

FY 68
Far East

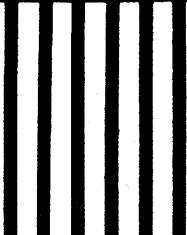
1968



**U. S. FOREIGN AID
IN
EAST ASIA**

AGENCY FOR INTERNATIONAL DEVELOPMENT

BEST AVAILABLE



GENERAL NOTE

This is an excerpt from *Proposed Foreign Aid Program, FY 1968*, the Agency for International Development's summary presentation to the Congress outlining the President's foreign aid request for fiscal year (FY) 1968.

Unless otherwise stated, the terms "foreign assistance" or "economic assistance," as used in this volume, refer only to programs conducted under the Foreign Assistance Act and exclude programs of the Export-Import Bank, the Peace Corps, Social Progress Trust Fund programs administered by the Inter-American Development Bank, and the Food for Freedom programs carried out under Public Law 480, the Agricultural Trade Development and Assistance Act of 1954 as amended.

All figures for fiscal years prior to 1967 represent actual obligations. Fiscal year 1967 figures are necessarily estimates based on the rate of obligation at the time this volume went to press, two months before the close of the fiscal year. All fiscal year 1968 figures represent proposed programs based on the fiscal year 1968 appropriation request and anticipated carry-overs and recoveries.

Since the original volume went to press May 10, 1967, neither it nor this excerpt reflects policies or proposals that may have changed since that date.

EAST ASIA

A series of policy decisions in the 1950's established the framework of United States policy in East Asia. These decisions engaged U.S. military, political and economic resources in efforts to deter or contain Communist expansion and to help the relatively weak nations on the periphery of Communist China achieve viable independence.

This general policy has been pursued and refined by successive administrations. And it has succeeded beyond expectation in much of the region:

- In Japan's example of a free society progressing in an Asian setting and working closely with its smaller neighbors and the West in programs of regional economic cooperation;
- In the Republic of Korea's surge toward self-support while making major contributions to mutual security;
- In Taiwan's achievements in rural and industrial development despite heavy defense burdens;
- In strong Asian initiatives, following President Johnson's historic Baltimore address in 1965, to create or strengthen regional security and progress.

This policy of assistance to East Asian countries that seek to maintain their independence while becoming self-supporting has also led the United States into a long and costly struggle in Vietnam, where final success still lies ahead.

Economic aid is a major tool of American policy in East Asia. Without it, there would today be immediate economic and political chaos in South Vietnam and Laos, no hope of sustaining Indonesia's return from the brink of Communist take-over, a forced reduction in Korea's military commitments and a stalling of its economic progress, and increasing unrest among the people of Thailand and the Philippines.

In the longer perspective, East Asia is a key area in the race between world food production and world population. The race probably will be lost unless Southeast Asia greatly increases food production and at the same time checks unrestrained growth of populations. Progress in the time still available will require intensive efforts by the Southeast Asian countries, aided and stimulated by capital investments which must come from the United States and other wealthy nations. U.S. participation in this "War on

EAST ASIA and VIETNAM FY 1968 PROGRAMS

EAST ASIA ... \$260 million

VIETNAM ... \$550 million



Hunger” is likely to be a major element of American foreign policy in East Asia in the years ahead.

U.S. economic aid programs in the region are of four mutually reinforcing types :

- Support for a war economy and “Revolutionary Development,” as in Vietnam ;
- Help in countering the threat of Communist insurgency, as in Laos and Thailand ;
 - Assistance to economic stabilization and long-range development, as in Korea, the Philippines and Indonesia ;
 - Support for Southeast Asian regional cooperation and development, as in the Mekong Basin program, the Southeast Asian educational program and the Asian Development Bank.

Support to Vietnam

Because of the size and complexity of its Vietnam program, AID has established a bureau devoted exclusively to Vietnam affairs. The Vietnam program therefore will be discussed in a separate section of this presentation

Preventing and Countering Insurgency

Some AID programs in East Asia are designed to help prevent and eradicate those economic and social conditions in which Communist subversion takes root. These concentrate on rural areas, where about 80 percent of the people live and where the greatest heritage of neglect is found. AID’s goals are to increase local security, economic opportunity, health and education services, social justice and popular participation in the processes of government.

For example, in Laos AID focuses assistance on selected “village clusters,” helping them develop and become both strong points of security and models of mutually confident relationships between people and government. AID conducts limited or “forward area” assistance programs in strategic locations where security is too marginal for a full cluster program.

In Thailand, the largest single field of AID assistance is police improvement and expansion, especially in rural areas. AID also helps an accelerated rural development program in the northeastern and northern parts of the country, the areas most vulnerable to Communist subversion and insurgency.

In the Philippines, troubled by social unrest in central Luzon that is reminiscent of the Huk rebellion of 1953, AID is assisting the new government with a strengthened rural development program in 11 key provinces.

Long-Range Development and Stabilization

Through development loans and other programs, AID helps East Asian nations with long-range development and stabilization. The Republic of

China on Taiwan—now economically viable—is a striking example of the success of such a long-range development effort decisively assisted by foreign aid. South Korea has achieved sustained development and is progressing rapidly toward self-support. In Indonesia, new leaders have reversed the previous rapid trend of that country of more than 100 million people toward Communist domination and economic chaos. Although political and economic stability and rehabilitation are their immediate goals, the new leaders consider them preliminary to the real objective of development. The new government of the Philippines also has given encouraging indications of renewed efforts toward economic progress and internal stability.

East Asia Regional Development

In his Baltimore address of April 1965, President Johnson called on Asian leaders to expand cooperative efforts to achieve economic and social development in Southeast Asia. He also suggested that many advanced countries increase their commitments to regional development. The President urged development as an alternative to exclusive dependence on arms for the preservation of peace following settlement of the war in Vietnam.

There followed significant growth in East Asia regional cooperation, much of it realized in the past year. Most notable steps include establishment of the Asian Development Bank (ADB) and creation of the Southeast Asia Ministers of Education Secretariat (SEAMES); expansion of the Mekong Basin program; discussions of regional problems at the Southeast Asia Development Conference and the Southeast Asian Agricultural Conference, both held in Japan, and at a Manila Conference of Asian Ministers of Labor; the start of intensive efforts to strengthen Southeast Asian regional education centers; and creation of the Asia and Pacific Council. These Asian initiatives, encouraged and supported by the United States, represent a quickening of regional cooperation scarcely imaginable two years ago.

ASSISTANCE FROM OTHERS

Other free world nations and international institutions also provide substantial assistance in East Asia.

Grants and credits for Indonesia were made or authorized in 1966 by West Germany, Japan, the Netherlands, France, India, Pakistan, Australia and Taiwan. In addition, the United Nations announced that several of its specialized agencies would resume technical assistance there. American assistance to that country during fiscal year 1967 is provided in consultation with the International Monetary Fund (IMF) and with the expectation that future aid will be extended in a multilateral framework including

both the IMF and the World Bank. The IMF will probably coordinate such aid initially, with the World Bank or the ADB eventually assuming the role. The December 1966 consensus of Indonesia's western creditors that it be given generous debt relief was a good start toward coordination of aid programs.

The World Bank has formed a multilateral consultative group on Korean assistance and development that will coordinate loan and grant aid from nine nations, the IMF and the United Nations Development Fund.

Laos receives continuing aid from France, the United Kingdom, Australia and Japan, and periodic help from Germany. UN agencies also have assisted Laos through training in public administration, health, agriculture and education.

Many aid donors and lenders are assisting the Philippines, including UN agencies, Spain, the Netherlands, Japan, the Rockefeller Foundation, Ford Foundation, Asia Foundation, and private groups in West Germany. About 3,000 Filipinos are studying in Australia under scholarships from the Southeast Asia Treaty Organization and other groups. The World Bank has made loans to the Philippines National Bank for a private development corporation and for power, agricultural credit and other projects. The International Finance Corporation, a World Bank affiliate, is an investor in the private development corporation.

Thailand's excellent credit status has resulted in many foreign loans to the country. The World Bank has lent \$110 million for highway projects, dam and irrigation facilities, and capitalization of a corporation which finances local industries. The Colombo Plan and private foundations have also made loans.

FISCAL YEAR 1968 PROGRAM

AID estimates East Asia program requirements in fiscal year 1968 at \$260 million, a decrease of \$6.4 million from fiscal 1966 commitments and of \$3.1 million from estimated fiscal 1967 commitments.

The fiscal 1968 estimate provides for U.S. participation in multilateral assistance to Indonesia and for increased financial help to the Philippines, taking into account gradual reductions in economic aid to Korea.

Supporting Assistance proposed for East Asia in fiscal 1968 totals \$119 million, compared with fiscal 1966 commitments of \$124.5 million and estimated fiscal 1967 commitments of \$105.4 million.

Technical Assistance funds of \$55 million are requested, compared with fiscal 1966 commitments of \$35.6 million and estimated fiscal 1967 commitments of \$44.2 million. The increase in fiscal 1968 provides for regional development programs now moving into the commitment stage, support for expanded programs in education, health and rural development,

East Asia Program Summary

(Millions of Dollars)

	Fiscal year 1966 actual	Fiscal year 1967 estimated	Fiscal year 1968 proposed
Development Loans	\$80. 0	\$85. 2	\$86. 0
Technical Assistance	35. 6	44. 2	55. 0
Supporting Assistance	124. 5	105. 4	119. 0
Contingency Fund	26. 3	28. 3
Total	\$266. 4	\$263. 1	\$260. 0

and response to the improved climate for long-needed programs in the Philippines and Indonesia.

AID proposes East Asian Development Loans of \$86 million in fiscal 1968, compared with commitments of \$80 million in fiscal 1966 and estimated commitments of \$85.2 million in fiscal 1967. Korea received all of the fiscal 1966 loans but will receive a declining proportion in fiscal years 1967 and 1968. The scheduling of loans to other Asian nations reflects their increased ability to develop sound loan proposals, to raise local capital for development projects, and to maintain the financial and fiscal discipline required for efficient use of limited resources.

AID's fiscal 1968 program for East Asia will emphasize the following:

Regional Development

AID proposes to support Asian initiatives by:

- Assisting SEAMES in the establishment of high-quality regional educational centers in such fields as agricultural research, engineering, mathematics, science, tropical medicine, and English-language training;
- Continuing to encourage and help the four member countries of the Mekong Committee (Laos, Thailand, Cambodia and South Vietnam) to prepare specific plans for developing the water resources of the Mekong River basin;
- Assisting regional cooperation in agricultural development;
- Promoting development of coordinated national plans leading to economically integrated transport and communications systems in the region.

The founding governors of the ADB have proposed establishing special funds for multilateral financing of the Mekong development program and for Southeast Asian agricultural, transportation and communications pro-

grams. Implementing the President's intention, asserted in the State of the Union Address and the Foreign Aid Message of this year, and depending on the progress of discussions with the ADB and potential donor countries, Congress may be asked to approve legislation authorizing American contributions to these special funds.

Self-Help by Aid Recipients

AID and Public Law 480 (Food for Freedom) programs will continue to emphasize maximum self-help by assisted nations. With AID encouragement and assistance, East Asian countries substantially increased their self-help efforts in the past year.

The Laotian Government increased taxes, reduced government expenditures and took other helpful actions on budgetary problems, drawing favorable comment from the IMF. The Thai Government stepped up the fight against insurgency and the conditions in which it breeds by placing stronger emphasis on rural development and police improvement in threatened areas of the country. The Philippine Government acted to mobilize funds for development, to improve tax administration and to implement long-delayed investment programs. The new Indonesian Government began an IMF-recommended austerity program to halt inflation and restore order to the economy. The Koreans, continuing an annual stabilization program developed with AID assistance, increased savings and tax revenues rapidly, contributing to rising levels of investment and per capita income.

East Asian aid recipients increasingly recognize the validity of insistence—by AID, the IMF and the World Bank—that even greater self-help measures will be needed if they are to accelerate their economic, social and political progress.

War on Hunger

Some Asian countries have made good progress in food production—for example output in Thailand and Taiwan is keeping pace with growth of populations, and Korea may be self-sufficient in grain production in a few years. On the other hand, farm production lags behind needs in much of Asia. Indonesia and the Philippines, for example, both face serious food shortages.

In fiscal 1968, AID will give priority to food production and the expansion of regional programs in agricultural research and planning. AID will continue to assist Korea with agricultural planning and administration, strengthening of cooperatives, and land development and reclamation. In Thailand, AID will continue support for the accelerated rural development program, helping with agricultural research and extension, farm credit, the development of small agriculturally-based industries, soil conservation and rural electrification. AID's proposed program for Laos will focus on development of improved seed, self-help irrigation projects, and

introduction of modern farming methods. AID also plans to help establish a regional vegetable production and marketing research center in Taiwan and to support SEAMES initiatives in regional agricultural research. The proposed ADB special funds for multilateral financing of regional agricultural programs would contribute importantly to the War on Hunger.

Rural Development

To speed rural development, AID will continue to use broadened and coordinated development techniques, concentrating on threatened areas of Thailand, Laos and other countries. The goal is not merely an increase in farm productivity but also improvements in village and provincial leader training, education, health, potable water supplies, sanitation, cooperatives and other important aspects of rural life.

This integrated approach requires that AID advisors be sensitive to the problems of village life and able to cope with them. AID therefore will continue intensive instruction of advisors in the local language, communications techniques, local and area social attitudes and institutions, geographic and political factors, and methods of operating under conditions of actual or potential insurgency.

AID's rural development programs emphasize self-help. For example, Food for Freedom wheat provided to Korea pays workers on self-help community development projects, including irrigation, land conversion and reclamation, and reforestation. More than 7,700 of these food-for-work projects were conducted in 1965 and 1966, resulting in irrigation of nearly 100,000 acres, conversion or reclamation of more than 86,000 and reforestation of 17,000. In fiscal 1968, Food for Freedom will support more than 300 provincial development programs.

Population and Family Planning

East Asian food production and needs can be balanced only by coupling agricultural development with restraints on growth of populations. At present growth rates, the populations of the non-Communist East Asian countries would double every 25 years.

The East Asian nations are increasingly aware of the importance of family planning to economic growth. Population problems have been a major subject of recent regional and international meetings, including those of the United Nations Economic Commission for Asia and the Far East (ECAFE), the Colombo Plan and the Pacific Science Association. Korea and Taiwan have government-sponsored family planning programs; non-governmental programs are under way in the Philippines and other countries; and both Indonesia and Vietnam have requested AID assistance with population problems.

Besides AID, organizations helping East Asian nations with population studies and family planning include ECAFE, the Population Council, the

International Planned Parenthood Federation, the Ford Foundation and the Rockefeller Foundation.

AID has helped arrange Population Council assistance to Vietnam and Indonesia, and will continue technical assistance to Korea's family planning program. Although AID ended economic assistance to Taiwan in 1965, local currency obtained through the sale of U.S.-owned food commodities in previous years will continue to be available for family planning purposes.

In fiscal 1968, AID will consider a request that it help develop a proposed regional population institute at Bangkok, Thailand, which would sponsor population research and provide demographic training. It will also continue negotiations for Population Council sponsorship of research, test projects, data collection and analysis, and regional conferences and workshops.

Improving Government and Maintaining Security

Because national boundaries in Southeast Asia often cut both natural geographic divisions and ethnic groupings, the people of these countries are mainly oriented to the village and frequently have little grasp of the concept of "nation." Further, because of inadequate communications and transportation systems, the central governments often have been unresponsive to rural needs. They have tended instead to concentrate on large-scale development projects and to train administrators only at the national level.

But East Asian governments are now giving increasing attention to needs of remote areas of their countries. In fiscal 1968, AID will continue assistance in developing and coordinating provincial and village administration and in encouraging local government leadership.

In Korea, AID assistance to the central government with budgeting and tax collection improvements will be extended to the provincial level. In the Philippines, where local government is more advanced than in many other East Asian countries, AID will continue to help achieve better coordination of municipal activities. AID assistance to Thailand will support further improvement of administration at the provincial, district and local levels, while in Laos the village cluster and forward area programs will help develop local leadership and strengthen local government. Thirteen clusters have been established, another is being set up, and two more are planned for fiscal 1968. In addition, two existing clusters will be converted to training centers for Lao Government rural administrators. Forward area programs are being increased from five to nine in fiscal 1967 and another will be added in fiscal 1968.

Law and order are essential to the development of national and local governments. AID's proposed program for Thailand will support increases in provincial and border patrol police. Provincial police expansion will be directed to establishing a regular police presence at the township level, giving villagers greater protection against insurgents and bandits. Similarly, AID public safety programs in Korea, Laos and the Philippines will continue

help in equipping and training local police forces to combat banditry and subversion. These programs also contribute to more responsive and impartial government by emphasizing that police must serve the community and earn the respect of its people. Beyond this, AID and other U.S. agencies stress improved administration of justice.

Improved Education

Development of education is a prerequisite for economic, social and political advancement in East Asia. AID programs in the region will continue to concentrate on teacher training, classroom construction, textbook production and distribution, and expansion of vocational education programs. Taiwan, Australia and West Germany also contribute to regional textbook programs.

AID's immediate aim in Thailand and Laos will continue to be improvement of education as a basic community service, helping enlist stronger support of the rural people in the process of nation-building. A comprehensive report on secondary education in Thailand, prepared by an AID-sponsored team from Michigan State University, already has resulted in improved secondary education in rural areas. In Laos, AID will continue to help increase teacher training enrollment. The goal is to increase the present enrollment of about 1,900 to 3,000 by the end of 1968. AID assistance to Korea will remain focused on vocational education, including teacher training and agriculture. AID has provided a major portion of the equipment for 60 vocational education schools.

AID's fiscal 1968 program also includes support for SEAMES initiatives to establish regional educational centers in agriculture, engineering and other fields.

Better Health

Disease and malnutrition are problems throughout much of East Asia. AID will continue to assist renewed attacks on these problems. For example, in the area of preventive health AID and the U.S. Public Health Service will continue assistance to malaria eradication programs in Thailand and the Philippines, and will help provide safe drinking water in rural Thailand and Laos.

AID's proposed program also includes participation in direct health care programs. In Laos, it will help operate nearly 200 health facilities serving some 400,000 people. In Thailand, it will assist a broadening network of rural health centers and mobile medical teams. Two such teams, assigned to a province formerly served by only one medical officer, have treated 51,000 patients and immunized more than 53,000 persons during their first six months of operation. These programs are not only of direct value to the health of rural people but also are indirectly valuable in countering insurgency.

AID is also concerned with long-range health improvement goals in East Asia. Its fiscal 1968 program includes continued assistance to the SEATO cholera research laboratory in East Pakistan, which is identifying important factors in the spread of epidemic cholera and seeking a vaccine. AID will also help SEAMES determine the feasibility of establishing a regional center of tropical medicine and research.

Private Enterprise and Individual Initiative

AID's East Asian program assigns high priority to the development of private enterprise and encouragement of individual initiative. The importance of free enterprise to economic development has been demonstrated in Taiwan and is increasingly evident in Korea. AID will continue to encourage and help other East Asian nations to strengthen the private sectors of their economies.

With AID assistance, Thailand is establishing a favorable climate for private investment. It has set priorities for industrial development and is encouraging private investments in it. AID has issued two extended risk investment guaranties on private American investments in Thailand, one for a housing project of more than 800 homes, the other for a paper company which will be the second largest industry in the country. Besides private U.S. financing, nearly 1,200 Thai investors are investing in the paper company.

In the Philippines, AID provides technical assistance to investors both directly and through the Economic Development Foundation, a private, non-profit Philippine organization which identifies, evaluates and promotes industrial projects. In fiscal 1968, AID will consider loans to stimulate establishment of agriculturally-related industries, to provide business credit through intermediate private lending organizations, and to help start a savings and loan institution.

The new Indonesian Government has shown interest in assisting small businesses and in ending previous governmental hostility toward larger enterprises. The government has improved the climate for foreign investments and has started to negotiate the return of former holdings to their foreign owners. As another stimulus for investment, Indonesia has signed an agreement authorizing AID to guarantee private American investments in the country against losses caused by inconvertibility of currency, expropriation, war and other risks.

KOREA

Korea continues to make good progress toward economic self-sufficiency—the basic goal of American assistance to the country.

Through AID and predecessor agencies the United States has invested about \$2.6 billion in Korea's economic reconstruction and development since

the end of the Korean War in 1953. As Korea has progressed, U.S. assistance has shifted from a grant to a predominantly loan basis, has declined from a yearly average of \$235 million in the 1950's to an average of \$140 million in the 1960's, and is still declining.

The record of Korea's economic growth is impressive:

- Gross national product (GNP) increased at an annual average rate of 5 percent during the 1950's and has averaged about 9 percent a year in this decade, including an estimated gain of nearly 12 percent in 1966;
- Per capita income rose from \$92 in 1963 to \$110 in 1966;
- Industrial production in 1966 was an estimated 13 percent higher than in 1965, and 38 percent above the 1963 level;
- Exports have increased 500 percent since 1962, including a 54 percent gain in 1966 over 1965;
- Grain production went up nearly 38 percent in the past six years;
- Domestic revenue collections increased from \$185 million (7.4 percent of GNP) in 1964 to \$416 million (12.1 percent of GNP) in 1966.

A dangerous and largely uncontrolled inflation characterized the Korean economy in the early 1960's and the cost of living doubled. In 1963 the Korean Government adopted a fiscal and monetary stabilization program developed with AID assistance and subsequently adjusted ceilings on interest rates, improved tax administration, and took other actions to control inflation and speed economic development. As a result, domestic savings increased sharply and price increases were held to modest levels in 1965 and 1966.

Korea's economic progress has given its people increased confidence in their nation's future and in the concept of an open and democratic society. This in turn has made possible the difficult political decisions to send combat troops to Vietnam and to normalize relations with Japan. The Japan-Korea agreements of December 1965 settled a number of outstanding problems between the countries, and resulted in Japan's agreeing to provide Korea with \$200 million in grant aid, \$300 million in low-interest loans, and \$300 million in commercial credits over a 10-year period.

Key Obstacles to Progress

Korea's economic gains are especially impressive considering the obstacles to growth.

Because of mountainous terrain, only 21 percent of the land can be farmed. And Korea must feed a population of nearly 30 million that is growing by 2.9 percent a year. The country also has limited mineral deposits

and other natural resources. It therefore must import food and other commodities, contributing to an unfavorable foreign trade position.

Korea's economic development is hindered also by the need to maintain one of the largest standing armies in the world to discourage renewed Communist aggression. More than one-tenth of the country's able-bodied men serve in the armed forces, removing them from economically productive work, and defense expenditures account for a substantial part of the national budget. The United States assists Korea's defense program by providing major military assistance.

Another serious problem for Korea is a lack of trained and experienced managers. The Koreans did not manage their own governmental and business affairs until the Japanese withdrew from the country in 1945. Further, although many Koreans are well-educated and 90 percent are literate, their traditional education did not prepare them for the technical and administrative problems the country now faces. This shortage of managers is easing as modern education expands.

U.S. Goals and Methods

The United States assists Korea so that it can continue to develop in a politically stable environment. Without support from America and other aid donors Korea could not provide needed social programs and still maintain her defensive strength. Further, success in Korea will demonstrate that a scarcity of natural resources need not limit a country's development—through self-help and adequate assistance from other nations it can achieve self-sustaining growth.

United States assistance to Korea is keyed to the goals of the country's Second Five-Year Plan. AID advisors helped draft the plan, which aims for a seven percent annual increase in gross national product, a doubling of domestic savings, increases in agricultural production, and a strengthening of management capabilities.

Korea's progress has lessened the need for AID assistance. Supporting Assistance, which totaled \$92.4 million in fiscal year 1962, will be less than half that amount this fiscal year and will be reduced further in fiscal 1968. Development loans, which totaled \$80 million in fiscal year 1966, will decline in both fiscal 1967 and fiscal 1968. AID will also reduce its Technical Assistance commitments in fiscal 1968.

Sales of agricultural commodities to Korea under Public Law 480 will decline in fiscal 1968, and also change in nature. Wheat sales will drop as Korea meets more of her external grain requirements by commercial buying. On the other hand, cotton and tallow sales will increase, reflecting the growing industrial demand for these products.

AID assistance to Korea is designed to encourage self-help. For example, AID loans to import commodities generally are contingent on improved fiscal and monetary management. A \$10 million loan was tied to improved performance in budgeting, management of foreign exchange, restraints on credit,

tax collections and domestic savings. Korea met each of the goals set by AID.

AID programs will continue to encourage Korean self-help in such areas as fiscal and monetary stabilization, export promotion, stimulation of private investments and market liberalization, and provision of assistance will be tied to these self-help efforts.

Other Aid Donors

The United States cooperates with the World Bank to improve the coordination of aid to Korea. The bank sponsored the formation of a Consultative Group for Korea at a Paris meeting in December 1966. Members are Australia, Belgium, Canada, the Republic of China on Taiwan, France, Germany, Italy, Japan, the United States, the International Monetary Fund and the United Nations Development Program. The group agreed that the Korean economy has performed impressively and that the Second Five-Year Plan offers a good basis for future development.

Ravi Gulhati, who led the World Bank team at the Paris meeting, said that Korea's "past achievements are not accidental. They have been secured in spite of poor natural resources. These achievements are the result largely of a diligent labor force, imaginative entrepreneurship, relatively favorable sociological conditions, a large supply of foreign aid and most importantly a distinctive improvement in the environment of economic policies."

Although the United States will continue to provide the largest portion of aid to Korea during fiscal 1968, other nations and international organizations also will extend substantial assistance. Japan is expected to provide grants and loans totaling \$50 million, while West Germany will probably lend \$25 million. The World Bank and its International Development Association also are prepared to consider loans. Several international agencies are planning technical assistance programs.

Fiscal Year 1968 Program

AID assistance to Korea in fiscal 1968 will focus on:

- Improving mobilization and allocation of resources;
- Speeding industrial growth and efficiency;
- Developing the rural economy;
- Improving social planning, education, health, manpower, and housing and urban development;
- Improving government administration.

Mobilization and Allocation of Resources

Korea's steady economic progress in recent years reflects the improved use and distribution of the country's resources through strong self-help measures.

For example, through the stabilization program, improvements in tax administration and other actions, Korea reduced the rise in its wholesale price index from 34 percent in 1964 to only eight percent in 1966. Investments in 1966 increased by 40 percent over 1965, and the percentage of the gross national product channeled into savings almost doubled.

AID will encourage further improvements next fiscal year by:

1. Releasing Supporting Assistance and Development Loan funds only as Korean economic performance reaches agreed standards.
2. Supporting the Korean budget, although at a reduced rate, with local currency provided under the Supporting Assistance and Public Law 480 programs. These funds will be released only after the United States and Korea agree on domestic revenue goals and on Korean government grain pricing and procurement policies.
3. Continuing to insure sound use of resources in AID loan-financed projects and substantial Korean participation in the financing.

Industrial Development

Korean industries increased their production by 8 percent in 1964, by 17 percent in 1965 and by an estimated 13 percent in 1966. AID development loans have contributed significantly to this rise in output. In fiscal year 1966 alone, AID lent Korea \$80 million for such diverse purposes as:

- Doubling of a cement plant's production to 300,000 metric tons by April 1968.
- Assistance to small and medium industry through a \$5 million loan to the Medium Industry Bank. The bank has received applications against the loan totaling \$14 million, reflecting the demand for financing in this segment of the economy.
- Expansion of Korea's annual nylon production from two million pounds to eight million pounds, or about 80 percent of the needs of the Korean market.

In fiscal 1968, AID will consider development loans to provide essential raw materials and spare parts needed by Korea's industries, to assist the transportation system, to expand power facilities, and to provide business financing through intermediate credit institutions.

AID will continue technical assistance to industrial quality control, marketing, and development of water and other natural resources. It will also promote research in technical fields and in the applied sciences by continued help to the Korean Institute of Science and Technology.

Agriculture and Rural Development

Korea has made remarkable agricultural progress in the last six years. For example, grain production has increased an average of 6.3 percent a year since 1960, and Korea's Second Five-Year Plan seeks to eliminate the country's dependence on grain imports and U.S. Public Law 480 sales by 1971. Besides assistance to grain production, AID is helping to introduce high-value items such as fruits, vegetables, livestock and marine products. AID is also helping to achieve more efficient production and distribution of agricultural produce and increased investments in agriculture.

AID's agricultural assistance already has helped Korea to:

- Bring 632,000 acres under irrigation;
- Reclaim 401,000 acres;
- Provide potable water to 340,000 rural people;
- Distribute 263,400 tons of fertilizer in fiscal 1966.

In fiscal 1968 AID will assist Korea with agricultural policy, planning and administration, and will help the National Agricultural Cooperatives Association improve credit, marketing and management policies. AID will also assist agricultural research and training, and provide PL 480 food to support Food-for-Work land development and reclamation programs.

Under the Food-for-Work program, Koreans on relief rolls are assigned to community development projects, receiving PL 480 wheat as compensation for their work. The United States plans to contribute 178,000 metric tons of wheat to the Food-for-Work program in fiscal 1968 to help carry out more than 300 provincial projects.

Social Development

Korea's economic gains have made possible greater attention to social advancement. The educational system is being modernized and health, housing and urban activities are being expanded. Korea has begun a national family planning program to reduce the current annual population increase of 2.9 percent to 2 percent by 1971.

In fiscal 1968, AID will continue assistance to major social development programs, concentrating on education. It will give further help in establishing a National Education Commission to analyze educational facilities and develop long-range plans, and will assist science, vocational and business education. Technical assistance also will be provided to the family planning program and to urban planning and housing.

Nearly two million Korean students, including about 12,000 at the university level, are enrolled in schools which AID has assisted. AID has given major attention to vocational education, both industrial and agricultural. It has helped expand vocational education facilities, improve school curricula and provide in-service training courses.

Government Administration

AID will continue to help the Korean Government improve administration, especially of the tax system. With AID assistance, domestic revenue collections were more than doubled between 1964 and 1966, chiefly through better tax collection procedures. Domestic revenues, around 8.8 percent of the gross national product in 1965, are expected to reach about 15 percent in 1967.

LAOS

Laos is a landlocked country bordering Communist China, North and South Vietnam, Cambodia, Thailand and Burma. One of the smallest and poorest countries of the world, it is also a major recipient of AID assistance. In fiscal year 1966, AID commitments to Laos totaled \$57.2 million, chiefly in Supporting Assistance to help maintain the Laotian economy. Only nine other countries out of a total of 72 assisted received more AID economic assistance in the year.

The United States provides extensive assistance to Laos because it seeks Laotian development and because the country is essential to U.S. objectives in all of Southeast Asia. These include restricting Communist use of Laos for infiltration into South Vietnam and Thailand and maintaining the security of the Mekong Valley.

United States assistance to Laos supports the country's security forces, contributes to economic stability, and encourages and aids economic, social and political development.

Obstacles to Development

Laos, one of four independent countries emerging from the former French colony of Indo-China, is an agglomeration of various ethnic groups. Rugged jungles and mountainous terrain are barriers to communications and transportation. Regional rivalries also make unification difficult. Ninety percent of the country's three million people live in primitive rural hamlets, eking out a meager existence. Government services are weak and in some areas almost non-existent. Only five percent of the people are in school, and only 15 percent are literate, compared with 68 percent for all of East Asia. Life expectancy is 30 years. The gross national product per capita is \$60 a year compared with \$294 for East Asia as a whole.

Laos became a French protectorate in 1893 and six years later a part of the Indo-Chinese Union. During World War II, a resistance movement helped drive first the Japanese and then the French out of the country, and in 1947 King Sisavang Vong united the two kingdoms of Luang Prabang and Vientiane under a constitutional monarchy. A treaty with France two years later led to Laos' full sovereignty. When his father died in 1959, King Sri Savang Vatthana succeeded to the throne. On July 23, 1962, a 14-nation conference in Geneva guaranteed Laos its independence and neutrality.

The Pathet Lao, today the Communists' military arm in Laos, were part of the resistance movement in World War II. They were originally represented in the 1962 coalition government (conservative, neutralist and pro-Communist elements), but their representatives left the administrative capital of Vientiane in April 1963, and since that time the Pathet Lao have boycotted the legitimate government and attacked government forces. The Pathet Lao are supported by supplies from the North Vietnamese and are assisted by North Vietnamese military forces which use Laos as a supply route to South Vietnam and an infiltration route to Thailand.

Laos lags behind her neighboring countries and all of East Asia in skilled manpower, transportation facilities, education, commerce and industry, agricultural output and health. Although about 90 percent of the people are engaged in farming, food production is the lowest in East Asia. There is one doctor for every 49,000 Laotians. On Taiwan, the ratio is one doctor for every 1,500 persons. Laos has few exports with which to earn foreign exchange to meet her large import requirements, and has long suffered from inflationary pressures, exhaustion of foreign exchange reserves and balance of payments deficits.

The country's economic and other problems are aggravated by the need for military spending to combat the Pathet Lao in the field and to increase security for the people in their homes.

Lao Accomplishments

Largely through the efforts of the neutralist leader, Prime Minister Souvanna Phouma, Laos has maintained its coalition form of government. Elections held in January 1967 with a minimum of disruption produced a strong majority committed to support Souvanna despite the Pathet Lao boycott.

The Lao Government is following a stabilization program recommended by the International Monetary Fund and supported by the United Kingdom, France, Australia, Japan and the United States. Except for a period following a major 1966 flood, price increases have been held to moderate levels since 1964. The government, showing increasing responsibility in fiscal matters, held the budget deficit in 1966 below estimated levels by raising taxes, reducing expenses, and tightening controls over the official use of foreign exchange.

In education, AID has helped Laos to construct more than 3,300 classrooms, and 93 percent of the country's students attend schools which AID has assisted. About 2,200 Lao are being trained as teachers this year compared with only 102 a decade ago. About two million textbooks in the Lao language have been distributed to elementary school children who previously had few books of any kind and none in their own language.

The AID-assisted "Village Cluster Program," which links Laotian hamlets into administrative clusters, is strengthening local leadership and creating a working relationship between local institutions and the central

government. The program is also helping to increase food production and to provide better health and education for the rural people. The cluster program has been expanded to embrace 13 areas with 340,000 people, about 20 percent of the rural population. Typically, one AID community development officer and two Americans from the International Voluntary Service (IVS) serve in each cluster, helping the villages determine their needs and developing ways to meet them. IVS is a private organization under contract to AID.

Agricultural development activities are directed mainly toward increasing rice production by introducing new varieties which yield about 20 percent more than older varieties, expanding irrigation, and improving farming methods.

Despite greater North Vietnamese reinforcement of the Pathet Lao, the Lao Government has been able to regain lost ground both in the north and in the south in the past two years. Nevertheless, a quarter of a million Lao—about one-tenth of the population—are refugees from Communism. AID helps the Lao Government care for these people by providing housing materials, clothing and food, and by assisting in resettling them in new homes.

A new AID-financed medical warehouse was built in 1966 to serve as the supply point for dispensaries and hospitals throughout the country. The warehouse will make possible an increase in the number of persons—currently about 150,000—receiving medical attention.

AID Goals

AID assistance to Laos has three main goals: to help stabilize the economy, to assist the government with its security effort, and to promote economic and social development.

Assistance to monetary stabilization, including contributions to a multi-donor foreign exchange fund, financing of a U.S. commodity import program, and reimbursement of the Lao Government for certain other foreign exchange needs, amounted to \$17.5 million in fiscal year 1966.

AID is now developing its programs to a larger extent through the Lao Government, preparing for the transfer of certain expenses such as refugee relief and national defense costs to the Lao budget.

In the field of economic and social development, AID programs are focused mostly on those projects which can show rapid results in such tangible areas as rice production, road-building and public health.

Fiscal Year 1968 Program

Supporting Assistance to help maintain the Laotian economy will continue to account for most AID commitments to Laos in fiscal 1968. AID also plans commitments for refugee relief, food for the military forces, air service contracts, development projects and expanded programs in agriculture, education and health.

Monetary Stabilization

To provide foreign exchange required for economic stability, the Foreign Exchange Operations Fund (FEOF), which includes contributions from the United States, the United Kingdom, France, Australia and Japan, sells foreign exchange on the free market. FEOF has proved to be an effective stabilization instrument, and the United States has shifted the major share of its stabilization support from the commodity import program to FEOF, thereby providing an increased portion of its assistance at the free market rate of 500 Lao kip per dollar rather than at the official rate of 240 kip per dollar.

In fiscal 1968, AID will continue a small commodity import program. It will also continue to reimburse the Lao Government, though on a reduced scale, for certain essential foreign exchange expenditures such as the costs of higher education, medical treatment and official government expenses in areas of the free world outside the franc zone.

Agriculture

The principal development activity in Laos is agriculture. AID assistance in increasing farm output is tied in closely with the Village Cluster program. In fiscal 1968, AID will continue its help in introducing improved seed, expanding irrigation, and providing farmer training, with the goal of making Laos self-sufficient in rice production within the next three to five years. Rice plantings were 20 percent greater in 1966 than in the year before, but the disastrous flood wiped out the anticipated increase in production.

Rural Development

AID assistance to rural development will concentrate on the Village Clusters. One more cluster will be added to the present 13 before the end of June 1967 and two more are scheduled for fiscal year 1968. Two existing clusters will be converted to training centers for Lao Government rural administrators in fiscal 1968.

AID is also conducting "forward area" or limited assistance programs in those parts of the country where security is too marginal for a full cluster program. AID is increasing forward area programs from five to nine in the current fiscal year and will add another program in fiscal 1968.

Education

With AID assistance, teacher training enrollment should be increased from 1,924 last year to 3,000 before the end of 1968 and 4,000 in 1971. AID will continue to help build elementary schools, and a secondary school now under construction in Vientiane should be completed by October 1967.

Health

AID will help provide medical care to about 500,000 people through assistance to nearly 200 public health facilities operated by the Lao Govern-

ment. Among these facilities are 27 hospitals or infirmaries. Under contract with AID, the Philippine's Operation Brotherhood will staff seven municipal hospitals and 22 village clinics.

Road-Building

In fiscal 1966 AID helped build 80 miles of new road, improve another 85 miles of old road, and maintain 1,200 miles of road. This represents a large percentage of the country's total of 2,700 miles of roads. AID also assisted in building 38 bridges and repairing 14 others. AID will continue to assist the Lao road building and maintenance program in fiscal 1968.

Public Administration

The program of helping Laos improve its economic performance will continue through technical assistance, particularly in the fields of budget management and revenue collection.

Small Industries

AID will seek to help Laos establish new industries, especially those that will process local materials. However, industrial development is a long-range process in a country so rural and so beset with security problems, and no major development in this field can be expected for some time.

THAILAND

Thailand, now committing over one-half of its national budget to development, enjoys the highest economic growth rate of any Southeast Asian nation. In 1966, the Thai gross national product increased an estimated 8 percent, agricultural production went up 4.5 percent, and foreign exchange reserves and government revenues both gained substantially.

However, Thailand's ability to continue rapid economic development is threatened by a Communist insurgency which is supported by Communist China and North Vietnam. Without U.S. and other foreign aid, the country would be forced to curtail development programs and concentrate a greater share of its resources on security measures. Further, the programs which would suffer from such reductions might well include rural development and other activities designed to eliminate some of the vulnerabilities which the Communists hope to exploit.

AID assistance amounts to about one-fifteenth of the Thai national budget, with other countries and international organizations contributing a slightly larger proportion of aid. The goals of AID assistance are to help Thailand:

- Maintain its independence in the face of an externally supported insurgency;
- Continue economic, social and political progress;

- Contribute to accomplishment of U.S.-Thai objectives in Southeast Asia, including support for Vietnam.

Obstacles to Progress

Communist insurgency, principally in the Northeast provinces, is one of the greatest barriers to Thailand's continued development. Although the insurgents are still relatively few in number, they are described by Hanoi and Peking as conducting a "peoples' struggle" and being the forerunners of a "national liberation movement."

The Northeast region, bordering on Laos, is one of the poorest and most remote areas of the country. Historically it has been somewhat isolated from the mainstream of Thai national development. However, the government is making a strong effort to extend economic and social progress and self-government to these regions. With AID assistance it is emphasizing rural development and encouraging the growth of local government leadership.

Another obstacle to Thailand's development is its lack of sufficient resources to finance both economic and security programs. Despite substantial gains in tax collections and other domestic revenues, the country will incur a large budget deficit in fiscal year 1967.

Recent Country Performance

Thailand has achieved the highest economic growth rate in Southeast Asia over the past decade. Gross national product increased by 9 percent in 1964, by 6.5 percent in 1965, and by an estimated 8 percent in 1966. At the same time, Thailand has avoided balance of payments difficulties and maintained a fully convertible currency.

Imports have risen rapidly as the economy has expanded and have consistently exceeded exports. Other receipts—for example, from tourism and capital inflows—have more than offset this deficit, and as a result Thailand's holdings of foreign exchange have risen steadily in recent years, totaling \$924 million by the end of 1966. This substantial growth in Thailand's foreign exchange reserves, however, has been matched by a rising import level so that the ratio of reserves to annual imports has not changed significantly in recent years.

The government also has increased tax collections and other domestic revenues, and total revenues should reach \$644 million in the current fiscal year, a six percent increase over fiscal 1966.

Since 1960, Thai agricultural production has increased by about 4.5 percent a year. This is 1.2 percent more than the increase in population and makes Thailand one of the few developing nations that is gaining in the war on hunger. Thailand's grain exports also are growing. In 1966 the country was able to help meet food deficits in India, Pakistan, Indonesia and Vietnam. If irrigation is expanded and the use of fertilizer increased.

Thailand should become an even more important food supplier to other Asian nations.

The government has allocated increased funds for an accelerated rural development program in the sensitive Northeast provinces. AID assistance also is concentrated in this area. With AID help, the government is providing increased assistance to agriculture, education and health, is increasing police protection, and is developing local administrative institutions by training local leaders and by giving greater authority to revitalized township councils.

Thailand provides vital support facilities to the U.S. military efforts in Vietnam and also has given direct military and other assistance to Vietnam. The U.S.-Thai alliance is strongly based on a broad coincidence of views and security interests in Southeast Asia.

Thailand has taken a leading role in organizing regional cooperation and multilateral efforts for development in East and Southeast Asia. Bangkok is the headquarters for 19 regional and international agencies engaged in Asian development.

Other Aid Donors

A Consultative Group to encourage and coordinate economic aid to Thailand was formed in 1965 under World Bank auspices. Members include Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, New Zealand, Switzerland, the United Kingdom and the United States. Non-U.S. members of the group will probably provide about two-thirds of the aid requirements under Thailand's Second Five-Year Plan.

Thailand already has received substantial development assistance from sources other than the United States. The World Bank, for example, has lent \$110 million for highway projects, dam and irrigation facilities, and capitalization of a corporation which finances local industries.

Fiscal Year 1968 Program

AID will continue to concentrate on helping the Thai Government expand and speed up its efforts to prevent the growth of Communist insurgency. The fiscal 1968 program will focus on assistance to public safety and rural security, rural development, health, education, strengthening of local government and long-range economic growth.

In general AID will not provide development loans to Thailand since it has substantial foreign exchange reserves and can readily obtain capital from other nations, the World Bank, the Export-Import Bank and other lending institutions. However, AID will continue to help the Thai Government determine the feasibility of capital projects as a basis for loan applications to other nations and lending institutions.

Public Safety and Rural Security

The Thai Government is emphasizing increased police protection against insurgents and bandits in rural areas. It seeks to establish a perma-

ment police presence at the township level, with patrols to the villages; to provide village and township level radio communications to dispel the sense of isolation and insecurity and to provide police quick-reaction units to respond to calls for assistance.

The largest single field of AID assistance will be help with police improvement and expansion. A substantial proportion of AID's proposed fiscal 1968 commitments relate to public safety and rural security, with most of the funds being planned for vehicles, radios, weapons and other equipment for the Thai police. These items will be used largely to equip and train the provincial and border patrol police forces, which were increased by 4,550 men during 1966.

AID will also continue support to the recently organized air support division of the police forces. This division provides unified air support to all elements of the Thai national police.

Rural Development

About 45 percent of the planned AID commitments are for rural development, including assistance to health, education and development of local government.

Most AID assistance will go to the accelerated rural development program, which is helping to achieve economic and social improvement in the Northeast and other areas most vulnerable to Communist subversion. AID will assist with long-range activities such as agricultural research and extension, and with short-term impact projects such as digging of wells and construction of small ponds and rural feeder roads. AID will also help provide agricultural credit, develop small agriculturally-based industries, and expand soil conservation and rural electrification programs.

Farmers in Northeast Thailand will soon be able to obtain more information on improved agricultural practices because of the work of a new agricultural research station assisted by AID. Under an AID contract, the University of Kentucky will assist the Thai Department of Agriculture with technical and scientific research on agricultural improvement. A 14-man team from the university will work with Thai officials on a 300-acre area near Khon Kaen.

Health

AID will assist rural health centers, mobile medical teams, preventive health activities such as malaria eradication, and village health and sanitation programs.

The mobile medical teams, some of which include U.S. Army medical corpsmen, are deployed in rural areas of the Northeast. Two such teams, assigned to a province formerly served by only one medical officer, treated 51,000 patients and immunized more than 53,000 persons during their first six months of operation.

Malaria has long been the greatest single cause of sickness, debility and death in Thailand. The United States has assisted a malaria eradication program since 1951 and the number of Thais afflicted by the disease has been reduced from about two million that year to approximately 200,000 last year. The goal is elimination of the disease by 1972. AID provides technical guidance and commodities like DDT, with the Thai Government paying about two-thirds of the total cost of the program.

Education

AID will provide technical guidance, textbooks and other teaching materials for use in the Northeast provinces and will assist long-term programs of educational planning, teacher training, and vocational and agricultural education.

AID already has provided 1.8 million textbooks, basic commodities and advice to help establish rural schools, and has assisted the Mobile Adult Education Training Program which teaches simple vocational skills. In the present fiscal year, 842,000 students are attending schools which AID has assisted, including teacher training and agriculture schools.

Development of Local Government

AID will continue to assist the Thai Government's efforts to strengthen local leadership and local government. It will support the "Village Leader Training" program, under which village leaders form committees to study and solve local problems, and the "Developing Democracy" program, under which the leaders of a number of villages organize into township councils which have legal structure and authority.

Long-Range Economic Development

The proposed program for fiscal 1968 also includes assistance to long-range economic development. AID will help improve government administration, statistics gathering and labor services, and will stimulate private investments and industrial development.

With AID assistance, Thailand is establishing a favorable climate for private investment. It has set priorities for industrial development and is encouraging private investment in it. AID has issued two extended risk investment guaranties on private American investments, one for a housing project of more than 800 homes, the other for a paper company which will be the second largest industry in the country. Besides private U.S. financing, nearly 1,200 Thai investors are providing funds for the paper company.

OTHER EAST ASIA PROGRAMS

INDONESIA

The new leaders of Indonesia are making a strong effort to overcome the destructive consequences of President Sukarno's years of misrule. In

the past year the new government has curtailed the power of domestic Communist forces, reversed Indonesia's trend toward Communist Chinese domination, halted the costly dispute with Malaysia, and begun a stabilization program developed with International Monetary Fund (IMF) assistance. Indonesia has rejoined the United Nations, the IMF and the World Bank and has become a member of the Asian Development Bank (ADB).

In acting to stabilize the economy, the new government has discontinued economically unsound projects; substantially increased tax collections; projected a balanced budget for 1967; imposed rigorous controls on bank credit; liberalized economic regulations to permit freer markets, particularly in foreign trade; set a more realistic exchange rate to stimulate exports, and re-established the Central Bank's authority over foreign exchange.

The government also has approved a new and more favorable foreign investment law, has started to negotiate the return of former holdings to their foreign owners, and has authorized AID to guarantee private American investments against loss from inconvertibility of currency, expropriation and other risks.

These actions will help to ease Indonesia's grave economic problems. However, restoration of the economy seemingly will be a long and difficult task. An inflationary spiral resulting in a 2,000 percent price increase in one year was inherited from the previous regime; the transportation system has virtually collapsed; basic economic and human resources are grossly underutilized; governmental machinery needs modernizing, and the population of 107 million, already the world's sixth largest, is increasing by an estimated 2.3 percent a year.

U.S. and Other Assistance

The United States is approaching in a multinational context both the short-term and longer-range problems of the Indonesian economy. Participating in the Indonesian recovery effort are a number of European and Asian countries as well as the IMF and World Bank. The December 1966 consensus of Indonesia's western creditors that it be given generous debt relief was a good start toward coordination of assistance.

The United States has provided \$26.4 million of rice and cotton to Indonesia under a Public Law 480 credit agreement this fiscal year, to help meet serious food and cloth shortages, and has provided a loan of \$10 million to finance the purchase of spare parts, machinery and raw materials from the United States.

Other nations also are providing substantial assistance. Grants and credits for Indonesia were made or authorized in 1966 by West Germany, Japan, the Netherlands, France, India, Pakistan, Australia and Taiwan. In addition, the United Nations announced that several of its specialized agencies would resume technical assistance to the country.

Fiscal Year 1968 Program

AID's proposed fiscal 1968 program for Indonesia includes technical assistance to education, training and civic action programs, and dollar credit sales of Public Law 480 commodities, chiefly cotton. AID will also consider authorizing development loans to finance imports of spare parts and raw materials needed to implement Indonesia's continuing program of stabilization and economic reconstruction.

Indonesia desperately needs government administrators and teachers. AID therefore will concentrate technical assistance on training programs, including training of Indonesians in the United States, and will provide books and other educational materials. It will also assist civic action programs and will use Public Law 480 commodities to support food-for-work projects.

To encourage multilateral aid to Indonesia, the United States will limit its economic help to the country, including Public Law 480 commodities, to about one-third of total free world assistance. The exact amount of future U.S. aid will depend largely on Indonesia's progress in stabilizing its economy; the amount of assistance provided by the World Bank, the IMF, the ADB, and Indonesia's creditors, and the success of aid donors and international agencies in establishing a multilateral framework for assistance. The IMF will probably coordinate such aid initially, with the World Bank or the ADB eventually assuming the role of coordinator.

PHILIPPINES

The Philippines has not made sufficient economic and social progress in recent years to insure stability. The country is troubled by social unrest in central Luzon reminiscent of the Huk rebellion in 1953, and dissatisfaction can be expected to grow unless the pace of development is speeded up.

The United States is increasing its aid to the country to help eliminate the root causes of unrest and to further Philippines-U.S. objectives. These objectives are:

- To maintain the republic's independence;
- To strengthen its political, social and economic institutions;
- To accelerate its economic and social development;
- To continue the traditionally close ties between the two nations.

Key Obstacles to Progress

The new Philippine administration of President Ferdinand Marcos, which took office in 1966, faces many barriers to development. Lack of leadership and of responsible administration and management have frustrated previous development efforts. Local revenues, though rising, are still in-

adequate to finance social and economic growth. The country has serious tax and customs difficulties due partly to widespread smuggling. Maintenance of law and order in both urban and rural areas continues to deteriorate. These obstacles to development are compounded by a population growth rate of 3.4 percent a year—one of the highest in East Asia—and lagging food production.

Recent Country Performance

President Marcos has given evidence of being a strong and purposeful leader. He has stressed self-help by his country, reduced government spending, attacked smuggling and tax violations, appointed capable administrators to many government posts, and begun a program of land reform and rural development with initial concentration on 11 key rice-producing provinces. In the legislative area, he has obtained support of the Philippine Congress for easing restrictions on foreign and domestic borrowing, for improving and strengthening the police forces, and for increasing penalties on smugglers.

President Marcos also has shown a marked capacity for leadership in international affairs. He has increased his country's support for Vietnam and its role in the operations of the Asian Development Bank and the Association of Southeast Asia.

Other Free World Aid

In addition to the United States, other nations and international agencies are assisting the Philippines. They include Spain, the Netherlands, Japan and United Nations agencies. The Rockefeller Foundation, Ford Foundation, Asia Foundation and private groups in West Germany also are providing assistance. About 3,000 Filipinos are studying in Australia under scholarships from the Southeast Asia Treaty Organization and other groups. The World Bank has made loans to the Philippines for a private development corporation and for power, harbor, agricultural credit and education projects. The International Finance Corporation, a World Bank affiliate, is an investor in the private development corporation.

Coordination of Assistance

AID works closely with the World Bank, the IMF and the Export-Import Bank in determining Philippine needs and considering assistance with them. It is urging the Philippine government to obtain World Bank and IMF guidance in preparing a multi-year development plan, and is seeking establishment of a World Bank consultative group to coordinate assistance to the country.

Fiscal Year 1968 Program

AID's proposed program for the Philippines in fiscal 1968 includes technical assistance to agriculture, health, education, industrial development

and public administration; sales and donations of Public Law 480 commodities, and possibly development loans.

Agriculture

The Philippines are losing the war on hunger. Despite fertile lands and a favorable climate for agriculture, the country has had to increase its imports of basic foods. AID therefore will focus much of its fiscal 1968 program on assistance to rural development and rice production, chiefly in the key provinces of central Luzon and other rice-producing areas. The goals will be improvements in government services to these provinces, introduction of better farming methods, establishment of sources of farm credit, a speeding up of land reform, and expansion of irrigation and rural electrification. Greater provincial and municipal government participation in these programs is being encouraged.

The AID program will have helped the Philippines irrigate more than 598,000 acres of land by the end of fiscal 1967. AID-assisted agricultural credit institutions will lend Filipino farmers an estimated \$66 million this fiscal year, bringing farm loans since the start of the AID program to about \$319 million.

Health and Education

AID assistance to health will continue to concentrate on malaria eradication. AID provides six malaria specialists to work with four technical advisors from the World Health Organization and almost 4,000 Filipinos in a campaign to eliminate the disease. With AID help, 8.7 million Filipinos—about one-fourth the population—have been protected from the disease. AID also plans to assist sanitation and potable water programs, and to provide continued help with education. More than 132,000 Filipinos are enrolled during the present fiscal year in schools which AID has assisted, including 28,000 students in agriculture schools.

Industrial Development

Since the private sector accounts for 90 percent of the Philippines' economic activity, the country's economic growth depends heavily upon expansion of private efforts and private investment. In fiscal 1968, AID will continue technical assistance to investors both directly and through the Economic Development Foundation, a private, non-profit Philippine organization which identifies, evaluates and promotes industrial projects. It also will consider authorizing development loans to stimulate establishment of agriculturally-related industries, to provide business credit through intermediate private lending organizations, and to help start a savings and loan institution.

Public Administration

AID will continue assistance to tax and customs administration, financial management and personnel administration. It will give particular atten-

tion to improving law enforcement and strengthening internal security. A recently completed Philippine-U.S. study of law and order problems and the passage of a police reform bill by the last session of the Philippine Congress will provide a basis for a major program in this field.

BURMA

Burma shares a 1,200 mile border with Communist China and thus is directly exposed to Communist pressures. To help insure its continued independence, Burma pursues a foreign policy of noninvolvement and neutralism.

The Burmese Government makes only limited use of external aid and has requested no new U.S. economic assistance in fiscal 1968. However, it is keenly interested in the completion of several AID-assisted construction projects begun under prior-year agreements.

In fiscal 1968, AID will continue engineering and other technical assistance to these projects, which include development of a new Liberal Arts College for Rangoon University, improvement of the Rangoon water and sewerage systems, construction of two special services buildings for Rangoon General Hospital, and establishment of a modern teak sawmill.

EAST ASIA REGIONAL PROGRAM

U.S. assistance to regional programs and projects in Southeast Asia has three principal objectives:

- To contribute to progress and stability in the area by supporting regional cooperation;
- To encourage greater involvement in Southeast Asian development by other advanced nations through multilateral institutions;
- To encourage the United Nations and its Economic Commission for Asia and the Far East (ECAFE) to expand their role in the development of the area.

However, several major obstacles stand in the path to achievement of these objectives. One is that the Southeast Asian countries have little traditional basis for cooperation, since pre-independence ties were almost exclusively with the colonial nations. Another is that Communist aggression continues to frustrate or prevent meaningful economic development in the region. A third is that except for Japan, which has committed itself to expanded assistance to Southeast Asia, the general problem remains of obtaining increased support from other advanced nations for major development programs in Southeast Asia, in addition to their subscriptions to the Asian Development Bank (ADB).

Nevertheless, important progress in regional cooperation has been made in the past two years, as evidenced by establishment of the ADB, progress

of the Mekong Basin program, creation of the Southeast Asia Ministers of Education Secretariat (SEAMES), and the start of other strong Asian moves toward cooperation in agriculture and other fields. These Asian initiatives deserve U.S. support, not only for inherent value of the programs and projects but also because they give substance to a hopeful trend in an area long weakened by local hostilities.

Fiscal Year 1968 Program

AID estimates requirements for East Asia regional development in fiscal 1968 at \$13.6 million, including \$12.6 million for Technical Assistance and \$1 million for Supporting Assistance. This compares with fiscal 1966 commitments of \$15 million and estimated fiscal 1967 commitments of \$7.3 million. In addition to the requested AID appropriation, Congress may be asked in fiscal 1968 to authorize U.S. contributions to ADB special funds for multilateral financing of regional projects in agriculture, transportation, communications and other fields.

AID's fiscal 1968 regional program will focus on the following:

Mekong Basin Program

The Lower Mekong River, flowing through and along the borders of Laos, Thailand, Cambodia and South Vietnam, is one of the great natural resources of Southeast Asia. The Mekong Basin program will benefit the four countries by developing the river basin and harnessing the river for hydroelectric power and irrigation.

The United States contributes to the program as part of a multilateral effort by 25 countries and 12 UN agencies. In fiscal 1968 AID proposes to contribute to engineering and other surveys and studies, and to finance priority projects. AID plans a commitment of \$3.4 million to assist a feasibility study of the proposed Pa Mong multipurpose dam, to be located near Vientiane, Laos, and Nongkai, Thailand. AID also proposes to use the requested \$1 million of Supporting Assistance for improvement of boat building and cargo-handling facilities in Laos and Thailand, as proposed by the Mekong Committee (Laos, Thailand, Cambodia and South Vietnam).

Education

Technical Assistance funds of \$6.0 million are requested for U.S. support of the Southeast Asian regional education program. SEAMES has concurred in establishment and support of an Asian Institute of Technology and regional centers for graduate study and research in agriculture, tropical medicine, teaching of science and mathematics, and English language training. SEAMES plans also call for an expansion of educational radio and television, book development, and special workshops and seminars. AID will help with development of the approved projects and with study of new proposals.

Agriculture

AID proposes a Technical Assistance commitment of \$500,000 to help establish a regional vegetable production and marketing research center in Taiwan. The Republic of China on Taiwan and other countries also are expected to contribute. AID will consider support for the SEAMES proposal to establish a center of graduate study and research in agriculture at Los Baños in the Philippines.

Health and Sanitation

AID plans a commitment of about \$650,000 to assist the Southeast Asia Treaty Organization cholera research laboratory in East Pakistan. It will also help SEAMES plan the establishment of regional programs for coordination of tropical medicine and research in Southeast Asia.

Industry

In cooperation with Japan, the Ford Foundation and others, AID will continue assistance to the Asian Productivity Organization (APO). The APO, founded in 1961, is unique in Asia as an organization devoted to increasing industrial productivity, assisting private enterprise, and promoting business cooperation. AID will assist a small industries management consultants program and other projects.

Other Programs

AID will consider financing a regional transportation survey and a study of priority transportation projects which fall within a regional plan. AID also proposes to support other activities that can be carried out more effectively and economically on a regional basis than through bilateral programs. Examples include the training of trade union leaders from a number of East Asian countries at the Asian Labor Education Center in Manila and technical training of Asians within the region.

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D. C. 20523