people.

Two modern fertilizer plants are now under construction. AID loans totaling \$48.8 million have been joined with capital from American investors—the Gulf Oil Corporation of Pittsburgh has a half interest in one; Swift and Company of Chicago and Skelly Oil Company of Tulsa have invested in the other.

Through an AID-assisted program of bench terracing, for which workers often are paid in American surplus food, a start has been made on increasing arable land by 25 percent through reclaiming steep mountain slopes. One fifth of the country's area is mountainous terrain. As a result, Korea has needed more than \$500 million in Food for Peace surplus American farm products to feed its people. AID experts foresee national self-sufficiency in food by 1970.

AID advisors have shown the way to additional agricultural production through consolidation of a previous inefficient tangle of tiny family parcels of rice paddies into larger and better laid out units. In one such area barley production has been added to traditional rice production.

American assistance has been an important stimulus to investments in the private sector. For example:

- A U.S. loan helped start the Korean Nylon Company (half-owned by Chemtex, Inc., of New York) on the way to producing two million pounds a year of nylon thread at a saving in foreign exchange costs of \$1.6 million. The Korean chief engineer learned his trade at South Carolina's Clemson University;
- The Oriental Precision Company, making both automatic telephone equipment and railroad switches, borrowed funds for this plant from the AID-assisted Korean Reconstruction Bank;
- The Tong Yang Sewing Machine Company, whose managing director was trained under AID auspices, exported 70,000 treadle driven units last year; is branching into motor-driven models; and is planning to build

refrigerators and washing machines. AID funds were lent the company through the Korean Reconstruction Bank.

Altogether AID has directly assisted more than 200 Korean private firms through project aid, and the commodity import program has made possible assistance to thousands more.

The Fiscal Year 1967 Program

In the coming year AID will continue to emphasize greater reliance on development loans and technical assistance, particularly keyed to overall economic policy and the preparation of Korea's new five-year development plan.

Barring unforeseen problems the use of Supporting Assistance grants will continue to decline.

Technical assistance will be given in the area of tax structure and administration. AID technical advisors will work with Korean authorities to help raise agricultural production through research, land reclamation, and better fertilizing and liming practices. AID advisors will provide help on farm credit institutions, cooperatives, and other measures to develop marketing mechanisms.

On the industrial side, AID already is helping the Korean Productivity Center and the National Industrial Research Institute in establishing regional offices and is encouraging development efforts at the municipal level, the creation of trade associations, export promotion units and industrial and scientific research and information institutions.

LAOS

Laos is a landlocked country of less than three million population bordering Communist China, North and South Vietnam, Cambodia, Thailand, and Burma.

The Geneva Agreements of 1962 provided for the neutrality of Laos and were designed to help stabilize and pacify the region.

Communist pressures have nonetheless persisted. Indigenous Communists of the Pathet Lao have refused to cooperate with the coalition Government of National Union and have in fact maintained military operations against the armed forces of the Royal Lao Government. North Vietnam supplies the Pathet Lao with military personnel, arms, equipment, supplies, and advisors. At the same time it uses Lao territory as a route to furnish personnel and supplies to the Viet Cong in South Vietnam.

The United States supports Prime Minister Souvanna Phouma in his effort to preserve the neutrality of Laos and to avoid involvement in a larger conflict.

An essential feature of American support is the program of economic assistance sustaining and helping strengthen the government.

Help to Laos through AID has two basic objectives.

It helps promote financial stability in the face of inflationary pressures created by prolonged political-military unrest.

It helps meet basic needs of the country in agriculture, education, health, and transportation with heavy emphasis on improving the life of the rural population.

An important element of the effort to meet human needs and to engender popular appreciation of Lao government intentions is relief to the 250,000 refugees and others in areas where Communist military activity has caused severe dislocation.

Lacking an adequate productive base, Laos must rely on imports to meet most of its needs in fuel and manufactures as well as in rice and other foods. In addition, it carries a heavy defense burden. The United States and other free world countries help finance imports and support economic stabilization measures in order to prevent inflation.

AID, for example, is now financing importation of commodities needed for normal consumption and by a small but growing commercial and industrial sector, a program currently limited to rice and petroleum products, industrial machinery, agricultural equipment, utility vehicles, and spare parts. Great Britain and Australia also have commodity import programs in Laos.

In fiscal year 1965 more than \$7 million in this type of assistance was provided by AID, with most purchases made in the United States. In the same year, Great Britain and Australia financed some \$3.1 million in commodity imports.

Further economic assistance not directed to specific projects is effected through a multi-national stabilization program agreed to in January 1964, on recommendation of the International Monetary Fund, following acute inflation in 1962 and 1963.

Under the agreement the Foreign Exchange Operations Fund (FEOF), presently supported by the United States, France, Great Britain, Australia, and Japan, is a multi-national channel for financing foreign exchange expenditures by Laos.

As part of the agreement, budget deficits were held to a stipulated level while in fiscal year 1966 new taxes and selectively increased rates have raised government revenues.

Thus far the attempt to stem inflation has been successful. During fiscal year 1965, the last full accounting period, living costs rose about nine percent. This compares with 51 percent in fiscal year 1964 and 147 percent in fiscal year 1963.

Signs of Progress

With the help of American and other free world assistance, Laos has made good progress in primary education, teacher training, health service and road building. There has also been good progress in rural development,

a program with which most other AID programs in Laos are closely integrated.

Rural Development: Concentrating on carefully chosen areas, rural development is the keystone of AID programs designed to help the Lao Government bring economic improvements to the rural areas where about 90 percent of the population lives.

The basic concept of rural development is the "village cluster," product of a 1963 program revision under which U.S. and Lao activity is focused in selected clusters of villages where AID community development advisors and International Voluntary Service (IVS) personnel actually take up residence, learn the language, and function alongside counterparts assigned by the Lao Government. IVS is a private organization, under contract to AID, which provides services similar to those of the Peace Corps in other countries.

Beginning in fiscal year 1964 with six clusters, the program has expanded to 11 thus far in fiscal year 1966.

In a typical cluster the program includes leadership training, sanitation, basic farming practice, animal husbandry, and home economics. In addition small public works such as wells, schools, dams, irrigation systems, community centers, markets and village roads are built with the help of United States and Laotian Government equipment, supplies, and technical advice. On such projects villagers themselves often contribute about half the total cost in labor and materials. In newly liberated areas where a rapid and dramatic favorable impact is desired, AID may finance contract construction of major projects.

In fiscal year 1965 there were 847 small projects completed in cluster villages, including schools, new or repaired dispensaries, latrines and privies, irrigation dams, bridges, wells, airstrips and 181 kilometers of roads.

Agriculture: To raise vital rice production in Laos, large scale demonstration projects in growing methods are operating in five areas and experiments with rice varieties are in progress in ten locations. Another AID-assisted program has led to the creation of a joint U.S./Lao Agency called the Agriculture Development Organization (ADO). One of its first measures was to expand a prior rice seed multiplication program by making production contracts with 300 cooperating farmers. Over 500 tons of improved seed were delivered at the last harvest, and more effective distribution methods have been adopted. ADO is now studying formation of farm credit institutions and creation of cooperatives.

To help production, 31 small irrigation systems have been built to serve 8,000 hectares of land, most of them through self-help efforts by farmers with government encouragement and AID technical advice. Extension workers trained by the Agriculture Extension Service are moving into expanded village cluster areas and to other parts of the country previously unfamiliar with this kind of government attention. The new head of the Lao Home Economics Service recently returned from the United States with

a master's degree from Virginia Polytechnical Institute received under AID financing. A training program for Lao agriculture specialists which produced 92 graduates in fiscal year 1964 will this year produce more than 500.

Other statistics showing the progress in agriculture include: expected irrigation of 15,000 acres in fiscal year 1966 compared to 8,000 the previous year and 2,500 acres of land reclaimed in fiscal 1966 against none in 1965.

Education: An acute "textbook gap" has received dramatic attention with AID advice and financing. More than 800,000 primary school books in the Lao language were produced in fiscal year 1965; in fiscal year 1966 production and distribution is expected to reach 1,200,000.

A decade ago Laos had little more than a thousand schools in which only some 600 pupils a year completed the sixth grade and fewer than 100 went on to secondary schools. Recent efforts have added more than 1,600 schools, including 2,000 more primary classrooms, as total enrollment rose from 67,000 in 1955 to over 151,000 in 1965.

More than 300 classrooms will have been built in fiscal year 1966, compared to 271 built the previous year and a total of 398 built in the three years before that.

Approximately 1,000 teachers will have received in-service training in fiscal year 1966 alone, compared to a total of 1,500 in the three fiscal years, 1962-64.

Health: AID-supported programs in public health development provide most of the medical services for a majority of the people of Laos. Doctors and other health technicians, supplies and equipment, construction material, training, and guidance are provided in both rural and urban areas.

Over a million patients have been treated through American aid since the beginning of the program. By July 1965 there were 133 facilities, including 18 field hospitals, operated under the AID village health program and offering care to an estimated 400,000 persons. A program conducted jointly by the Lao Ministry of Health and AID trained 143 medical technicians and 24 nurses in fiscal year 1965. They immediately began work in cluster areas and village health facilities.

Many doctors and nurses used in this program are supplied under a contract with Operation Brotherhood, a Filipino organization first invited to Laos by the Junior Chambers of Commerce in both countries. Operation Brotherhood supplies over 100 doctors, nurses, and technicians to operate hospitals and both mobile and stationary clinics. It also teaches better health and sanitary practice while contributing to rural development efforts. For example, farms attached to hospitals and clinics demonstrate good farming techniques and provide better seeds and breeding stock in the course of producing food for staff and patients.

Operation Brotherhood maintains and staffs six hospitals with a total of 250 beds. In fiscal year 1965 these treated 87,817 patients. Public health teams in that period treated 34,500 cases and delivered 277 infants.

In village clinics workers trained by Operation Brotherhood staffed 25 village clinics which treated nearly 33,000 cases and delivered 163 infants.

Roads: A 100-kilometer stretch of the National Highway linking the administrative capital of Vientiane with southern cities has been completed with AID assistance. In late 1965, construction of the northern portion of the same highway, between Vientiane and the royal capital of Luang Prabang, was started. Some 200 Lao government personnel are now qualified in road construction and maintenance as a result of a highway program which in the last three years has built more than 850 kilometers of new roads while installing or improving 198 bridges and culverts.

Refugees: U.S. assistance to Laos in helping to solve the problem of some 250,000 refugees displaced by Communist military action is in the form of immediate relief and resettlement. By the end of fiscal year 1967 the program aims at making as many refugees as possible self-sufficient, either by providing seeds and farming tools to them in present locations or by resettlement in new areas. Since most of the refugees are hill tribesmen and their families live in remote areas, air drops are the only feasible means of providing supplies to them.

Where refugees are accessible, AID supports self-help building projects in addition to providing subsistence needs. Although enemy action has resulted in destruction of some construction, 125 schools, 20 field hospitals and 87 dispensaries have been built in four provinces. Teachers and medical technicians staffing hospitals and dispensaries are provided by the Lao government, by AID and by Operation Brotherhood. Twenty one of the schools and 20 dispensaries, plus an 88-bed hospital in Sam Thong, were built in the last fiscal year.

Fiscal Year 1967 Program

AID assistance to Laos has totaled about \$415 million in the years 1956-65; in fiscal year 1965 AID provided \$50.6 million. The fiscal year 1967 program will follow the guidelines and concepts of current activities.

The import of commodities with AID financing will continue as will foreign exchange support through the Foreign Exchange Operations Fund.

The proposed program in support of specific projects includes new emphasis on training and equipping the Lao police force in both rural and urban areas. Similar programs in neighboring South Vietnam and Thailand have been very effective.

The weight of American help, however, will remain on intensifying present support of Lao efforts to obtain and keep the loyalty of rural populations through basic improvement, on a foundation of self-help, in their living standards. A relief project providing rice, cloth, and hand tools to hill tribesmen and their families will continue.

Similarly scheduled for further AID assistance are programs in education, agriculture, public health, and highways. A program to support the growth of small industries—which already has had direct impact on at least 225 firms in the last two years—will also be continued.

THAILAND

Thailand has made good use of the \$392 million in all forms of American economic assistance provided in fiscal years 1949 through 1964, a period also marked by increasingly close alignment with and support of United States and other free world interests in Southeast Asia.

The Thai economy has recorded an encouraging growth rate over the past decade, now estimated at about seven percent annually. Prices have remained relatively stable, foreign exchange reserves have been rising, and government revenues are increasing faster than the gross national product.

In recent years, however, Thailand's economic development has increasingly been threatened by Communist activities directed from Peking and aimed especially at the Northeast regions of the country near its border with Laos. There is mounting evidence of Communist subversion in other areas of the country as well.

To meet these needs, American economic aid has been reoriented to help Thailand counter the Communist thrust, particularly in the Northeast. The people there are directly exposed to Communist mischief. The Northeast has, in the past, profited less from economic growth and is less integrated into the social and political framework than the rest of the country.

American-Thai cooperation now embraces three urgent objectives:

- Redress of the imbalance of social and economic benefits in threatened areas;
- Improved effectiveness of the traditionally centralized Thai government, particularly in remote provinces;
- Strengthening of agencies responsible for civil security.

In addition, AID continues assistance in cooperation with other free world nations to programs furthering general economic development. AID recognizes that the present growth rate cannot be sustained without outside help if the Thai government is forced to assign a rising proportion of its resources to defense and the improvement of conditions in less favored provinces.

A Joint Response

The Government of Thailand fully understands the meaning of Communist actions and is moving to make those political and economic reforms necessary to foreclose of Communist success.

In support of the objectives of cooperation, AID assistance projects fall into six categories, the weight of the effort bearing entirely or largely

on frustration of the externally mounted threat to peace and stability. The categories are security, accelerated rural development, human resources, government management, private enterprise, and economic infrastructure, meaning the framework of transportation, communications, and supplies of electric power and water essential to national growth.

Maintaining Internal Security

The Thai National Police, the mainstay of internal security in Thailand, receive strong support from AID. Forty-five public safety advisors work with the Thai police. In fiscal year 1965, 22 advisor positions were added as part of an effort aimed at rapidly increased police effectiveness.

The Border Patrol Police, a para-military force which is the primary agent of protection against infiltration and subversion along remote borders, is already well-trained and equipped, partly as a result of previous AID assistance. An additional 500 men are being trained to bring its strength to 6,500. AID also supports the air lift which supplies and transports these forces to remote areas of the country.

In the interior a force of Provincial Police, currently being raised by 15 percent to 32,000 fully equipped men, is charged with civil security in all areas except the immediate Bangkok region. Supported by AID through regional advisors, training, ammunition supply, and vehicle replacement, this force's training and methods emphasize the civil aspects of police work.

Also with AID help, the Education Bureau of the National Police has in recent months increased two-fold its capacity to train both recruits and those already in service. AID also supplies vehicles and communications and training equipment to a police unit specializing in intelligence on subversion. Its help to Metropolitan Police in the Bangkok district has shifted emphasis from provision of various commodities to training in crowd control, patrol and investigation methods, traffic handling, and efficient record keeping.

The Border Patrol Police also undertakes to create popular support of the central government through efforts in basic education and health in remote areas where the ministries normally responsible for these matters are not represented. It has established 248 schools in the most inaccessible regions and has distributed tools, seeds, breed animals, and medicines. Through a special hill tribe program, the Border Patrol Police has established contact with 39 hill-tribe villages in the North, trained nearly 150 tribesmen in elemental development techniques, and provided the villages with some medical and other supplies.

Plans now being effected will step up this effort, for example by training additional tribesmen to function as local medical workers and by establishing better communications between cooperating tribal villages. To assist the Border Patrol Police in their function of providing both security and assistance in remote areas AID is assigning as advisors five experienced specialists.

A vital concurrent activity, with cost shared equally by the United States and Thailand, is construction of 231 kilometers of all-weather roads linking two critical border areas with the existing highway system. Built by the Raymond International of Delaware, Inc., with headquarters in New York City, the roads will be finished in May 1966.

Accelerated Rural Development Programs

A program of Accelerated Rural Development (ARD), support of which accounts for a third of current AID assistance to Thailand, is the keystone of both short- and long-range efforts to upgrade rural life. The ARD program, in brief, provides the governors of provinces in the most threatened areas with the equipment, trained personnel, and budget to permit building such public works projects as roads and small irrigation systems and coordinating other efforts. ARD is under the overall policy direction of the Thai Committee for Accelerated Rural Development, a part of the Prime Minister's Office.

The Accelerated Rural Development program already operates in 11 provinces. By the end of calendar 1966, the program is expected to involve up to 16 provinces with later expansion contingent on evaluation of present efforts and the current security situation in outpost areas.

AID has active project agreements covering assistance to ARD in nine fields.

Coordination and Planning: AID advises on problems of effective working relationships between central, provincial, district and village authorities.

Training: The training of Thais in engineering, construction, and maintenance work and the operation and upkeep of AID-financed equipment is an important aspect of the ARD program. A long-range program is being developed to provide this training, centered on the Northeastern Technical Institute in Korat, also AID-assisted, which trained 306 Thai personnel for the program in 1964 and 1965.

Agriculture: The northeast section of Thailand, where most subversive activity is taking place, is also the poorest section of the country. AID is helping by providing technical assistance on overall farm policies, credit, better marketing, and improved farm practices. Initial emphasis is on demonstration farming, distribution of seeds, fertilizer and pesticides, on-the-farm training, record keeping, and formation of farmer's associations.

Community Development: Village initiative and self-help is a key both to improved village life and the development of a sense of participation in activities which shape it. Group planning and execution of self-help projects can also be the beginning of local government based on popular consent. By 1968 it is planned to have Community Development program at work in 6,700 villages in regions threatened by subversion, with 40 Peace Corps volunteers integrated with other American assistance. Programs already operate in over 1,000 villages.

Rural Health: Since 1960 some 4,500 villages have started health programs including construction of sanitary wells and installation of waterseal privies. A beginning has been made on broadening this effort into a comprehensive program concentrated in areas where security is threatened. Basic public health units are planned for every 3,000 people in these areas, with AID supplying support in technical training, medical supplies, and equipment. Training centers for health personnel in the Northeast and elsewhere in Thailand will be enlarged and new centers built to meet the greatly increased need for multi-purpose health workers. Doctors and nurses will be provided from the two Bangkok medical schools and from the Chiangmoi Medical School in the North. AID is assisting the latter.

Drinking Water: Less than three percent of the people in areas of ARD concentration have safe drinking water. AID will help ARD provide potable water systems in 1,000 communities in the next three years, in part through services of an American consulting engineering firm.

Malaria Eradication: Experience in other countries demonstrates that malaria—chief cause of sickness, debility, and death in Thailand—can be virtually wiped out. An existing program has been stepped up so that spraying this year will have protected a population of more than 26 million. Eradication of malaria, already markedly reduced, is foreseen within six years.

Rural Education: A program already underway will in three years have provided more than a million elementary readers and half a million arithmetic books to pupils in grades 1–4 in Thailand. Similarly, 600,000 texts on various subjects will go to students in grades 5–7. This year the first of five planned new Rural Mobile Training Units are in service, and villagers are showing their interest by paying for instruction in such practical skills as carpentry, barbering, and basic metal work.

Local Government Administration: The central government must adapt its services to newly recognized needs in the provinces. To meet this need, an academy for district chiefs was established in fiscal year 1965 with a nine-month course. Government offices in Bangkok have been reorganized and a pilot democracy developing program has been established to point the way to effective self-government at village levels.

Rural Electrification: Provision of electricity in rural areas on a pilot basis is going forward in accordance with the experience in other developing countries of the National Rural Electric Cooperatives Association (NRECA), an American group which has an AID contract for work in Thailand.

Mobile Development Units: In addition to ARD, AID also provides some support for Mobile Development Units (MDU), which are joint civilian/military teams under the Thai National Security Command. Part of their task is to bring successful high impact improvements to threatened remote areas as a dramatic and quick way of showing both government interest in local conditions and a capacity to improve them. MDU activi-

ties are designed to hold the line against further subversion until longer range programs are brought to bear.

Now operating in nine provinces of the North and Northeast and two in the South, chosen because of known subversion and infiltration, the MDU teams of about 100 men typically spend nine months in an area, concentrating on selected villages. Showing films, distributing pamphlets, making all-important personal contact on behalf of the government, the units tackle development projects beyond local skills, such as road building. They also assist with simpler improvements wanted by villagers willing to work on them if shown how. Sounding out the populace as they proceed, MDU members gain a realistic knowledge of local problems, particularly those suitable for later ARD attention. At the same time they gather vital intelligence about Communist actions.

The Development of Human Resources

With AID help, Thailand last year met its goal of establishing training programs capable of producing 280 vocational teachers a year. A school at Thewes is turning out 140 teachers a year for upper-level boys' trade schools. Bangkok Technical Institute is annually providing 50 teachers to girls' trade schools. A school at Bengphra trains 40 agricultural vocational school teachers a year, while 50 technical institute instructors graduate from Bangkok Technical Institute.

Secondary vocational schools improved with AID assistance are now capable of graduating 6,700 students annually to help supply skilled manpower to Thailand's economy.

AID has supplied \$50,000 in new equipment for boys' trade schools and is helping to finance the construction of a new three-story classroom building and a curriculum revision. AID provided advice to girls' trade schools in shifting curriculum emphasis from home economics to trades. The University of Michigan has a contract with AID to assist Thailand in planning its educational programs so as to produce graduates trained to the jobs required by its growing economy.

AID is also assisting Thailand to develop its human resources by supporting studies to forecast manpower requirements. This work draws on the services of the Stanford Research Institute of California. Similarly, the University of Illinois College of Medicine advises the Faculty of Medicine of Thailand's Chiangmai University on the roles of public health and preventive medicine in providing medical service in a developing nation.

AID, through a contract with Public Administration Service of Chicago, is providing advisors on central administration and is helping develop Thai Government capability in recording and analyzing increasingly complex but essential statistics. Other AID help to the Thai Government covers improvement of the civil service system (in cooperation with the California Civil Service Commission) and programs for controlling drug and nar-

cotic traffic while tightening standards for drug and pharmaceutical manufacturing.

Other AID-Supported Activities

A program of research, analysis, information, and promotion designed to identify private enterprise opportunities is being assisted by AID. The Agency is also helping the Board of Investment implement plans and suggestions for expanded foreign and domestic investment, particularly in agribusiness enterprises in the Northeast.

To maintain the economic momentum Thailand had achieved before the insurgency threat became serious, AID supports a program of studies aimed at providing sound basic data necessary to document future applications for loans or grants. This program covers water resources, highways, power, railways and ports, telecommunications, and inland waterways.

In addition AID is helping finance studies by the U.S. Bureau of Reclamation of possible irrigation and flood control projects in the Northeast. The Agency supports programs to improve ground service to aircraft through a project utilizing FAA advisors to supervise equipment procurement and installation. AID is also helping add to the national highway system through assistance to design and build a 283-kilometer all-weather highway between the cities of Lomsak and Saraburi, and the completion of all-weather roads from Bangkok to Saraburi and Nakorn Pathom.

The Fiscal Year 1967 Program

Emphasis placed in fiscal years 1965 and 1966 in frustrating Communist infiltration and subversion in the Northeast and North will be intensified as part of AID's 1967 fiscal year program.

As before, the major portion of American help will support programs to improve security in threatened areas. Enlarged security forces will be given further training and equipment. At the same time the multiple programs of ARD will be extended into new provinces while consolidating and improving work now begun in others.

In rural health, the Northeast and North will be areas of concentrated activity. An integrated network of health and midwifery centers, public health laboratories, and regional tuberculosis control centers, begun in fiscal year 1966, should be well established during fiscal year 1967. Malaria eradication is expected to remain on schedule.

Continuing analysis of Thailand's future manpower needs and the gearing of its schools to meet them will continue to draw on United States experts. An expected six million dollar loan from the World Bank to expand Thailand's vocational education program will create an opportunity for effective additional American technical help which AID will supply.

VIETNAM

The goals of American assistance to Vietnam are:

- To persuade the Communists of the futility of aggression;
- To help Vietnam create and develop a secure, sturdy, self-governing society and self-sufficient economy.

Success in achieving the first goal would be an empty victory without significant simultaneous progress toward the second.

Although military considerations have dominated American help to Vietnam in fiscal year 1966, AID plans to more than double its commitment of American resources to the non-military aspects of the struggle—sustaining the country's economy and advancing its prospects for social and economic development.

The AID program objectives are:

- To support the Vietnamese economy and war effort, and to prevent the destruction by inflation of the government and economy by financing of essential imports;
- To assist in development of economic, political and social institutions which respond to the real needs and aspirations of the people;
- To build the social and economic foundation for longer-range economic development.

The economic aid program in Vietnam today has emerged as a key element in an unprecedented war effort as much political, economic, and social as it is military. The winner must convince the people that his system of government and social organization offers something worth fighting for—a better life for the common man. This is the lesson learned from past experience; it is becoming increasingly clear to present Vietnamese leadership.

This principle received new recognition in the Declaration of Honolulu of February 1966, which clarified and defined Vietnamese-American support of the political, economic, social side of the war, and provided impetus for development of better ways for encouraging peaceful social revolution.

Obstacles to Progress

Obstacles to achieving the goals of United States assistance are legion.

There is a ruthless and persistent aggression, increasingly directed and reinforced by North Vietnam, which mixes military and para-military pressures with political subversion, economic deprivation, propaganda, and terror. It is an aggression, moreover, which often has found an ally in political instability which has hobbled South Vietnamese efforts to fight back.

There are also obstacles inherent in traditional ways of life in South Vietnam and in concepts of governmental relationships to people. Most rural areas lack effective government. In some areas government in a formal sense does not exist.

If aggression and unsuitable government institutions are familiar obstacles to achieving joint goals in Vietnam, inflation is a menace of relatively recent date which threatens both the government's war effort and its quest for firmer popular support. After years of comparative stability, retail prices in 1965 rose about 40 percent. Although rising less in the Mekong Delta region, they rose far more—often exceeding 100 percent—in isolated sections and in refugee-crowded villages.

These price rises are due to many causes. The advent of the build-up of American and other free world military forces meant increased competition for local construction materials and skilled labor, as well as injections of spending in the local economy. While Vietnamese defense forces grew, budget spending rose without concomitant increases in revenues. Thus larger deficits were incurred. At the very time when higher production was needed, hostilities effectively shrank it by restricting transport and communications. Manpower became short, bringing inevitable wage increases as employers bid for scarce help.

A continuation of these trends in 1966, marked by further build-up of American and other free world forces, has brought Vietnam face to face with the need to take offsetting fiscal and administrative measures. The United States has responded with increased aid in the form of commercial imports intended to help soak up inflationary demand.

There are, on the other hand, promising signs. Vietnamese morale has improved with the introduction of larger American military support, as American and Vietnamese arms have met with increased success, and as the United States has matched its greater military help with strengthening of economic assistance. For its part, the present leadership of Vietnam has acknowledged the magnitude of its difficulties while gearing itself to meet them.

The present government is the first since the fall of President Diem to remain in power beyond six months without major opposition. Its durability has been enhanced by increased success of military operations against the Viet Cong.

While relying heavily on rising outside assistance, the Vietnamese economy has continued to function despite inflation. An austerity budget for non-war expenses has been adopted and emergency action taken to relieve port congestion. Varied arrangements to encourage private saving as an alternative to inflationary spending are in prospect.

Rural Construction Program

The centerpiece of new efforts, the Rural Construction Program is an American-supported Vietnamese effort designed to reach rural people and

improve their lives. It is based on the experience, and frustrations, of past programs with similar ends. Its promise stems from deliberately modest initial goals, ample financing, an effective organization for recruiting and training field personnel in adequate numbers, and the personal authority of Premier Ky as delegated to one of his most competent subordinates.

Rural construction begins with military security, in this case the routing of the Viet Cong from specific, limited areas. Thereafter, security in the selected and cleared area becomes a function of civil police and militia-like popular forces, both recruited from local populations and thoroughly trained.

Once security is obtained, the real work of pacification and rural construction begins. Spearheading this effort are groups of Rural Construction Cadres, specially trained corps of highly motivated young Vietnamese men and women. After prompt attention to short-term needs, they advise and assist in the promotion of longer-term efforts based on the aspirations of village and hamlet people themselves. These longer-term measures are designed to develop better living conditions through the construction of schools and health clinics, assistance to farmers, and support for effective local government with a gradual widening of popular participation toward the goal of elections and full local control. In each province, American AID representatives act as advisors to Vietnamese authorities and as coordinators and expeditors of U.S. material and technical assistance.

The new program is a concentrated one whose limited first-year objectives reflect careful assessment of what is possible to achieve. The year's targets include 2,200 new classrooms, 921 kilometers of road, 131 bridges, 49 dams, and 94 kilometers of new canals. Now in training for cadre service are some 4,600 Vietnamese. Current plans call for training of approximately 40,000 by the end of 1966.

The Record of American Help

In the fiscal years 1954-1965, the dollar value of American economic assistance to Vietnam was approximately \$2.4 billion, of which about \$2.1 billion was financed under the AID program and about \$300 million under the Food for Peace program.

Estimated fiscal year 1966 levels, including a proposed supplementary appropriation, will be roughly \$541 million in AID funds and \$100 million in Food for Peace commodities.

To support the strained Vietnamese economy through financing of essential commercial imports and through the provision of surplus American farm products, AID expects in fiscal year 1966 to commit \$370 million. This compares with about \$151 million in 1965, \$113 million in 1964, and \$95 million in 1963.

AID expects in fiscal year 1966 to obligate \$161 million for activities to improve the basic social and economic conditions in Vietnam, compared to \$66 million in 1965, \$47 million in 1964, and \$38 million in 1963.

In fiscal year 1966, Technical Cooperation obligations are estimated at \$10.6 million. In 1965, the figure was \$8.5 million, in 1964, \$5.9 million, and in 1963, \$10.5 million.

Medical Help: AID-assisted programs for bringing basic health services to as many Vietnamese as possible have been remarkably successful in the face of strong Viet Cong harassment and intensified military action.

Over 220 American doctors and medical technicians are at work in Vietnam, as are medical teams from seven countries—Australia, Korea, New Zealand, the Philippines, Taiwan, Iran, and Italy—serving at nine locations. By the end of fiscal year 1967 medical teams are scheduled to be in each of the 43 provinces.

Through a school immunization program in Saigon, 28,000 children have received a standard inoculation series.

Of the 28 surgical suites which have been constructed, 16 are undergoing complete rehabilitation and three have been finished.

In the last three years, 4,200 new health subcenters have been added in provincial districts and hamlets.

An AID-built medical school in Saigon is virtually completed and already is in operation. Its plans for graduating 200 doctors annually are on schedule.

Education: In the last three years over seven million textbooks were printed and distributed to Vietnamese school children under an AID-assisted program.

Over 9,000 new classrooms have been built or expanded, some 1,600 in villages whose residents conceived the idea and, with AID-supplied cement or roofing, built them themselves.

A central polytechnic institute and three secondary polytechnic schools have been built and a number of technical-vocational schools re-equipped.

Four new normal schools are equipped to turn out 2,100 prospective teachers annually while a 450-pupil elementary demonstration school and two new teacher training colleges are beginning operations.

Public Safety: Over 100 AID experts in all phases of law enforcement are training and advising the Vietnamese National Police in the work of maintaining civil order with modern methods. At the end of 1965 some 52,000 Vietnamese had been trained, almost double the level of the force a year before.

More than 8,150 two-way radios for village and hamlet defense communications are in place, and 3,400 sets are providing security communications for police, railroad authorities, and other users. National police in a majority of provinces are able to talk to one another over a long-range high-frequency system completed in August 1965.

Public Administration: The new National Institute of Administration, which has been established with AID assistance, has produced trained administrators for important provincial and district government posts. In 1966, it will graduate 350 qualified public servants. Through in-service

training in 21 provincial centers, 25,000 hamlet officials have received elementary instruction in effective administration.

Refugee Relief: The task of providing for Vietnamese refugees has mushroomed. Of an estimated 784,000 refugees, 270,000 have been absorbed in new locations, and 72,000 have returned to their villages as of the end of January 1966. AID has created a special office in Saigon headed by an expert in refugee relief and a coordinating office in Washington to cooperate with American voluntary agencies which are expanding refugee work in Vietnam. AID has earmarked \$11.6 million in direct dollar support in the form of clothing and other commodities for this work. In addition, \$5.1 million of surplus foods are being used. An additional \$4.1 million in logistic and medical assistance is attributable to the refugee relief problem.

Industry and Public Works: In 1965 alone, AID assistance went to eight new plants and the expansion of 51 existing facilities, a process involving over seven million dollars in equipment, largely American, supplied under the commercial import program.

Eight dredges operating around the clock have dredged 75,000 yards of canals and waterways in the Mekong Delta.

A 10,000-foot jet runway was built for the civilian airport at Saigon in recent years.

In five years, more than 1,900 fresh water wells were dug to serve more than a million rural people, and 35 communities with 500,000 people were provided water systems.

Transport & Communications: Saigon is now linked to major Mekong Delta provincial towns by a modern microwave telecommunications system.

Despite Viet Cong sabotage, highway construction crews last year built 45 bridges and culverts, repaired more than 600 bridges, built 650 kilometers of secondary roads, and rebuilt 350 kilometers of major highways.

Commercial Import Program

For fiscal year 1966, a list of the most important commodities furnished under the commercial import program includes rice (\$35.9 million); fertilizer (\$17 million); medicine and pharmaceuticals (\$21 million); chemicals (\$22 million); petroleum fuels and products (\$27 million); iron and steel mill products (\$72 million); and engine turbines and parts (\$22 million).

Help From the Free World

Close to 40 free world countries other than the United States have contributed or have promised economic assistance to Vietnam in the form of personnel, services and goods. These include Australia, Republic of China, Japan, Laos, Malaysia, New Zealand, the Philippines, Thailand, Greece, Turkey, Iran, Israel, India, Pakistan, Tunisia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain, Switzerland, Great Britain, Argentina, Brazil, the Do-

minican Republic, Ecuador, Guatemala, Uruguay, Venezuela and, jointly, the Central American republics of Costa Rica, El Salvador, Honduras, and Nicaragua.

Typical contributions include: surgical teams, engineers, farm experts, electric power advisors, textbooks, transmission line for power, medical supplies, ambulances, and radios.

Fiscal Year 1967 Program

Economic assistance proposed for Vietnam in fiscal year 1967 calls for \$550 million in Supporting Assistance funds and approximately \$101 million in sales of Food for Peace commodities. The large part of the Vietnamese currency generated by food sales and U.S.-financed commercial imports will support the country's war budget.

In terms of objectives and the resolve to realize them symbolized by the Declaration of Honolulu, planning remains sharply focused on the twin necessities of helping the Vietnamese consolidate and strengthen popular support and of sustaining Vietnam's war-burdened economy against the threat of inflation.

AID, which now has nearly 800 Americans working in Vietnam, will expand this figure in fiscal year 1967 to more than 1,000. Trained American men and women recruited in intensive fall and winter drives in Chicago, Los Angeles, and Boston already have begun arriving in the country.

In fiscal year 1967, AID's Provincial Operations program will be increasingly geared to the strengthened and concentrated effort of peaceful social revolution in Vietnam. As Rural Construction Cadres move in strength into areas declared secure, AID's Provincial Representatives will move with them. These civilians will continue in advisory roles while coordinating, expediting, and following through on the provision of AID-financed supplies and services which help translate village and hamlet aspirations into tangible realities.

While the United States, through AID, is firmly committed to continued balance of payments assistance as a support of economic stability, it will work with the Vietnamese Government on measures necessary to dampen inflationary pressures on the economy.

AID will also step up efforts to break severe bottlenecks in port congestion and warehouse construction, in rail and transportation, and in coastal shipping.

By December 1966, construction of hamlet schools already underway is expected to provide space for 320,000 more pupils.

In agriculture heavy emphasis will be placed on increasing domestic production. A fertilizer distribution program—nearly 100,000 tons purchased under AID financing has already been distributed—will be continued. Similarly receiving attention will be long-range rural activities such as electrification, seed improvement, crop diversification, and agricultural extension.

OTHER FAR EAST PROGRAMS

BURMA

Burma shares a 1,200-mile border with Communist China. Externally, Burma maintains a policy of non-alignment. Internally, the Burmese government continues a program of nationalization and "Burmanization" of economic activities. The Burmese are not requesting new commitments of economic assistance from the United States.

Although American interests in Southeast Asia include a concern for continued Burmese independence, no new economic assistance programs are presently proposed. At the same time, the United States continues to provide technical services required for several continuing projects financed under previous agreements.

These technical services, at a proposed fiscal year 1967 level of about \$200,000 include: (1) engineering assistance for a project begun in June 1965 to expand production of teak; (2) inspection of construction for the Rangoon University Liberal Arts College project agreed to in 1959; and (3) supervision of completion of residual activities related to improvement of the Rangoon water supply and sewerage systems, the Rangoon General Hospital, and the Burmese inland waterways fleet.

THE PHILIPPINES

A unique historical association with the United States has imbued the people of the Philippines with a strong sense of freedom and democracy. The need today and the objective of U.S. assistance is to raise standards of living through soundly conceived development programs.

In recent years, however, efforts to expand economic and social development have been frustrated. Financial problems are compounded by a low ratio of tax collection and a high level of smuggling which siphons away up to one quarter of government revenues. The rate of economic growth dropped to 3.8 percent in 1964, compared with slightly more than five percent in 1963. The downtrend continued through 1965 with an increase in unemployment and a general shrinkage of purchasing power.

Recognizing the need to build a stable financial base for development programs, the new administration has requested modification of standby agreements with the International Monetary Fund to alleviate these problems. In addition, it is planning to eliminate unnecessary spending, increase tax collections, and tighten customs procedures.

The Philippines have abundant natural resources to support their development effort as well as the capital potential to exploit them. The World Bank and other lending institutions are prepared to support economic development projects if the necessary steps are taken to make such investments effective. Under the same conditions, the Philippines remain eligible for AID development loans.

Pending further developments, the AID programs in fiscal year 1967 will continue technical assistance to rural development projects, and administrative agencies responsible for development planning. The requirements for technical assistance in fiscal year 1967 are estimated at \$3.4 million.

The Filipino land reform program will receive advisory assistance in credit and marketing as well as development of cooperatives with efforts concentrated in several pilot areas. Surveys of the nation's mineral, forestry, and energy resources will also continue with the help of contract advisors. In addition to helping with collection of data, AID will provide technical advice in the best use of the national resources.

Other advisory services to the Philippine Government include budgeting, accounting, customs administration, tax administration, and export promotion.

Law enforcement agencies will also receive technical help in fiscal year 1967 in their effort to deal more effectively with the growing threats of lawlessness and crime. In addition the United States will continue to participate in the international effort to eradicate malaria from the Philippines.

FAR EAST REGIONAL PROGRAMS

An important forward movement in furthering regional cooperation in Southeast Asia has taken place during the last 12 months.

This drive drew on Asian initiatives already underway as well as on the functioning cooperative apparatus of the United Nations.

On April 7, 1965, President Johnson called on "the countries of Southeast Asia to associate themselves in a greatly expanded cooperative effort for development." At the same time he asked the United Nations, with the countries in the region, to evolve plans to this end.

The President hoped that other industrialized nations, including the Soviet Union, would become part of the undertaking. As for the United States, he promised a request to the Congress "to join in a billion-dollar American investment in this effort as soon as it is under way."

In the year since the President spoke, Eugene Black, his advisor on Southeast Asia Economic and Social Development, a former President of the World Bank, has conferred with government leaders of Thailand, Laos, the Philippines, and South Vietnam and with representatives of Malaya and Singapore.

Among developed nations, consultations for the expanded multilateral development programs in prospect for Southeast Asia were held with Japan, Australia, West Germany, France, the Netherlands, and Canada.

In addition there have been consultations with United Nations organs such as the Economic Commission for Asia and the Far East (ECAFE) and its Mekong and Asian Highway Committees.

Most significant progress during the year involved the Asian Development Bank and the Mekong Committee.

Asian Development Bank

Initial impetus for the Asian Development Bank as a regional development credit institution came from the ECAFE. From the beginning it was an essentially Asian enterprise.

The bank is seen as having four important functions:

- To finance sound projects, probably of medium size because of initial limitations on its capital, with its own funds;
- To add to the flow of capital into the region by sponsorship of projects for joint financing by other public and private sources;
- To assist in developing sound projects by helping studies which lead to them; and
- Through its advisory functions to stimulate regional or subregional cooperation.

After extensive negotiations, a charter for the Bank was signed in Manila, also chosen as site of its headquarters, on December 4, 1965. On March 2, 1966, the Senate passed and sent to the President a bill authorizing the United States to subscribe \$200 million of the Bank's planned capital of one billion dollars. Of the American contribution, \$100 million would be available in regular increments, the balance on call.

Asian nations have pledged 65 percent of the Bank's total capital. Japan, for example, has matched the American subscription with the equivalent of \$200 million. India's pledge was \$93 million, Australia's \$85 million. Of the 31 nations which had signed its charter at time of publication, 19 were Asian.

In its lending the regional bank will mainly offer terms similar to those of the World Bank, using sound financing criteria in approving and funding projects. Ten percent of its paid-in capital may be lent on "soft" terms comparable to those of the World Bank's International Development Association. Moreover, the Asian Development Bank is authorized to administer special funds given to it by donor nations. Loans made from such special funds may be for any purpose and on any terms not inconsistent with the overall purpose of the Asian Bank.

The Asian Development Bank is expected to be operating by December 1966.

Mekong Committee

The Mekong Committee, an adjunct of ECAFE, is composed of the four countries on the Mekong River's banks—Laos, Thailand, Cambodia, and South Vietnam. Formed in 1957 after a broad assessment of the Mekong's potential for irrigation, navigation, flood control, and power generation, the committee's efforts had by the end of 1965 attracted support worth \$102 million in studies, surveys, and construction projects from 21

countries, 10 United Nations agencies, two private foundations, and five business organizations.

Today the priority project of the Mekong Committee—the Nam Ngum hydroelectric dam to be built on a tributary of the Mekong in Laos—is on the way to realization. Following President Johnson's April 1965 address, an American pledge to provide half of the \$24 million estimated as necessary for the first construction phase gave prompt and concrete evidence of this country's earnestness in support of regional cooperation.

At the same time the United States, through a study by its Bureau of Reclamation, is helping determine feasibility of a large multi-purpose dam proposed for construction on the Mekong mainstream between Laos and Thailand. Further American support in the area includes a cartographic inventory of the basin's physical and social resources and various analyses of its economic and hydrologic systems. A number of other countries outside Southeast Asia also cooperate with the committee on feasibility and hydrologic studies, navigation improvement, agricultural development, and engineering construction.

Excerpted from *Proposed Economic Assistance Programs, FY 1967*, the Agency for International Development's Summary Presentation to the Congress outlining the President's foreign aid request for fiscal year 1967

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