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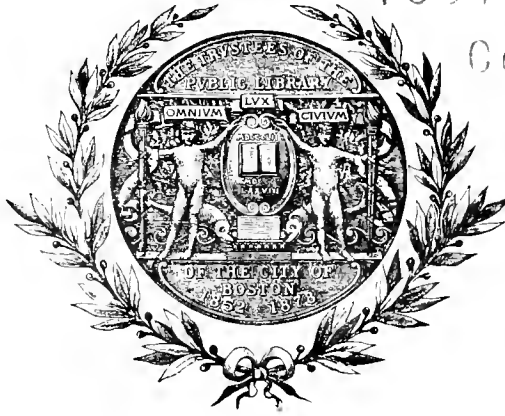


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Report to Congress

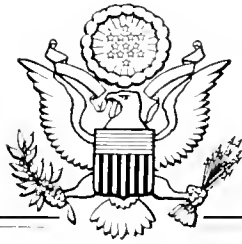
on the

MUTUAL SECURITY PROGRAM



For the six months ended

June 30, 1955



Report to Congress
on the
Mutual Security Program

June 30, 1955

PRESIDENT'S LETTER OF TRANSMITTAL

To the Congress of the United States:

I am transmitting herewith the Eighth Semiannual Report on the Mutual Security Program, covering operations from January 1, 1955–June 30, 1955, in furtherance of the purposes of the Mutual Security Act of 1954.

During this period, there was a marked increase in the free world's economic well-being and defensive strength.

Working in partnership together, the nations of the free world have individually and collectively benefited from the mutual security program. Their peoples are better fed and better clothed than ever before in this century, and their governments and their boundaries are better protected from external aggression or internal subversion.

In the current world situation, the dollars invested in the mutual security program have brought greater security to the people of the United States than could the same amount of dollars used in any other manner.

A handwritten signature in cursive script, reading "Dwight D. Eisenhower".

THE WHITE HOUSE,
August 24, 1955.

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Plus-Signs of Progress

AS THE MUTUAL security program moved into a new fiscal year of operation in mid-1955, there was increasing evidence of solid gains achieved through joint efforts with some 70 countries and territories throughout the free world. The contribution of a portion of our military, economic, and technical resources to buttress the undertakings of other free nations has made it possible for them to carry out specific measures for preparing stiffer defenses against aggression and for building stronger economies. Added together, these measures have brought the free world as a whole to a position of measurably greater security and have made the ground firmer for further forward movement.

Events of the past six months, particularly in Europe, but also in Asia and other parts of the free world, have given additional demonstration that the United States investment in cooperative programs abroad is paying worthwhile dividends in stronger and more self-reliant partner nations and a lessening of international tensions. Today's greater opportunities for peaceful economic growth flow in great measure from our steadfast policy of a partnership approach in solving the difficult problems of our time.

Stronger Military Posture of the Free World

The bulk of mutual security funds has been used to help put the free world into a stronger position to discourage armed aggression as a means of gaining world power. Through June 30, 1955, the United States had shipped \$11.4 billion worth of military equipment to bolster the defense efforts of more than 35 friendly countries. These shipments included 7,575 planes, 38,400 tanks and combat vehicles, and 1,079 Navy vessels; they also included artillery pieces, small arms, machine guns, electronic equipment, and other military supplies.

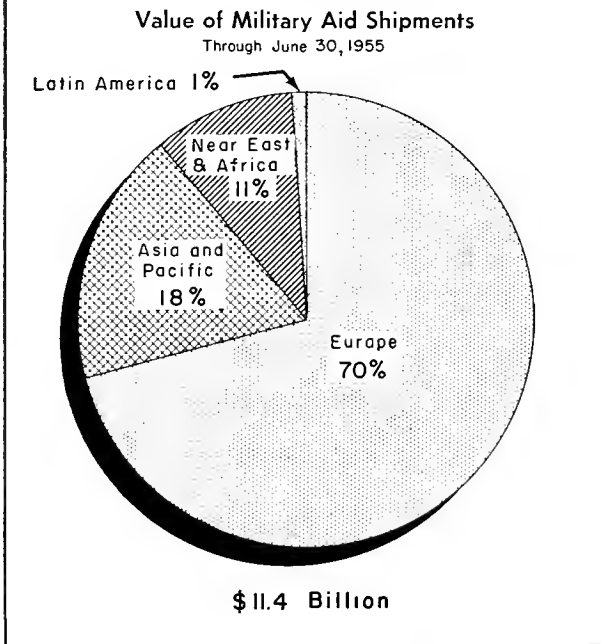
The United States has placed about \$2.8 billion worth of contracts in friendly countries for procurement of certain types of military items to be used by recipient governments for mutual security purposes. Such contracts overseas have helped our allies to develop their own capabilities for military production, reduce their dependence on this country for replacements and spare parts, and provide a close-in supply line in case of war.

In Europe.—The most powerful concentration of free world strength outside of the United States has been established in Western Europe. The free nations of Europe, linked with the United States and Canada through the North Atlantic Treaty Organization, have continued to move ahead in creating a strong deterrent force and in building their military capabilities to the point where they will be able to meet successfully any attempt to seize their lands and resources by armed force. The addition in May of a sovereign Germany to the free world community and to NATO opened up new avenues to increased unity and strength on the European continent.

European NATO nations (excluding Greece and Turkey) are spending about \$12.3 billion a year on military production and maintenance of their armed forces. These outlays for defense, which are double what they were in 1950, are being made on an increasingly self-supporting basis. No new economic dollar aid to these European NATO countries is planned after June 30, 1955. Economic aid expenditures from previous appropriations are also declining rapidly.

Europe's invigorated defense effort, reinforced by our assistance, has been reflected in the impressive increase in NATO capabilities. The armed forces committed to the defense of the North Atlantic Treaty area today number about 100 divisions, active and in mobilizable reserves, as compared to NATO's total manpower comple-

The U.S. Has Shipped Over \$11 Billion Worth Of Military Items To Free World Countries



the mutual security program not only has helped build greater defense capabilities in individual countries; it also has been effective in developing an atmosphere for better cooperation in working toward regional defense arrangements.

New links have strengthened and lengthened our security chain in Asia and the Pacific. The latest link, the Southeast Asia Collective Defense Treaty, rounds out our mutual defense treaties with Korea, Japan, and the Republic of China on Formosa.

The Republic of Korea now has a strong force of 21 ground divisions on active duty. The free Chinese forces on Formosa are better trained and better equipped today, in great part because of United States military aid. Pakistan's defense establishment has received its first shipments of army equipment as a result of a military assistance agreement signed with this country in early 1954. The Philippines and Thailand have also substantially raised their defense capabilities because of our mutual security programs. Cambodia concluded a military assistance agreement with the United States in May 1955.

All these Asian countries are heavily committed to safeguard themselves against internal and external aggression. Large portions of their budgetary expenditures are being channeled into defense. In planning mutual security activities in Asia, we have taken into consideration new country responsibilities growing out of defense arrangements under the Southeast Asia Collective Defense Treaty.

In the Middle East, good progress has been made in forming a "Northern Tier" as a defensive bulwark in the region. In the past two years, mutual protective arrangements have been furthered by agreements between Turkey and Iraq. There is also the Balkan alliance of Greece, Yugoslavia, and Turkey. All the foregoing countries are building their security with the help of our military assistance.

In our own hemisphere, the Rio Pact forms a strong defensive bond with our Latin American neighbors. Twelve American republics have concluded military assistance agreements with the United States. Appropriations of previous years when fully expended will substantially complete the equipping phase of the military assistance program in Latin America. New funds will be used primarily for maintenance and training purposes.

* * *

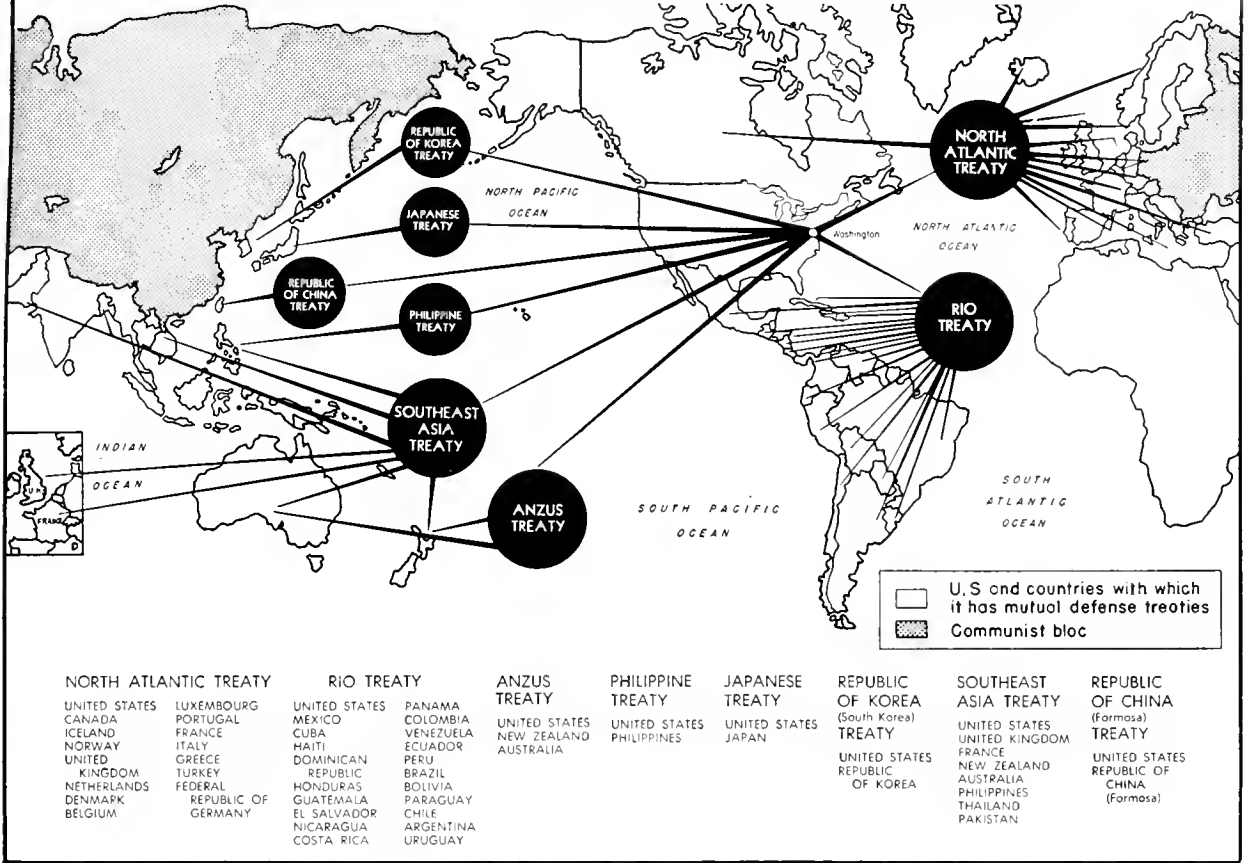
ment of 12 divisions in 1949. There are now more than 6,000 planes available for defense of the NATO area.

The quality of weapons for the NATO arsenal has steadily improved. The latest types of jet planes, guided missiles, and atomic artillery are available in increased quantity for NATO defense. The basis has been laid for consideration of atomic capabilities in NATO planning. Hundreds of joint training exercises have developed more effective fighting power and promoted smoother operational coordination among the land, air, and sea forces committed to NATO.

Mutual security funds have been used for the United States contribution to a military construction program financed jointly by all the NATO nations and designed to provide NATO with more effective logistic support. Through this program, NATO now has 142 airfields which could be used in an emergency. Communications and transportation networks have been modernized and extended, and construction on a 3,800-mile inland distribution pipeline for fuel is well advanced.

Elsewhere in the Free World.—Heartening progress toward a stronger defense posture also has been made in other areas of the free world. In underpinning defense efforts outside Europe,

UNITED STATES COLLECTIVE DEFENSE ARRANGEMENTS



The military assistance we have furnished in the form of end-items and training, our contributions to jointly financed construction projects, and our offshore procurement programs are enabling our friends and allies to raise and maintain the equivalent of more than 180 divisions, about 280 air squadrons, and over 550 combat vessels. These forces, together with the strategic overseas military bases which our allies make available to us, give this nation security which it could not otherwise obtain.

Our allies are fully aware of the dangers of aggression and are determined to resist it. Even without United States support, it is certain that many of these nations would carry on sizeable defense efforts within the limits of their resources. But it is equally certain that United States contributions and joint participation have made it possible for these efforts to be many times greater and more effective. By supplying certain indispensable elements which allied nations could not pro-

vide for themselves, our support has enabled these nations to build and maintain better integrated, better balanced, and far more powerful military forces than would otherwise have been possible.

General Economic Advance and Greater Initiative

At this point, mid-way in 1955, the free world as a whole is in a better economic position than ever before.

In Western Europe, all economic indicators—industrial and agricultural production, trade, exchange reserves—are at high levels. Europe's gross national product in 1954, in terms of constant prices, was more than 35 percent above 1948, the start of the Marshall Plan. Although Western Europe's external payments position with the dollar area is delicately balanced and still somewhat dependent upon special United States military expenditures, the original Marshall Plan

countries of the area no longer require dollar grants for economic aid.

In the underdeveloped areas, notable gains in economic development have been scored, despite the fact that the rate of progress lags far behind population needs. Particularly good advances have been made in food production, and the outlook is brighter for further forward movement in other vital sectors of the economy.

Most encouraging is the growing evidence that the countries in the underdeveloped areas are steadily gaining greater understanding of what they must undertake and what they can do to open the way to a better future. With broadened knowledge of their growth needs and growth potential has come increased enterprise for pushing ahead with developmental measures. In South and Southeast Asia, for example, it is estimated that public expenditures for development are currently more than double what they were in 1951-52.

In all parts of the economically underdeveloped areas, governments are mapping out basic plans which set forth key projects to be given priority attention in meeting the individual needs of their countries. Thus, Chile is accenting transportation and agriculture to correct its economic imbalance. Brazil, hampered by inadequate public utilities, has its plans centered on electric power and transportation projects. On the other side of the world, Egypt is pinning its efforts on the High Aswan Dam which could add 2 million acres to its presently narrow cultivable land area. Lebanon's plans encompass the development of the Litani River for irrigation and power. In the Far East, Thailand is pushing plans to expand its highway and railroad systems; the Philippines is dividing its major developmental measures equally between rural improvement and industry.

World attention has been focused on India, the largest free world nation striving to work out a better future for its 377 million people through representative government. Under India's current 5-Year Plan, per capita income has been raised by over 8 percent. Production is well ahead of schedule in food grains and cotton cloth, and is moving forward in other fields.

The processes which underlie India's economic gains contrast sharply with the methods used in Communist China, where production increases are planned with the most callous indifference to the needs of the individual and are forced into actu-

ality by the harshest sort of human regimentation.

The mutual security program has played a key role in catalyzing and making more productive the determined efforts that participating countries have put into their own programs for economic development. Through defense support and development assistance measures, the program has financed the importation of vitally needed raw materials, equipment and commodities, and assisted in the execution of essential developmental projects. Through joint technical cooperation programs, it has shared with economically less advanced peoples all over the world the technical knowledge and skills which have played so great a part in our own national growth. The number of American technicians at work in the underdeveloped areas has increased over one-third since January 1953. The number of American university contracts for technical cooperation activities had increased to 67 at the end of June 1955, as compared with 14 in January 1953.

In a number of countries—Greece, Turkey, Iran, Korea, Formosa, the Philippines, to name only a few—economic aid has also performed a dual function in enabling friendly nations to undertake and sustain a substantial military effort while at the same time carrying forward measures for internal development.

The stimulating impact of the economic and technical aspects of the mutual security program has been felt in every part of the globe. Direct gains have been produced in terms of more food and clothing, more adequate basic facilities, improved health and housing, higher output and increased productivity, and better educated children. As these gains have multiplied, participating governments have substantially enlarged their share of funds, facilities, and personnel to the joint programs under way.

Use of Funds in FY 1955

During fiscal year 1955, obligations and reservations under the military assistance program accounted for \$3.3 billion of mutual security funds. In addition, \$523 million was allotted for direct forces support in the form of soft goods consumed by the military, such as petroleum and cloth for uniforms. A total of \$795 million was allotted for defense support to reinforce the economies of those nations joined with us in programs of military assistance so that they could sustain their military contributions to free world defense;

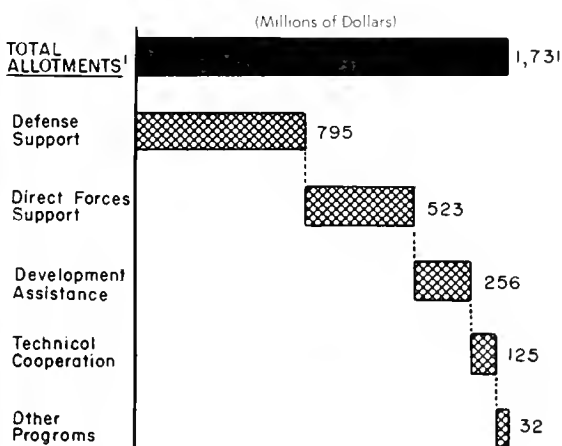
\$125 million was allotted for joint technical cooperation projects, and \$256 million for development assistance. The remainder was used for activities such as the United States share of international programs of technical assistance and children's welfare, the escapee and refugee programs, and aid to West Berlin.

During the fiscal year, agreements were made with 11 countries which provided for \$214.5 million of mutual security assistance to be furnished on a loan basis. Collections from all countries on previous loans made under mutual security programs amounted to about \$150 million as of the end of June 1955. These were mainly interest payments, since under the terms of the original loans repayments of principal generally do not begin to fall due until 1956.

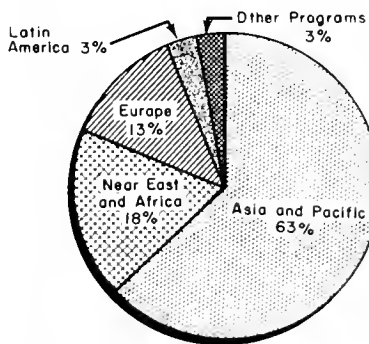
By far the largest portion of expenditures made under the mutual security program has been for goods and services procured in the United States. In fiscal year 1955, over 75 percent of all program expenditures were paid to American suppliers.

During the 1955 fiscal year also, over \$467 million worth of United States surplus agricultural commodities were sold to friendly countries which have contracted to pay in their own currencies. These surplus sales were concluded in accordance with the provisions of Section 402 of the Mutual Security Act of 1954, and the sales proceeds have been earmarked for use in mutual security operations. Together with transactions made in the previous fiscal year under a similar provision, over \$700 million of our agricultural surpluses have been sold to friendly countries in direct connection with mutual security activities. Such sales were in addition to the surplus commodity sales carried out under Title I of the Agricultural Trade Development and Assistance Act of 1954.

The Bulk Of Nonmilitary Funds Was Used For Defense Support And Direct Forces Support In FY 1955 . . .



. . . 63 Percent Was Used For Asia



¹Allotted by FOA, excluding military assistance (MDAP) and allocations to other agencies

The New International Cooperation Administration

In compliance with the Congressional provision that the Foreign Operations Administration be terminated as an independent agency by the end of June 1955, Executive Order 10610 was issued on May 9, 1955, which transferred FOA activities to the Department of State. Certain military aspects of the mutual security program were transferred for administration to the Department of Defense.

Under the Executive Order, which took effect at the close of June 30, the International Cooperation Administration was established as a semi-autonomous organization in the State Department, and the President directed that the mutual security program be carried out by and under ICA. The Institute of Inter-American Affairs, the International Development Advisory Board, and the Office of Small Business, all of which formerly were under the Foreign Operations Administration, were attached to or made part of ICA.

The President selected John B. Hollister as the Director of the International Cooperation Administration. Mr. Hollister took office on July 1, and Harold E. Stassen, former Director of the Foreign Operations Administration, became Special Assistant to the President to help develop basic policy on disarmament. As Director of the new organi-

zation, Mr. Hollister will report directly to the Secretary of State and will supervise and direct the nonmilitary mutual security operations. He also has the responsibility for coordinating the entire program, although the Department of Defense will continue to administer United States assistance furnished directly to the armed forces of other nations. Such military assistance now includes "direct forces support", previously administered by the Foreign Operations Administration.

The International Cooperation Administration was established within the State Department in conformance with the wide recognition that the development of military and economic strength

through our mutual security program is an integral part of United States foreign policy. In working out arrangements for the new organization, however, care had to be taken to maintain the central planning and the coherent direction necessary to insure coordinated and effective program action. To effect this, the Executive Order specified that the International Cooperation Administration be made semiautonomous, with its own supporting staff and program personnel both in Washington and in the field. Within guide lines established by the Secretary of State, the Director of the ICA will perform the operations necessary to carry out our national policy objectives.

CHAPTER II

Free Asia

OVER 770 MILLION people, 45 percent of the free world population, live in the broad span of free nations that stretches from Afghanistan in South Asia to Japan in the Far East. In the whole history of the world, perhaps never before have so many people been involved in such deep and rapid changes in their way of life.

Most of the people of free Asia are attempting for the first time to run their own affairs. They are understandably jealous of their new independence. Their leaders, eager and devoted men but generally inexperienced in the complexities of modern self-government, are charged with the tremendous task of taking living conditions that have remained static for generations and bringing them in line with twentieth century aspirations.

Picture of the Asian Problem

The broad dimensions of the problems which the Asian governments face are highlighted by these basic facts:

▶ The value of their combined output of goods and services is only about \$80 billion. This compares with Western Europe's gross national product of \$200 billion, and our own gross national product of over \$370 billion.

▶ Their economic structures are unbalanced, for the most part heavily weighted in favor of agriculture in relation to the need for industrial and minerals development. Pakistan depends on jute for nearly half of its foreign exchange earnings. Thailand and Burma depend heavily on rice and rubber; Formosa on rice and sugar; the Philippines on abaca, copra, and sugar.

▶ They lack the public services—transportation, communications, power—which are basic to economic expansion and prime requisites for attracting needed private capital.

▶ Food production, although improved in recent years, is still insufficient to provide an adequate, balanced diet for the majority of Asians.

▶ Diseases, such as malaria, trachoma, and yaws, chronically sap the energies of millions of their people and cut them down in the prime of their productive life. In India, Indonesia, Pakistan, and Cambodia, average life expectancy is less than 35 years.

▶ Rudimentary and often non-existent educational facilities limit the spread of needed knowledge and thus deprive their people of a major requisite for self-improvement.

Japan is the only country in free Asia to which most of the foregoing characteristics do not apply. Japan's problems are of a different nature and flow from a heavy pressure of population on land and from an acute dependence on two-way international trade: imports of food and raw materials and exports of finished goods.

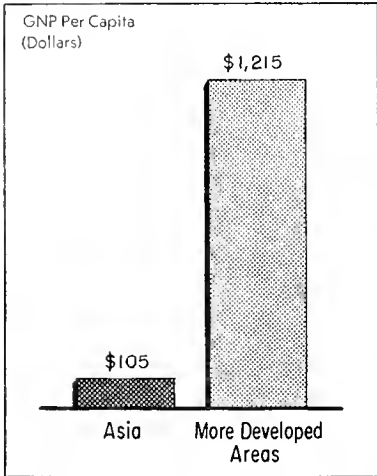
If the people of free Asia had only to concentrate their efforts and resources on measures for self-development, that would be task enough. But today, much of their energies must also be devoted to extraordinary measures for self-defense. Most of Asia's independent countries border on Communist China. They must not only maintain armed forces which can guard against military encroachment; they must also be ever on the alert to the Communist form of colonialism which works subtly and ceaselessly to infiltrate the mechanisms of a country's government and exploit its conditions of poverty and want, all the while nibbling at the foundations of freedom.

This insidious new form of colonialism, as manifested in the subversion of men's minds and the complete suppression of free expression, was arraigned before the bar of world opinion at the Afro-Asian Conference of nations held during March in Bandung, Indonesia.

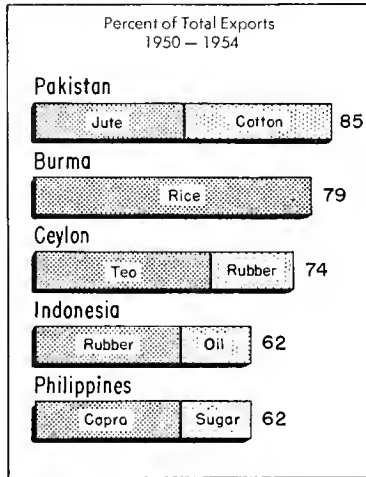
It should be realized also that the proximity of Communist China presents an economic challenge as well as a military and political threat to Asia's independent governments. It is the challenge of

Asia's Basic Problems

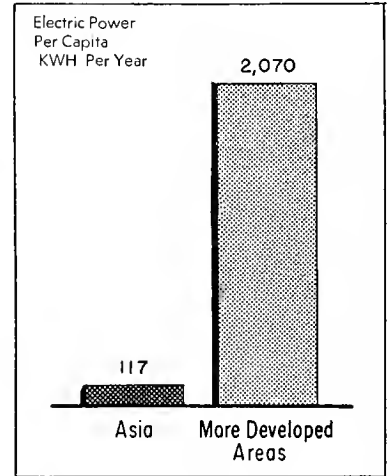
Low National Product



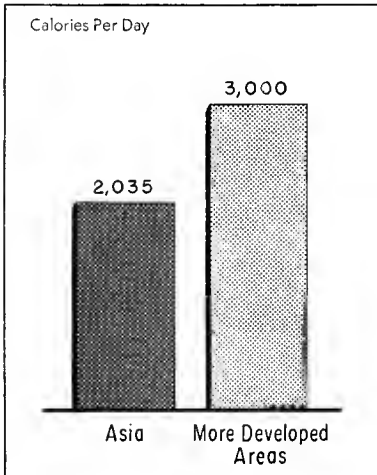
Undiversified Economies



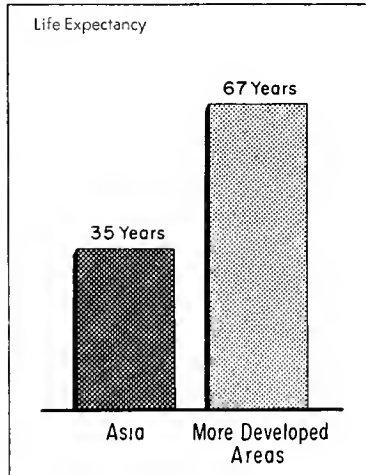
Poor Basic Facilities



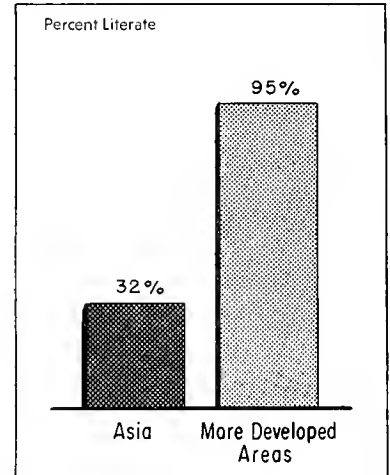
Low Diets



Short Life Spans



Widespread Illiteracy



competition in the race toward specific economic goals. On the outcome may hinge, in great measure, the continued support of the bulk of the Asian people for democratic processes and democratic government.

Recent Economic Progress: Gains and Gaps

The Asian countries as a whole have made progress recently in both agriculture and industry. In agriculture, production gains have been especially significant in food grains; output in the 1953-54 crop year was 10 percent higher than prewar. It should be noted, however, that al-

though the general food situation has improved throughout most of Asia, normal population growth has eaten into production increases. On a per capita basis, food production is still below the prewar level.

Increases during 1954 in the export prices of non-food agricultural products—tea, jute, and cotton—alleviated to some extent the problems of such exporting countries as Ceylon, India, and Pakistan. On the other hand, world prices of rice and copra declined, affecting in particular Burma, Indonesia, the Philippines, and Thailand.

On the industrial side, the greater use of existing capacity and the addition of new production lines expanded output of many basic items. Good

advances were made in production of cotton goods, cement, chemical fertilizers, and electric power. Most of these gains took place in the more industrialized countries, Japan and India.

The bulk of the increased production was consumed domestically and did not materially improve Asia's aggregate earnings of foreign exchange from exports. Gold and foreign exchange assets in many countries—Burma and the Philippines, in particular—have fallen in comparison with previous years. Other countries were able to maintain a manageable payments position only because of external financial assistance. The continued shortage of foreign exchange resources has led to harsher restraints on imports although the demand for imports remains high. Asia's imports in 1954 were cut about five percent below 1953 levels.

Even with the substantial gains in various economic sectors, most of the Asian countries have not been able to raise living standards appreciably above the prewar level in terms of real per capita income. Thus, while postwar economic progress on the whole has been encouraging, it has not moved fast enough.

The determination of the free Asian governments to quicken the pace of their economic advance is revealed in their planned and actual expenditures for development purposes. The area is a-boil with developmental activity. Nearly all countries have formulated priority projects and have outlined the total investment resources needed to carry them out. India, Ceylon, Burma, Korea, the Philippines, and the Republic of China on Formosa have mapped out comprehensive programs extending over a definite period of years. Other countries are proceeding on an individual project basis, rather than a coordinated long-term approach. But in all cases, there is a definite attempt to channel increasing amounts of private capital and governmental appropriations into self-development measures.

Governmental expenditures for economic development have steadily increased. In Pakistan, capital expenditures were the equivalent of \$139 million in the 1955 fiscal year, compared with \$83 million in fiscal year 1953 and \$25 million in fiscal year 1951. In the Philippines, capital outlays budgeted for fiscal year 1955 were more than double those in fiscal year 1953. In recent years, new financial institutions, such as the privately run credit and investment corporations in India

and Pakistan, have been established. Many countries also have taken specific steps to improve the climate for private foreign investment. They have liberalized their investment laws and have actively enlisted the participation of foreign capital in joint ventures.

The lack of capital is one important factor that retards further economic movement in Asia. Perhaps equally important is the lack of trained manpower and technical skills needed to formulate realistic development programs and carry out the specific projects included in them. The member countries of the U. N. Economic Commission for Asia and the Far East, at their Eleventh Session held in Tokyo during March and April 1955, laid heavy stress on the need for technical assistance. Specific acknowledgment was made of the importance of United States technical cooperation programs in speeding country development efforts.

Steps to Stronger Defense

The necessity for keeping continually prepared against possible assault drains off a large portion of financial and productive resources in Asia which could otherwise be put into projects for economic growth. Pakistan and Thailand, for example, spend over 30 percent of their total budgets for security purposes. Defense expenditures of Formosa and Korea are even larger, running as high as 67 percent.

With the intensification of Communist activity in Asia, it has become imperative to be militarily strong and on the alert. At Bangkok, Thailand, in March 1955, the Manila Pact nations appraised current military factors and concluded that the mobile, retaliatory power available gave solid hope of discouraging open armed aggression in the treaty area. The member nations are working to increase the effectiveness of that power. Steps have been taken to exchange information on military forces that could be drawn upon in case of need, and on strategies to be used. Out of present actions may also come plans for combined military exercises.

In keeping with the objective of having strong treaty partners for Far East defense, the United States continued to provide the armed forces of Thailand and the Philippines with essential military equipment during the first part of 1955. Also in the Far East area in the 6-month period, pri-

ority was placed on the delivery of military equipment to the Republic of China on Formosa. Additional United States equipment was also transferred to Japan to aid in equipping the new Japanese self-defense forces.

On the other side of the Asian land mass, Pakistan in February 1955 signed a formal agreement with Turkey for cooperation and consultation on problems of mutual interest, including defense against unprovoked attack. Under the recently concluded military assistance agreement, the United States is already furnishing Pakistan with certain needed weapons and other military equipment to be used in strengthening the Pakistani contribution to free world defense.

Program Accent on Asia

Nearly \$1.1 billion of mutual security funds was allotted for the free countries of Asia during the fiscal year ended June 30, 1955. This amount did not include allotments for military end-items and training. In the 12-month period of the 1955 fiscal year, military shipments to the Asian area (excluding Pakistan) totaled \$510 million in value. Cumulative military shipments to date have totaled \$2.1 billion.

Of the \$1.1 billion of nonmilitary funds, \$540 million was allotted for defense support purposes—that is, economic assistance designed primarily to make possible the maintenance of an adequate defense effort without disrupting the normal economy. Financing of consumer-type items channeled directly to the military forces, termed direct forces support, totaled \$414 million. The United States share of joint technical cooperation programs for the 12-month period totaled \$58 million. Assistance keyed to specific developmental projects totaled \$72 million; 63 percent of this development assistance, primarily to India, was on a loan basis.

The heavy program emphasis on Asia is in accord with current requirements and opportunities on the international scene. There is much at stake in this vast and vital area of the world. With conditions improved in Europe, we are putting more attention on the free countries of Asia. We are seeing more clearly the complex problems their

people face and responding with greater effectiveness to mesh our efforts with theirs. In fiscal year 1955, roughly 63 percent of all nonmilitary funds for mutual security was programmed for Asian countries.

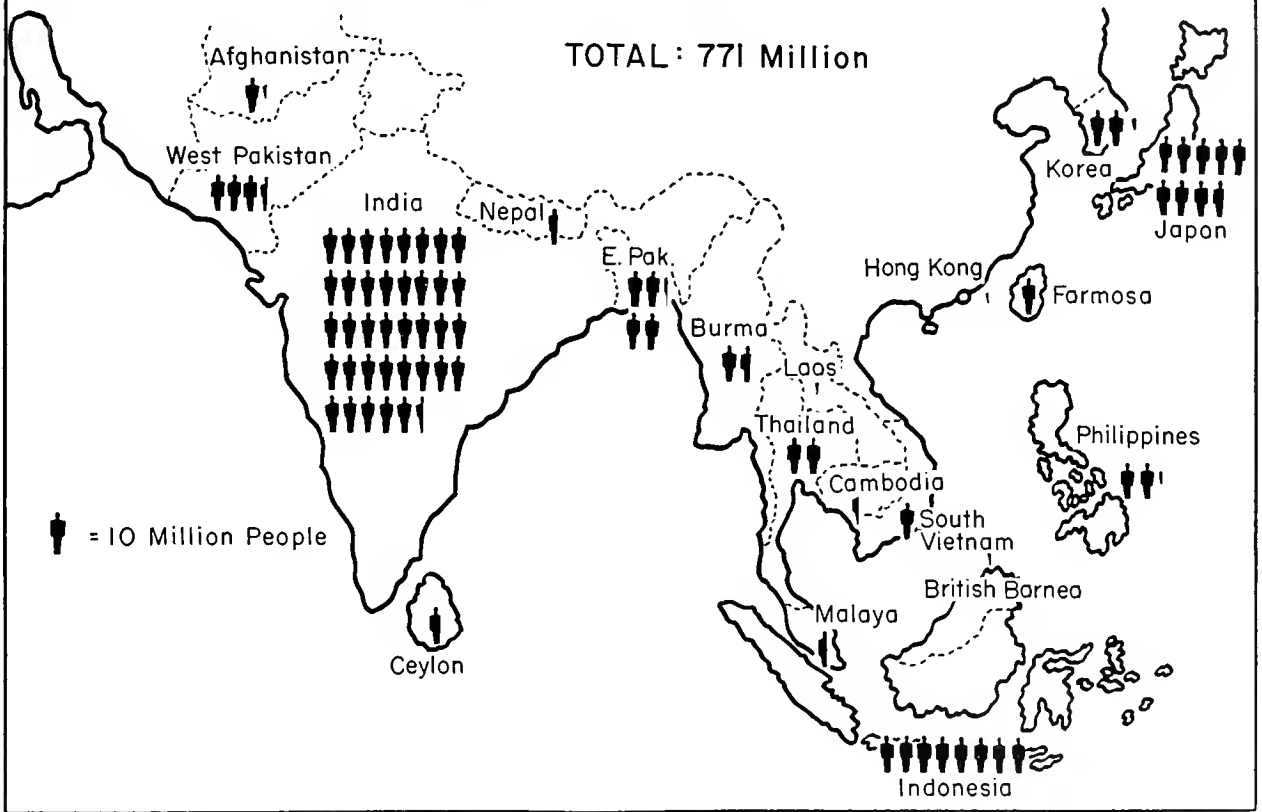
In a new measure to reinforce and accelerate Asian undertakings for self-development, a special President's Asian Development Fund is being established. The President will be able to use the Fund at his discretion over a 3-year period, primarily for developmental projects which would benefit more than one country, thus promoting economic progress in the Asian region as a whole.

The fact that it is in the enlightened self-interest of the United States to support the Asian people in their actions for a more secure and better life needs no repetition. We know how closely their progress is bound in with our own. From the standpoint of having strong partners and valuable bases in the fight against aggression, or of assuring availability of the raw materials needed for our continued growth, or of developing new and expanded markets for world trade—looked at from any angle, our objectives are mutual and inseparable.

One important point should be kept in mind in considering various approaches to Asia's problems of economic development. Most of the Asian countries are starting from rockbottom. It is not a question of making a once full-blown economy bloom again, as in Western Europe, or of embarking on an emergency reconstruction program marked by definable time limits. The task in Asia is of an entirely different nature. It involves building up from a very low base, of establishing new economic mechanisms, of creating skills where none existed before. It involves long-range policies and planning.

The primary responsibility for economic development in Asia is that of the Asian countries themselves. It is they who must exercise the initiative and carry the central part of the load. Supplemental help through the mutual security program, together with the assistance extended by other free nations wherever possible, can do much to make the Asian endeavor effective and successful.

Free Asia Has 30 Percent Of The World's Population



Northeast Asia and Formosa

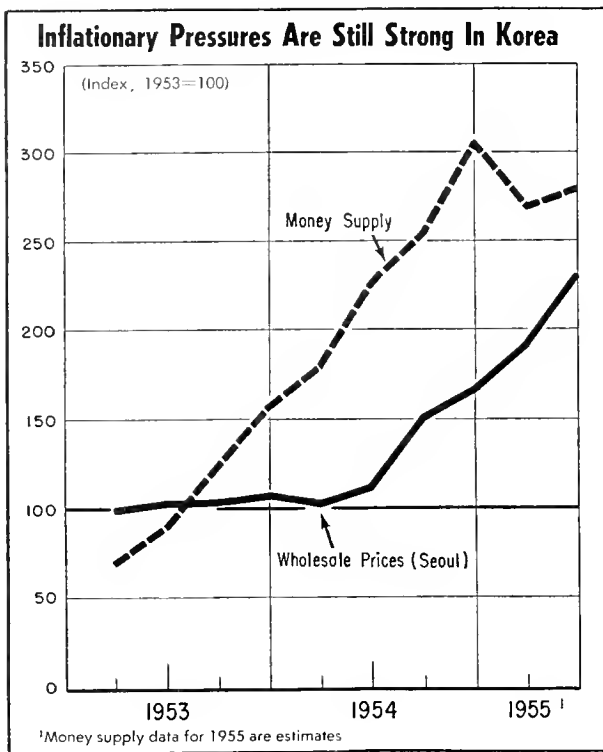
The Korean Program— A Major Effort in Asia

The United States provided about \$700 million in fiscal year 1955 to help the Republic of Korea strengthen its economic and defense capabilities. Of this total, \$420 million was channeled for assistance to the Korean military forces; most of these military aid funds were drawn from appropriations made directly to the Department of Defense.

United States shipments of weapons and equipment, as well as food, fuel, and other supplies destined exclusively for troop use, continued to support the Korean military establishment. This aid has helped Korea maintain a powerful army of 20 divisions, a marine corps of 1 division, a navy of 49 vessels, and an air force of 1 fighter wing and miscellaneous supporting aircraft. Korea has in addition, two para-military forces—the National Police Force and the Korean Service Corps. In the first part of 1955, emphasis of our military

assistance measures was placed on training in command functions and delivery of jet aircraft and transportation equipment. The Korean Second Army was being trained to take over the logistic support activities formerly carried out by the United States armed forces in Korea.

Coordinated programs carried out by the Foreign Operations Administration, the Department of the Army, and the United Nations Korean Reconstruction Agency have materially assisted Korea in moving toward a more balanced economy. Since 1951, industrial production has more than doubled and stands 50 percent above the level achieved before the Communist invasion. Agricultural production in the same period has risen by about one-third, although it is still below the average level of 1935-39. Inflationary pressures, however, remain a serious economic problem. In the first half of 1955, wholesale prices rose by about one-third. Korea's heavy outlay for national defense, which constitutes over one-half of total expenditure reflected in the national budget, has been



a major factor contributing to this precipitous price rise.

Under the mutual security program, emphasis has been placed on expanding basic industries so that the Korean economy will be less dependent on outside support. In fiscal year 1955, FOA made available almost \$100 million for industrial development—\$66 million for transportation, \$13 million for manufacturing, \$11 million for power, and \$6 million for communications.

Many of the projects initiated under previous programs are now in an advanced stage. FOA had provided \$30 million to finance construction of three thermal-power plants with a total capacity of 100,000 kilowatts. Construction of one plant is now about 25 percent completed. The foundation and steel work on the second and third plants is progressing rapidly.

In railroad transportation, construction of a vital rail link between the east and the west coast has moved ahead on schedule. The United States has assisted by financing necessary supplies and equipment and by providing competent engineering services. In communications, the engineering work has been completed on a project to provide the capital city of Seoul with a modern telephone

system and to build exchanges in other major cities.

Korea lost a major part of its warehousing and storage facilities in the struggle against the Communist invaders. To replace these vital facilities, funds have been provided to build 750 new warehouses; 250 already are under construction. In addition, FOA made available to Korea 300 warehouses which had been erected by the United States Army for its own use.

FOA also provided about \$9 million to finance imports of machinery and equipment needed by Korean businessmen to establish 36 small industrial plants. These plants will increase Korea's ability to meet domestic consumption requirements, and at the same time accelerate the output of goods for export. One plant will produce lime for use in stepping up agricultural production; another plant is scheduled to turn out agar-agar for export; a third will increase Korea's capacity to manufacture clothing for its armed forces. Construction of such plants will ultimately bring considerable reductions in imports presently financed by the United States.

Two major projects, financed by the United Nations Korean Reconstruction Agency (UNKRA), are being built: a flat-glass plant which will provide one-half of Korea's glass requirements, and a cement plant with a capacity of 100,000 tons annually. UNKRA is also training Korean miners and mine managers and helping to rehabilitate mine buildings and tunnels. UNKRA technicians are helping the Koreans to carry forward several projects in agriculture, particularly in irrigation and flood control.

The United States Army in Korea is assisting in refugee resettlement. Almost \$2 million worth of supplies and equipment for erecting houses and farm buildings is under procurement. These supplies will make possible the resettlement of some 35,000 refugee families. As relief activities decreased, the United States Army transferred many of its assistance functions to the Foreign Operations Administration. The full transfer of functions is scheduled to be completed by March 1956. UNKRA also is closing out its activities; upon completion of existing projects, its functions will be terminated.

Emphasis on Productivity in Japan

A technical cooperation program was formally initiated in Japan with the signing of the neces-

sary basic agreement in April 1955. Projects under the joint program will concentrate on stepping up Japanese productivity. Japan faces an urgent task of increasing her foreign exchange receipts in order to compensate for the decline in special dollar earnings derived from United States procurement and troop expenditures in the country. At the same time, the country must provide for a growing population which is expected to reach 93.5 million in the next five years.

During the first half of 1955, the Japan Productivity Center was established. It is operating as a non-governmental Japanese organization, with management and labor scheduled to participate. Management representatives have already been selected; it is anticipated that the labor representatives will be added in the near future. The Center is set up to coordinate the various aspects of the productivity drive, such as technical exchange projects, the dissemination of technical information, and the provision of technical services.

The United States Operations Mission in Japan, working with the Productivity Center, has developed several priority projects which will bring Japanese participants to the United States for research and study in fields basic to the Japanese economy—steel, automotive, cement, management, and market research. Participants in the steel study had already arrived by the end of June. American specialists will also be sent to Japan to assist in the development of better procedures in management, marketing, and industrial training. Other projects dealing with agricultural administration and research also are planned.

A Regional Training Center established in Tokyo last year in cooperation with the Japanese Government is helping to place nationals of other Asian countries in specific Japanese industrial and agricultural plants in order to train them in advanced production techniques which are readily adaptable to their needs. To date, some 300 persons from other nations of free Asia have participated in such training activities. The countries which send participants to the Regional Training Center pay the costs involved with funds derived from the local sale of commodities imported under the mutual security program.

In May 1955, negotiations were concluded for the purchase by Japan of up to \$85 million of United States surplus agricultural products under Title I of the Agricultural Trade Development and Assistance Act of 1954. Under the agree-

ment, Japan will pay for the products in its own currency. The equivalent of \$59.5 million in yen derived from the sale will be loaned to Japan to help the country promote development of its industry and agriculture. The remainder of the yen will be used in Japan by agencies of the United States Government, primarily for the construction of housing for military dependents, procurement of Japanese commodities for third countries, and exchange of students.

Aid to Formosa Increased

During the first half of 1955, United States nonmilitary assistance to the Republic of China on Formosa was augmented by \$48 million. The additional funds were made available to help strengthen the Chinese military establishment through a program to retire and replace over-age personnel and build an effective reserve. For the full fiscal year 1955, \$138 million was made available to the Republic of China for direct forces support, defense support, and technical cooperation activities.

Deliveries of military items to the Chinese armed forces have been accelerated. Under the mutual security program, major items of army, navy, and air force weapons and equipment have been provided. Currently, emphasis is being placed on delivery of jet aircraft as replacements for propeller-driven planes.

Economic conditions on Formosa during the first half of 1955 remained generally favorable. Sales contracts for exports of sugar were substantially higher than in the corresponding period of 1954. A new trade agreement with Japan in April called for a \$19-million increase in Formosa-Japanese trade. For a while, these favorable developments were overshadowed by a heavy drought which cut sharply into the first rice crop of the current year, and also brought on a shortage of hydroelectric power that limited production in certain industries. But improved weather for the second rice crop and the increased availability of electric power from a newly completed thermal plant offset, in part, these adverse factors.

Mutual security funds allotted for direct forces support are used to construct defense facilities and to finance imports of consumer goods used solely by the military forces. Imports financed under the defense support category are used to help the Republic of China maintain economic equilibrium in carrying out its heavy military

program and to expand Formosa's productive capacity for eventual self-support.

About half of the funds allocated for defense support in the 1955 fiscal year were used for purchasing industrial raw materials and consumer goods. Most of the remainder helped to provide capital equipment for industrial and agricultural development. Particular emphasis was given to increasing power facilities, and manufacturing of fertilizer and metals. Proceeds from the sale of \$20 million worth of United States surplus agricultural commodities will be loaned primarily for developmental purposes. Increased attention has also been devoted to programming machinery and equipment for small-scale industrial enterprises on Formosa.

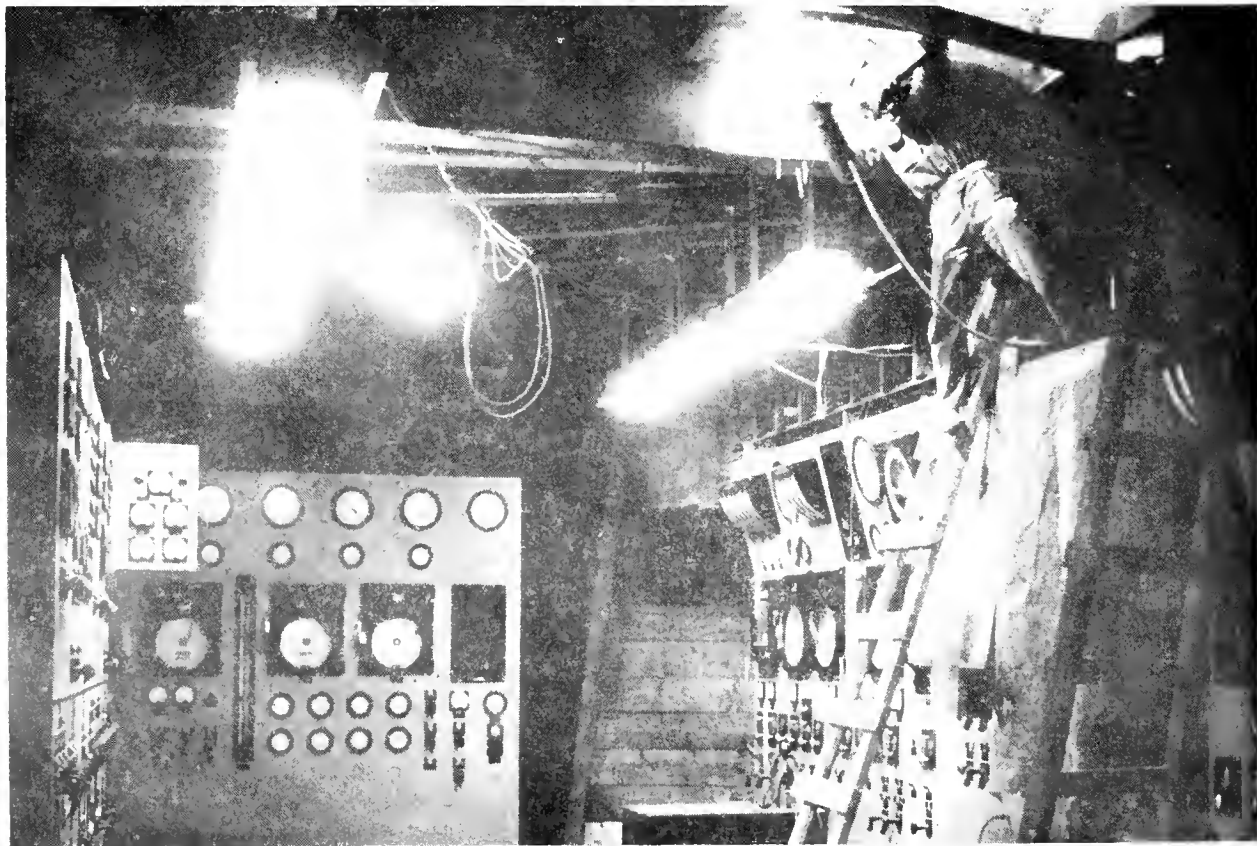
In April, completion of the Peipu power unit increased the island's thermal-power capacity by two-thirds by adding 40,000 kilowatts to its power output potential. Construction of a hydro-power station at Tung Myen was also completed in the January-June period and provided another 12,500 kilowatts.

Progress is being made in exploiting the coastal and deep-sea fishing resources of the island. By April 1955, 23 fishing vessels had been added to the deep-sea fishing fleet, constituting a 20-percent increase in the fleet's size. The vessels were constructed locally and used imported engines financed with mutual security funds. A fisheries development fund is being set up to enable men discharged from the Chinese armed forces to establish themselves in self-supporting work.

Southeast Asia

Cambodia, Laos, and Viet Nam

The three newly independent states of Cambodia, Laos, and Viet Nam remain confronted with complex economic and political problems, although they have taken several measures which have helped to ease some of their difficulties. Agreements have been worked out for the common use of the Mekong River—the main inland trade artery—and the Port of Saigon. Each state



Control room of the new Peipu thermoelectric power plant in Formosa. The power plant was completed in April 1955 to add 40,000 KW to the island's generating capacity.

has established its own central bank, and arrangements have been made for partitioning the assets and liabilities of the Institute of Issue, the former central bank which had previously served all three countries. As a result, there has been a minimum of interruption to normal trade and commercial activities.

The internal threat posed by strong pockets of Communist insurgents and armed dissident groups is complicated by the fact that in all three states normal budgetary revenues can cover little, if any, of the costs of the armed forces needed to carry out effective security measures.

United States assistance under the mutual security program has been reoriented to help Cambodia, Laos, and Viet Nam meet urgent problems of survival and self-government. For fiscal year 1955, about \$400 million of mutual security funds was allotted by FOA to the three states. The bulk of these funds is being used, directly or indirectly, to support the military forces. Dollars are being provided to finance payments for army rations, pay, and local supplies. Civilian-type items—such as petroleum products, clothing, and medical supplies—will be imported for use of the national defense forces.

Dollar funds also finance the import of commodities essential to the stability of the civilian economy—motor vehicles, industrial machinery, cement, textiles, chemicals, and fertilizer. Proceeds realized from the sale of these commodities on the local market are being used for further support of the defense forces, and in addition for financing projects to improve transportation and communication, to advance agricultural reform measures, and to expand agricultural credit and production.

About \$56 million was made available to assist in the evacuation, relief, and resettlement of the hundreds of thousands of Vietnamese who took advantage of the opportunity to escape from Communist-controlled North Viet Nam.

American technicians in the three states are working on joint technical cooperation projects in which training activities predominate, particularly in education, health, and public administration. Such measures are designed to meet the critical existing deficiencies in public services, and to enable the non-Communist governments better to fulfill their responsibilities to their people.

Cambodia.—In May 1955, a military assistance agreement was concluded with Cambodia. Under

this agreement, the United States will provide equipment to Cambodia's military establishment. The United States is also providing financial aid to help support Cambodia's military budget, and a small U. S. Military Assistance Advisory Group is now in Cambodia studying the country's military needs.

A United States Operations Mission was established in Cambodia in January 1955 to administer the nonmilitary activities carried forward under the mutual security program. During the first part of 1955, considerable progress was made in getting a number of key projects under way. Particularly important was the agreement under which Cambodia, with American financial aid, will build a road connecting the capital city of Phnom Penh with the new deep-water seaport which France has agreed to construct on the Gulf of Siam. The road and port will provide Cambodia for the first time with its own means of access to the sea. In the first half of the year also, progress was made on rehabilitating the rail line between the Cambodian capital and Thailand's capital at Bangkok. With United States assistance, Cambodia has repaired the western section of the roadbed and is now constructing an international station at the Thai border.

A serious failure in Cambodia's normally abundant rice crop has caused widespread food shortages and complicated the country's economic difficulties. In response to this critical situation, the United States is prepared to finance Cambodian imports of rice, and in addition has provided some 3000 tons of seed-rice to help insure the success of the next crop.

American technicians are working in Cambodia on various technical cooperation projects designed to develop local skills and speed up progress in key sectors of the economy. American financial experts, for example, have helped in the establishment of the new National Bank and Exchange Office. Other technicians are helping to instruct Cambodians in effective irrigation and flood-control methods.

Laos.—The northern borders of Laos form a common frontier with Communist China and North Viet Nam. The country's two northern provinces are now occupied by Communist-led insurgents, and Communist agitators continue to operate in other areas. To help the Lao people in their efforts to protect their independence, the

United States is giving direct financial support to the Lao army.

The Lao Government is inexperienced in the management of the fiscal institutions and trade operations which form the backbone of the country's economic structure. FOA therefore assisted in the establishment of the National Bank of Laos and arranged to provide an expert advisor in central banking methods. It also undertook to assist the government and private traders in working out more efficient procurement and marketing methods.

In another step to facilitate trade operations, a ferry service was initiated between the river port of Thadua in Laos and the city of Nongkhai in Thailand. These ports, on the Mekong River, connect with Vientiane and Bangkok and make possible the movement of heavy cargo between the two capitals. This new trade link will greatly reduce the cost of imported commodities in Laos and will strengthen commercial ties between Laos and Thailand.

American technicians are helping Lao villagers to raise their living standards through better health and sanitation practices, more efficient agricultural production, and improved elementary and adult education. International Voluntary Services, Inc., a philanthropic service organization, is assisting in the development and operation of this village program.

Due to adverse weather conditions, the current rice crop in Laos is much smaller than normal. As a result, Laotians in certain areas of the country are now facing famine. In order to prevent widespread suffering, the United States is making available 25,000 tons of rice to the Lao people. Of this, 5,000 tons will be distributed free within Laos, while the remaining 20,000 tons will be sold for local currency to help meet the costs of programs jointly agreed upon.

South Viet Nam.—South Viet Nam's task of consolidating its newly won independence and extending the authority of the central government was made more difficult in the early months of 1955 by internal disturbances as certain of the armed religious sects resorted to open violence to force their demands upon the government of Premier Diem. By mid-year, however, it appeared that the government forces had succeeded in bringing these local outbreaks under control. The rapid progress made by the regular Vietnamese troops in moving against these internal dissident

groups indicated that with reorganization and more training, the Vietnamese army can be formed into a strong force to combat external aggression as well.

In February 1955, an agreement was reached with the Governments of France and Viet Nam under which the U. S. Military Assistance Advisory Group, within the framework of the Franco-Vietnamese high command, undertook the reorganization and training of the Vietnamese army. The first group of Vietnamese military students is already receiving training in the United States.

The terms of the cease-fire agreement in the Indochina region prohibited the introduction into Viet Nam of any reinforcements of war materiel, but permitted the replacement of such materiel on a piece-by-piece basis. Consequently, the flow of new United States military equipment to the country has been suspended. By mid-May, nearly 700,000 tons of supplies and equipment had been removed from North Viet Nam. This comprised virtually all removable French and Vietnamese military materiel, private property, and government property originally furnished through United States aid.

The Vietnamese Government carried out a number of important fiscal and economic measures in the first half of 1955. It set up a National Bank, put new foreign exchange regulations into effect, and negotiated a trade agreement with France. Commerce began to flow under the arrangements concluded with its neighbors, Cambodia and Laos, concerning the use of the Port of Saigon.

The mass movement of refugees fleeing from the Communists in the north continued into the first half of 1955. The United States Navy, working with French naval and air units, continued to support this "passage-to-freedom" operation. By May 15, 1955, almost 800,000 persons, military and civilian, had been helped to locate southward in free Vietnam. Through June 30, FOA had allotted \$56 million to assist the Vietnamese Government in taking adequate measures to care for incoming refugees and to resettle them in permanent sites where they could become useful and self-reliant members of the community.

United States assistance in 1955 has centered more and more on the resettlement phase of the refugee problem. Close to 500,000 persons have been moved to resettlement sites, and some 40,000 family housing units have been completed. As



Vietnamese civilians escaping from Communist-held North Viet Nam. Through mid-1955, nearly 500,000 Vietnamese refugees have been moved to resettlement sites where they can become self-reliant members of the community.

the Vietnamese move into their new locations, they are being provided with needed hand tools and construction materials. Seeds and simple farm implements are also being furnished so that they can begin to make provision for their own food needs.

In other phases of the program in Viet Nam, American technicians are helping the Vietnamese carry out needed measures of land reform. Project activity in the field of agriculture emphasizes irrigation and drainage to increase the cultivable acreage available for refugees and displaced persons. Steps are being taken to provide agricultural credit at low interest rates to ease the economic plight of the small farmer. To improve public administration, American experts are helping to set up an Institute of Public Administration through which police training and in-service training for civil servants will be provided.

Technical Cooperation in Indonesia

Indonesia continues to have insufficient foreign exchange earnings to cover urgently needed import requirements. Import controls designed to check the serious drain on foreign exchange reserves have contributed to a scarcity of raw materials needed in the domestic market. Food costs, particularly in urban areas, are rising steadily. Government borrowing to finance recurring large-scale budgetary deficits is the principal reason for the considerable inflationary movement. Despite Indonesia's need and desire for economic development, limited financial resources have prevented the country from increasing its rate of capital investment.

The technical cooperation program in Indonesia emphasizes joint activities to diversify and increase agricultural and fisheries production, im-

prove public health services, and expand facilities for technical training. Totalling \$7.2 million in fiscal year 1955, the program provided \$5.7 million for technical cooperation projects, \$1.3 million for malaria-control measures, and \$200,000 for supplies for a special project in public administration.

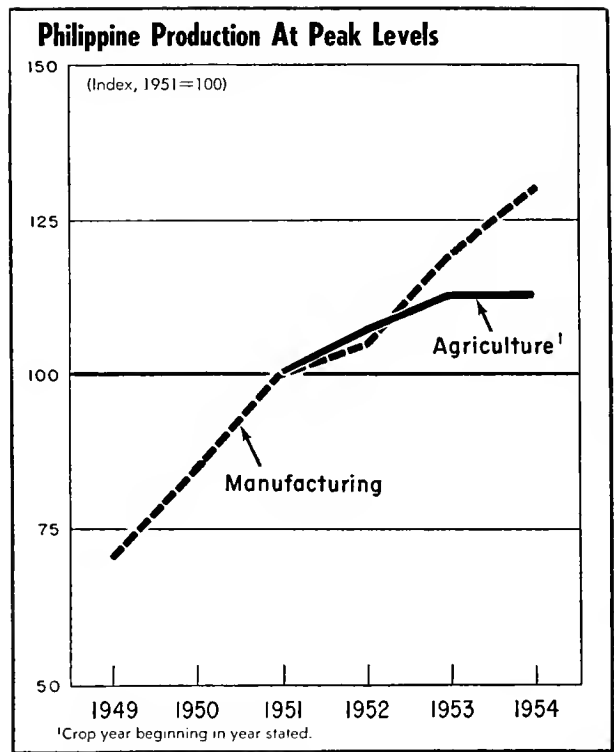
In the first half of 1955, the program being carried out by the University of California to reorganize the medical school at the University of Indonesia was enlarged to provide for more training equipment and an increase in the number of Indonesians to receive advanced training in the United States. An interim agreement designed to expand and improve training facilities in engineering and the sciences was signed by the University of California and Gadjah Mada University. A similar arrangement is being made with the University of Indonesia.

Early in 1955, 12 technicians from Tuskegee Institute began activities in vocational training in Indonesia. Four are now stationed at Semarang where they are helping to install new equipment in a vocational institute and where they will shortly begin instruction in various trades. Additional instructors are scheduled to work in Medan and other vocational educational centers.

Philippine Development Advances

The Philippine Government has made progress in establishing a sound foundation for economic development, particularly in improving government services in agriculture, public health, and education. During the 1955 regular legislative session, the Philippine Congress enacted legislation providing for the establishment of agrarian courts to arbitrate disputes between landlords and tenants. It also passed a bill which establishes an agency for coordinating all economic development activities.

Progress toward economic development has been made in the face of a number of difficulties which handicap the government program. Although production indexes are at peak levels, there is still substantial unemployment and underemployment. Foreign exchange earnings continue vulnerable to fluctuations in world prices of Philippine exports. Foreign exchange reserves in the first half of 1955 fell to the lowest point since the beginning of exchange controls in 1949. These reserves are being further strained by the necessity of financing imports of essential industrial equipment.



To help the Philippines meet more effectively the increased responsibilities and requirements arising from its role in the Southeast Asia defense arrangements, the mutual security program for fiscal year 1955 was expanded from \$19.7 million to \$29.2 million. The \$29.2 million program comprised allotments of \$12.4 million for defense support, \$7.3 million for technical cooperation, and \$9.5 million for direct forces support.

A fund of \$5 million has been established to make needed foreign exchange available for importing industrial items. The fund has been used to purchase equipment needed for a cement mill, a textile plant, and certain road construction activities. FOA helped to establish an Industrial Development Center at Manila in January 1955 to provide technical advice to private investors who wish to establish small-scale enterprises. Training facilities in the Philippines, already used extensively by other countries in the Far East area, are being expanded to provide for additional numbers of incoming trainees.

During the January-June period of 1955, joint programs designed to improve living conditions in the rural areas registered further progress. Installation of 28 irrigation pumps was begun; when completed these pumps will bring water to more than 13,000 acres of farmland.

To service the needs of their members, Philippine farmers' cooperatives erected 70 warehouses capable of storing 3.7 million bushels of rice. Additional measures were taken to expand farm credit facilities. The Philippine Agricultural Credit and Financing Administration loaned farmers \$14 million in fiscal year 1955; this was about seven times the amount of credit made available in the previous year.

Technical assistance was provided to the Philippine College of Agriculture at Los Baños under a contract with Cornell University. Educational facilities at the University of the Philippines were improved through FOA-financed assistance to its Institute of Public Administration under a contract with the University of Michigan; to its Labor Education Center under a contract with the University of Connecticut; and to its Faculties of Business Administration, Engineering, and Education under a contract with Stanford University.

Thailand Faces Economic Problems

Thailand's official gold and foreign exchange holdings, which declined \$29 million in 1954, began to improve somewhat in the first part of 1955, primarily as a result of a moderate increase in rice exports. The country's economy, however, remains in a seriously weakened position. Government revenues are insufficient to cover the increase in costs of the military effort which Thailand's geographic position necessitates, and at the same time provide for the minimum public services essential for economic and political stability.

The Thai Government has taken a number of firm measures to reduce some of its economic ills. It has established drastic controls on imports, restricted the use of preferential exchange rates, and greatly liberalized rice export regulations. It has substantially curtailed expenditures for development purposes in order to avoid a much larger increase in deficit spending. Some of these measures, however, aggravate the budgetary problem by reducing government income from foreign exchange transactions.

A total of \$46.6 million was made available under the mutual security program in fiscal year 1955 to help Thailand build up its defense capabilities and strengthen its economic base. This was in addition to the military weapons and equipment supplied to Thailand under the military assistance program. The \$46.6 million included

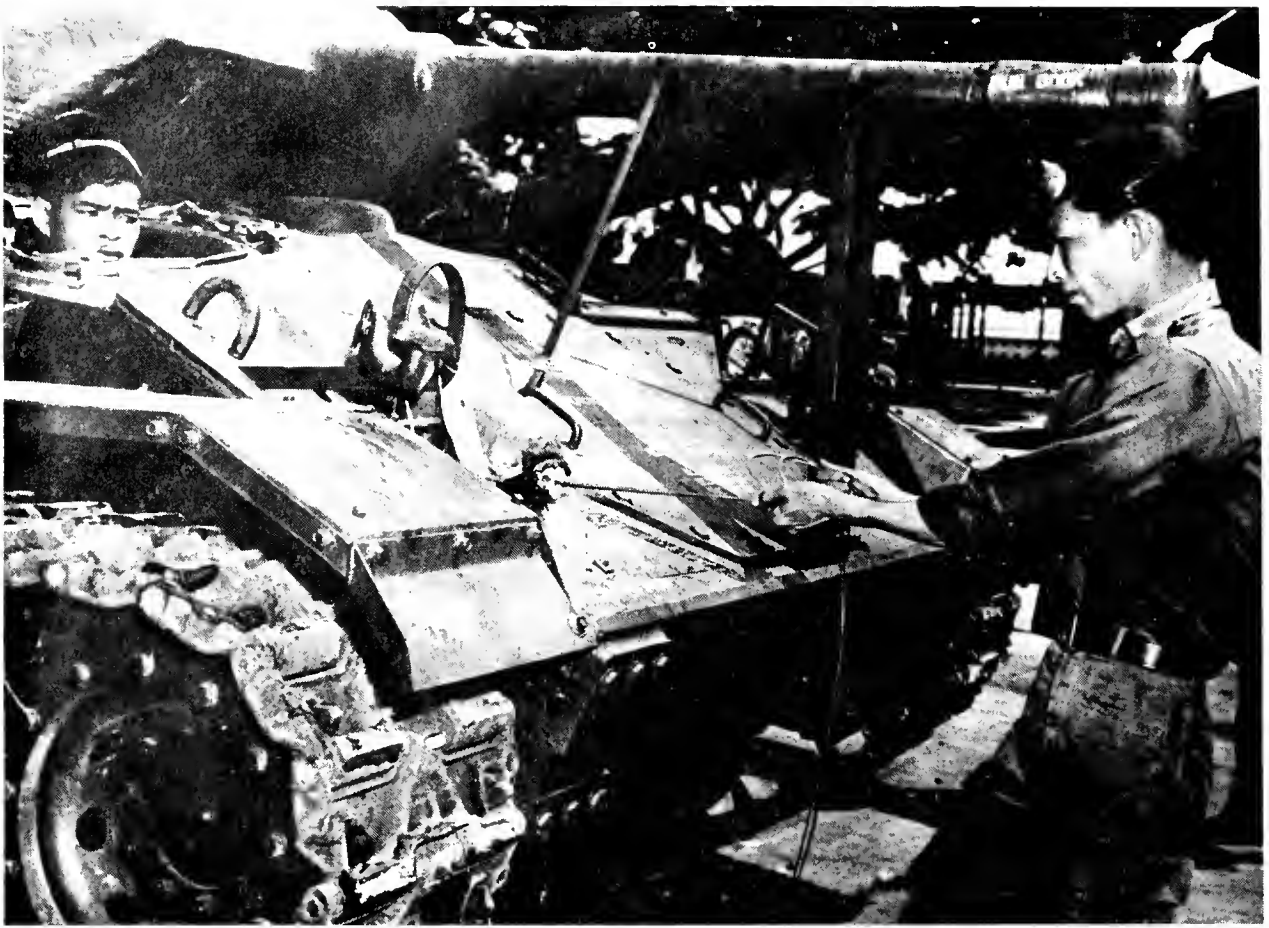
\$29.7 million for defense support activities, \$4.7 million for technical cooperation, and \$12.2 million for purposes of direct forces support. Funds for direct forces support are being used primarily to provide petroleum products for military use, to construct defense installations, such as military training centers, and to improve naval installations.

Substantial amounts of local currency are required for the construction to be undertaken in connection with projects for defense support and direct forces support. To provide the needed additional funds, which cannot be supplied from Thai budgetary revenues, \$24.7 million has been earmarked to finance the import of essential commodities, the domestic sale of which will generate the necessary local currency.

On the basis of a survey undertaken during the fall of 1954, contracts were entered into with American engineering and construction firms for an all-weather road between the city of Saraburi, near Bangkok, and the isolated Northeast provinces. During the first half of this year, assistance was also provided for improving eight Thai airfields and for extending the rail line from Udon to a point on the Mekong River a few miles below the Lao capital of Vientiane.

To strengthen regional ties and promote planning on a regional basis, exchanges of technicians have been arranged between Thailand and the new governments in Laos and Cambodia. Technicians from Laos and Cambodia are being brought to Thailand for additional practical training. Several projects are being considered for joint action, notably those concerned with rinderpest and malaria control and improvement of highways, railways, and telecommunications. A cooperative survey of the development potentialities of the Mekong River will be jointly sponsored, with United States assistance, by Thailand, Laos, Cambodia, and Viet Nam.

The Thai Government has taken several concrete steps to improve the climate for foreign investment. It recently has enacted the Industry Promotion Act and signed an Investment Guaranty Agreement with the United States. Thai officials are being sent abroad in an effort to attract outside investments. The first application by an American firm for an investment guaranty, one to enable the establishment of a modern tapioca factory, was approved in June.



Thai army maintenance men check an M-24 tank furnished under the mutual security program. American military advisors are helping to train Thai armed forces in the operation and maintenance of U. S.-furnished military equipment.

In May 1955, a 3-year contract in the field of public administration was negotiated between the University of Indiana and Thammasat University. The University of Indiana will send nine full-time members to Thailand and train about 60 Thai students and officials in the United States. Under similar contracts previously negotiated, Thai institutions are working with American universities in agricultural education, teacher training, and engineering.

South Asia

Support for Pakistan Strengthened

Pakistan has taken a firm stand on the side of the free world. United States military assistance to the Pakistani armed services will enable Pakistan to increase the effectiveness of its army, navy, and

air forces and substantially strengthen its defenses against possible external aggression.

The United States aid program carried out in fiscal year 1955 was based on the findings of a special economic mission sent to Pakistan in the summer of 1954. A political and economic crisis had developed at that time, brought on by a combination of natural disasters and unfavorable developments in Pakistan's export markets. As a result of Pakistan's urgent need for aid, United States assistance for the 1955 fiscal year was programmed at \$71.8 million. This included \$40 million for commodity imports. Funds realized from the sale of these imported commodities on the local market will be used mainly for long-range developmental projects to broaden the country's economic base. Part of these funds will also be used to help defray the costs of maintaining the military establishment. The program

also included \$20 million for equipment and supplies for projects in the defense support category; \$5.5 million for flood relief; \$5.3 million for technical cooperation projects; and \$1.0 million for freight costs involved in the ocean transport of surplus agricultural commodities. Of the total amount, \$20 million was made available on a loan basis.

The technical cooperation program was broadened this year to include projects directed toward improvement of Pakistan's transportation and industrial facilities. A contract between Pan-American World Airways and Pakistan International Airlines, financed in part out of mutual security funds, was signed in May 1955. Under the terms of this contract, American technicians will help Pakistan expand its air transport system. A team of experts from Pan-American will work with Pakistani personnel in the various phases of airline operations.

Joint technical cooperation activities are continuing in agricultural production, land reclamation, vocational education, and public health. American universities are helping to modernize Pakistani institutions of higher education. American technicians are assisting in the nationwide community development program through which villagers are pooling their efforts to build progressive and well-integrated rural communities.

The United States is helping the Government of Pakistan in designing a multipurpose dam to be built on the Karnafuli River in East Pakistan. Electric power from this dam will greatly accelerate the development of industry in East Pakistan. The dam will also be used for irrigation during the dry season, as well as for flood control.

The United States and Pakistan signed an agreement in May which makes possible the guaranty of American private investments in Pakistan. Such guaranties, which are designed to encourage private enterprise to contribute to the economic strength of countries participating in the mutual security program, provide protection to American investors against loss by expropriation or from inconvertibility of foreign currency into dollars.

India's Economy Expanding

The current situation in India gives encouragement for continued economic development. Food and raw materials are more adequate than at any time in recent years. National income and

government revenues are rising, and industrial production is climbing. The rise in agricultural and industrial output has brought about an expansion in foreign trade.

These favorable developments reflect in part the achievements of the first 5-Year Plan. The percentage increases planned in production of food grains and in cotton cloth for the 5-year period were substantially exceeded within the first three years. Output of cement, ammonium sulphate, and cotton was also running ahead of schedule. Road building, locomotive production, electric power output, and hospital construction, however, were lagging behind the planned rate.

The gains in food production, while substantial, have been confined mainly to food grains. They have been brought about by a combination of good crop seasons and newly instituted improvements in agricultural methods. Because of population increases, however, agricultural production on a per capita basis is still below prewar. It is increasingly evident that the ultimate solution of the agricultural problem in India rests on more than increased production alone. Greater attention must be paid to other factors, such as storage facilities, credit arrangements, and effective marketing mechanisms.

A second 5-Year Plan is in the initial drafting stage. Its primary objectives are a sizeable increase in national income in order to raise the standard of living, and a more rapid industrialization with particular attention to the development of basic industries. The plan also envisions several programs for reducing unemployment and underemployment, factors which have become major problems in both the urban and rural parts of India.

The new plan aims at an increased new investment of \$11.2 billion, of which \$6.8 billion would be made by the Government and \$4.4 billion would be made by the private sector. It would provide for total increases of 20 percent in consumer goods and 150 to 175 percent in producer goods. A proposed new increase of 20 percent in agricultural output includes a 15-percent rise in the production of food grains and a 25-percent rise in other foodstuffs and commercial crops. Transportation facilities, particularly the railroads, as well as power facilities would be considerably improved. Investment in industries and mining would account for 25 percent of the total planned expenditure.

During fiscal year 1955, the United States allotted \$84.3 million for India, of which \$45 million was made available on a loan basis. Of the \$69.1 million of development assistance funds either loaned or granted to India in fiscal year 1955, \$30 million was programmed for the purchase of cotton and wheat from the United States. The rupees acquired by the United States from the sale of those commodities are part of the \$45-million loan, and will be utilized by India for development of power, multipurpose river-valley projects, and other joint undertakings in the Indo-American program.

The technical cooperation program has continued to emphasize projects of community development, designed to increase agricultural production and improve conditions in rural communities, where 70 percent of the Indian population live. Contracts are being negotiated with five American land grant colleges to provide technical support to a number of Indian states and agricultural institutions. A water supply and sanitation program for villages is getting under way, and more attention is being given to small-scale irrigation, soil conservation, and better farm management. The University of Tennessee, under contract, will assist Indian women's colleges in home economics. Under another contract, the University of Texas will help in the establishment of teacher training institutions for the improvement of secondary education.

U. S. Universities Aiding Afghanistan

Major emphasis in the technical cooperation program of approximately \$2 million in Afghanistan has been directed to the multipurpose Helmand Valley project in the southern part of the country. A group of United States experts is assisting the Helmand Valley Authority on a wide range of technical matters—engineering, agriculture, health and sanitation, community development, and public administration. The Afghan Government is enlarging the irrigated land areas in the Valley and is settling its nomadic population in permanent agricultural communities. With the assistance of United States experts, a training school for community development as well as a number of demonstration farms have been established in the Valley. Two American forestry experts are assisting the Authority in reforestation projects.

Under contracts made with FOA, Columbia University Teachers College has a team of four specialists in Kabul, and the University of Wyoming has 23 specialists in the same area. Teachers College is assisting the Afghan Ministry of Education in the field of teacher training and general education. Wyoming University is assisting in technical education and agriculture. With technical guidance from Wyoming, an Afghan Institute of Applied Science has been established with two subsidiary schools—the Afghan Institute of Technology and the Vocational Agricultural School.

Wyoming University is also assisting the Afghan Ministry of Agriculture in agricultural research and demonstration. A demonstration farm and a training center for agricultural research and demonstration have been established near Kabul.

The Near East Foundation, under a contract with FOA, is cooperating with the Afghan Government in a program for training people for community development work in Afghan villages.

Rehabilitation in Nepal

The development effort of the Government of Nepal in the first half of 1955 was directed chiefly toward rehabilitation work to repair the destruction caused by last year's severe floods. The United States Government has assisted the Nepalese, primarily by sending supplies and equipment necessary for the recovery of inundated farm lands and the reconstruction of washed-out roads.

A project for the reclamation of the Rapti Valley has been undertaken. An area of about 130,000 acres will be opened up for resettlement of farmers whose lands were destroyed by the recent floods. Survey work has begun for a road connecting the Rapti Valley with the Valley of Kathmandu in order to bring additional food supplies to the heavily populated and food-deficient Kathmandu area. Malaria control measures will be an integral part of the Rapti Valley project since the presently high incidence of malaria limits further settlement and development. The plan also includes simple irrigation by diverting water from the Rapti River into local irrigation ditches.

The village improvement program in Nepal is progressing steadily. There are now six development centers, including a new one started in the

January-June period of 1955. These centers have trained more than 175 Nepalese who are now working in the villages demonstrating more effective methods of using insecticides, fertilizers, and improved farm implements. They are also demonstrating how simple measures of public health can reduce the high rate of village diseases.

The Nepalese have been taking steps to raise the low literacy rate that holds back progress in the country, and with the help of the University of Oregon they are making gradual progress. Under this program more than 100 young villagers are being trained to work as teachers in various school districts throughout the country.

CHAPTER III

Near East and Africa

THROUGH the mutual security program, the United States is working with the countries of the Near East and Africa on measures designed to bring to that important region a greater degree of political stability, a larger capacity for defense, and a more rapid rate of economic development.

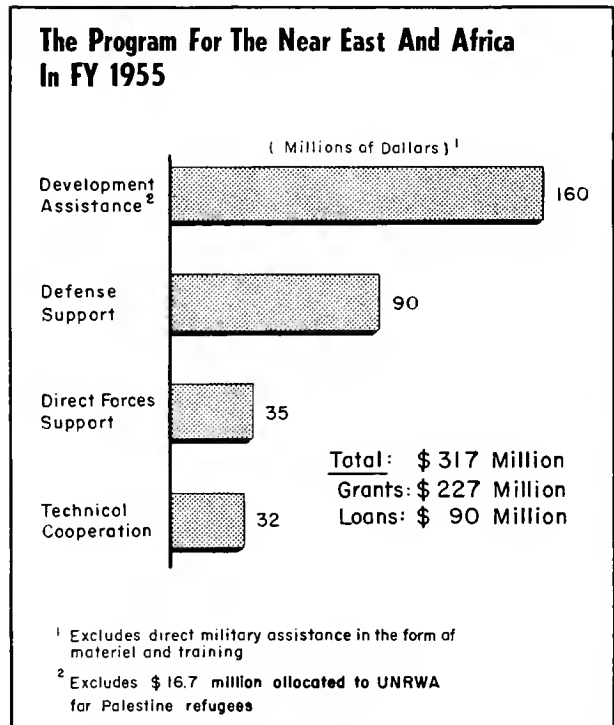
In the fiscal year just ended, program operations continued to concentrate heavily on Greece, Turkey, and Iran. These three countries received most of the military weapons and equipment we furnished to the region under the United States military assistance programs. They also accounted for nearly half of the funds used for purposes other than direct aid to their military establishments.

Program activities in other parts of the region were focused on the economic and technical development efforts in the Arab States and Israel and in a number of countries in Africa—Ethiopia, Liberia, Libya, and several of the dependent territories. During the first half of 1955, FOA carried out additional program actions to support priority developmental projects in Egypt, Jordan, and Lebanon. Technical cooperation programs in nearly all countries continued to grow in importance. In the 6-month period, another university contract was signed so that by June 30, 16 American universities were working in 9 Near Eastern or African countries in response to requests for United States technical assistance in specific fields of development.

Programming of Funds.—Approximately \$317 million of United States funds was allotted for mutual security purposes in the Near East and Africa during fiscal year 1955. This excludes amounts provided for direct military assistance, but includes \$35 million for direct forces support. Military shipments to the area (including Pakistan) during the 12-month period were valued at

\$238 million. The nonmilitary funds were allotted as follows: defense support, \$90 million, including \$62 million on a loan basis; development assistance, \$160 million, including \$27.5 million on a loan basis; and \$32 million for technical cooperation. In addition, \$17 million was allocated to the Department of State for the United States contribution to the U. N. Relief and Works Agency for Palestine Refugees.

Approximately \$230 million of the total amount was allocated for purchase of supplies and equipment, mostly in the United States. Included were large quantities of surplus agricultural products. Contractual services performed by American business and engineering firms and universities accounted for an additional \$13 million.



Greece, Turkey, and Iran

Greek Recovery Continues

Greece, along with Turkey, is a strong bulwark in the defense perimeter along the southern flank of the North Atlantic Treaty area. The armed forces which Greece maintains in this strategic area constitute an essential element in the defense of the West.

United States military supplies and training have helped Greece to mould its army into a hard hitting force with trained units that know how to use and maintain their equipment. Progress made by the Greek Air Force also is impressive: it is now more than four times its original size and includes a number of jet fighter-bomber squadrons.

The cost of the military buildup has placed a heavy burden on the Greek economy. Necessary defense expenditures compete directly with the economic development measures which are essential to improve Greece's low living standards. In working for better conditions for its people, the Greek Government has had to cope with handicaps of limited natural resources, considerable unemployment, and inefficient agricultural and industrial methods. Despite these handicaps, Greece has made substantial advances toward a stronger and more self-supporting economy.

Among the more noteworthy of the various programs designed to combat Greece's basic economic problems has been the electric power program. With United States assistance, Greece now has for the first time a unified electric power generating and grid system which has more than doubled the prewar power output. United States direct participation in this successful effort will be terminated on July 15, 1955, when the Greek Government will take over full management of the power system.

The Greek economy has made a strong recovery, with both agricultural and industrial production considerably above prewar levels. Government revenue collections have increased as a result of accelerated economic activity, improved taxation laws, and more efficient collection procedures. The Government's economic stabilization program has been generally effective. In recent months, however, this program has been pursued under increasingly adverse conditions. Greece's third series of major earthquakes in two years struck

the Aegean coastal city of Volos in April and May 1955. The Greek Government immediately introduced a series of tax increase measures to raise funds for relief and reconstruction.

In recognition of the difficult budgetary situation confronting the Greek Government, stemming largely from heavy military expenditures and large reconstruction costs in earthquake areas, United States aid in fiscal year 1955, other than for military assistance and \$10 million for certain civilian-type items which go directly to the armed forces, was increased from \$16.2 million to \$24.1 million. This additional support will finance imports of needed housing materials for the reconstruction of Volos. Moreover, under the Agricultural Trade and Development Assistance Act of 1954, agreements were signed in June 1955 which provided for the sale to Greece of \$14.3 million worth of United States surplus commodities. The equivalent of \$11.7 million of the sales proceeds will be used for economic development; of this amount, \$4.2 million is on a loan basis, and \$7.5 million is a grant.

Turkish Economy Affected by Crop Failure

Initial supply of Turkey's navy and air forces, scaled to NATO goals, was in large part completed during the first half of 1955, making it possible to concentrate on improving equipment and training of the Turkish army. This period also saw Turkey's successful conclusion of a pact with Iraq which provides for cooperation in strengthening mutual defense. This pact, together with the Turkish-Pakistan pact concluded earlier, indicates Turkish initiative in the development of Middle Eastern security arrangements.

Under an agreement signed in November 1954 and supplemented in April 1955, \$29 million worth of United States surplus agricultural commodities will be shipped to Turkey. These shipments will help meet the shortage of grain resulting from drought as well as supply needed cottonseed oil. The shipments are in addition to the \$7.8 million worth of wheat sold to Turkey under Section 402 of the Mutual Security Act of 1954.

The full effect of diminished foreign exchange earnings, aggravated by the failure of the 1954 wheat crop, was felt during the first half of 1955 when Turkey's international payments position worsened considerably. This situation again em-

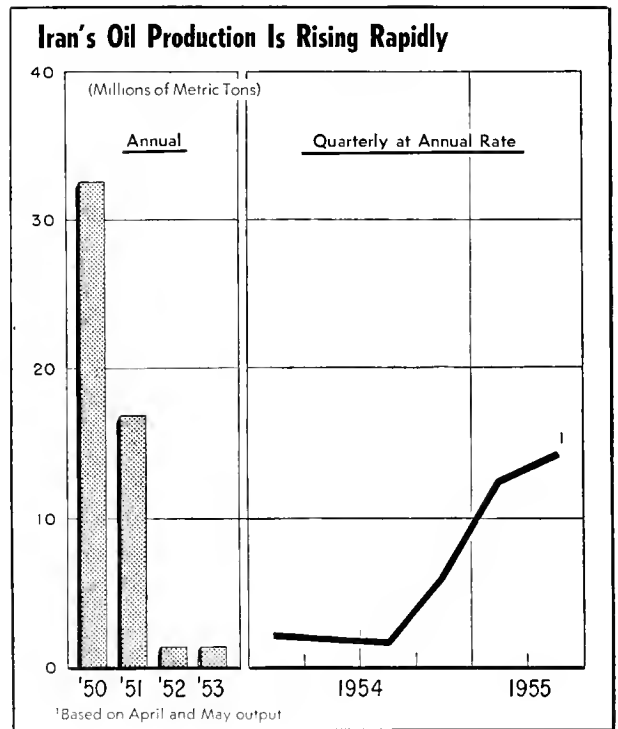
phasized the sensitivity of the Turkish economy and the need for the Turkish Government to take financial stabilization measures which would make it less susceptible to recurring emergencies. In order not to jeopardize the military security program or the achievements made in the development program during the past five years, the United States agreed in June to increase the fiscal year 1955 defense support program from \$70 million to \$100 million. The additional \$30 million grant was designed to assist Turkey in its emergency period and provide for those essential imports of raw materials, basic commodities, and spare parts required to keep its industrial plant moving.

Iran Becomes More Self-Reliant

The Government of Iran during the first six months of 1955 was engaged in analyzing the country's economic needs in relation to its available resources. The oil settlement, achieved in October 1954, started the flow of substantial governmental oil revenues which had been cut off for more than three years. The new oil revenues were not adequate, however, to finance all urgent needs during the first six months of 1955. Accordingly, United States financial aid was required, although largely on a loan basis. This aid has made it possible for the Government of Iran to launch needed activities in the field of economic development. The Iranian Government has drawn up a comprehensive development program, based upon the use of oil revenues, which has many sound aspects.

Since the Iranian Government's revenues were not sufficient to meet defense expenditures, government employe payrolls, and other current operating expenses, FOA continued budgetary support by lending Iran \$32 million. The use of these dollars to purchase essential imports helped slow down the rate of rise in prices, but inflationary pressures in Iran continued to exist.

There is increasing evidence of the success of technical cooperation activities in Iran. Projects which were instituted early in the program have been turned over to appropriate agencies of the Iranian Government which have incorporated them as a permanent part of their own activities. During the last two years, for example, American technicians have taught the techniques of livestock cross-breeding and artificial insemination to Ministry of Agriculture employes. They, in turn,



with the guidance of the American specialists, have spread the knowledge of these techniques in the rural areas. The Ministry of Agriculture has taken over the operational responsibility for a nation-wide demonstration program.

Four years ago, United States health technicians planned and carried out the operation of the malaria control program in several regions of Iran, and at the same time conducted a training program for Health Ministry personnel. Today, the Iranians themselves carry on the bulk of the malaria control work that has produced such dramatic results in reducing one of Iran's most serious health menaces.

A teacher training program developed by United States specialists is now being carried on by the Ministry of Education on a permanent basis. This program has reached 12,000 teachers, about 40 percent of the entire teaching staff of the country.

Considerable progress has been made in the field of public administration. United States technicians have been advising the Government of Iran in various phases of municipal administration, census activities, and statistics. The Institute of Administrative Affairs of the University of Tehran was opened in January 1955 to provide in-



Teacher training in Iran. Homemaking instructor at a training school in Shiraz demonstrates hygienic practices to Iranian tent school teachers. This is one example of how the United States technical cooperation program is helping the Iranian Ministry of Education plan a broad educational program for the country's two million nomads.

service training in public administration for government officials and employes.

During the period under review, as a part of the military assistance program, several teams were sent to Iran to carry out special training programs. In this way, the United States is helping the Iranian armed forces develop some of the more specialized skills needed to increase their defense potential.

Arab States and Israel

Egypt Embarking on Development Program

A comprehensive economic development program, covering an initial 10-year period, has been initiated by the Egyptian Government. The program provides for expansion of Egypt's basic transportation and communication facilities, a greater measure of industrialization, land reclamation, and resettlement of landless farmers.

United States development assistance totaling \$40 million was made available under the mutual security program in fiscal year 1955 to help Egypt move ahead with its development effort. In addition, \$2.9 million was allotted for technical cooperation activities. Emphasis of the development assistance program was placed on improvement of railways and highways, major components of Egypt's 10-year development program. A loan agreement provides for repayment to the United States of \$7.5 million of the total \$40 million. As its share of the cost of the projects, Egypt intends to spend the equivalent of \$43.3 million from its own resources.

New forward steps were made in a number of the joint technical cooperation projects under way. With FOA assistance, the Ministry of Agriculture produced 56,000 bushels of a productive and hardy hybrid corn seed. An improved chicken feed is now in production and being marketed by six private concerns. Aerial maps were completed for the High Aswan Dam site. As a

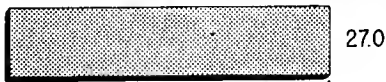
Development Assistance For Egypt In FY 1955 Accented Transportation

(Millions of Dollars)

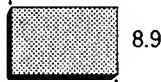
Total, Development Assistance



Transportation Equipment



Equipment for Other Projects



Consumer Goods Imports



result of groundwater tests, the Government of Egypt has started operations to tap new water sources.

Agricultural extension work has become a primary element in the agricultural program, and three field centers were established during the first half of the year. Also in agriculture, construction of a milk pasteurization plant was started, and three installations for artificial insemination were set up for improvement of dairy cattle. In industry and mining, two field parties were engaged in mapping mineral sites. Possibilities for Egyptian manufacture of animal feeds and expansion of its caustic soda production are under study.

In health, control operations were extended for ridding Egypt of bilharzia—a blood disease which attacks the internal organs and robs the energies of a large part of the Egyptian population. The Egyptian Government assigned a number of new workers to demonstrate the effectiveness of sodium pentachlorophenate in killing the snails which act as intermediate carriers of the disease.

In public administration, the Egyptian Government has introduced new techniques and more efficient methods in its customs procedures as a result of a technical cooperation study recently completed.

Iraq Initiates New Military and Developmental Measures

Iraq has assumed increased defense importance in the Near East as the result of its pact with Turkey and the United Kingdom. Iraq has a considerable military potential and at present is devoting more than one-fourth of its total budget to defense. The first shipment of United States military equipment, sent to Iraq under the recently concluded military assistance agreement, consisted mainly of transport vehicles and signal and engineering supplies.

The Iraqi Development Board has drawn up a broad program of economic development, to be financed from government oil revenues. The main elements of the program include dam construction, road building, and land reclamation and settlement. On April 1, 1955, the second 5-Year Plan of the Iraqi Government was initiated. The Development Board is proposing that the equivalent of about \$800 million be made available from oil royalties to finance the new program. Much of the emphasis of Iraq's second 5-Year Plan will be on projects designed to raise the general living standards of the people in the immediate future. National income per capita in Iraq is only about \$120 a year.

A main key to Iraq's development lies in harnessing the waters of the two large rivers which run through the country, the Tigris and the Euphrates. Construction work for this purpose is under way on a number of dams. Completion of the dam construction phase of Iraq's program will help speed progress on the large Miri Sirf land development project, which is designed to reclaim large agricultural areas for the landless peasants and the nomadic Bedouin tribes.

Good progress has been made in the technical cooperation program in Iraq. An agricultural college has been established at Abu Ghraib with the assistance of technicians from the University of Arizona, and the Baghdad Technical Institute has been established with the assistance of technicians from Bradley Institute of Technology. Technicians from International Voluntary Services are continuing work on the model community development project at Shaqlawa. Work is also moving ahead satisfactorily on the maternal and child health center at Samawa, and on the nurse and sanitarian training project at Basra.

Jordan Attacking Its Economic Problems

With extremely limited resources and with nearly 500,000 destitute Arab refugees within its borders, Jordan is confronted with serious economic problems. The Government of Jordan has recently drawn up a broad plan of development. Projects include use of the mineral resources of the Dead Sea, increasing phosphate production, exploration for additional minerals and oil, development of the Jordan Valley, improvement of agriculture, more attention to small industries, and a better transportation and communications network. The Jordanian Parliament recently passed two laws which it is hoped will have a favorable effect on economic development; one law liberalizes existing statutes on private foreign investment, and the other is designed to encourage needed industrialization.

The United States made \$5 million available in fiscal year 1955 to assist Jordan in its development program. Of this amount, \$2.5 million was in the form of local currency purchased with pound sterling generated from the sale of United States coal to the United Kingdom. Most of the local currency, which is deposited in a joint fund, is being utilized to pay Jordanians and refugees who have been put to work on road construction, afforestation, and waterspreading activities. Under this program, more than 60 miles of road have been completed; 5,000 acres of formerly unproductive land have been brought under cultivation; and hundreds of thousands of new trees have been planted. In support of these activities, \$1.4 million worth of equipment is being imported. In addition, local currency loans are being made to small industrial undertakings in an effort to reduce Jordan's present heavy dependence upon imports. Loans are also being made to groups



Jordanians at work on construction of an east-west highway system. Under the development assistance program, the United States is helping Jordan build more adequate road facilities to further the country's development as well as to give employment to thousands of Jordanians, including Arab refugees.

of individuals in the rural villages as part of the community development program.

United States assistance amounting to \$2.2 million was provided for the technical cooperation program in fiscal year 1955, with projects in agriculture, natural resources, health, and education. Many projects under this program have already been taken over by agencies of the Jordanian Government which will continue to operate them.

Nineteen agricultural centers serving 300 villages are now in operation in Jordan. Reservoirs have been renovated, and local villagers trained to maintain them. Joint Jordanian-United States committees have developed a number of courses of study for the teacher training schools. These courses have been designed to meet the special needs of Jordan by giving relatively greater emphasis to functional training. A program initiated for the education of the children of the nomadic tribesmen has been enthusiastically supported by the Bedouins. Approximately 100 Jordanian trainees in education have been sent abroad, while about an equal number have returned and been placed in positions where their acquired knowledge will be of the utmost value to Jordan.

New Measures for Lebanese Development

The economic development of Lebanon depends in large part upon improved communication facilities, since much of its income is derived from tourism and commerce. In the first six months of 1955, a program was initiated to assist Lebanon in improving its road system. As a part of this program, an agreement was signed in June which provides for United States assistance in the amount of \$5.7 million to help finance construction of a modern highway from Beirut to the Syrian border, where it will then connect with a road to Damascus, the capital of Syria. The road between the two cities is one of the most important trade routes in the Middle East. The Lebanese Government will pay the major part of the construction cost from its highway budget. Of the amount to be supplied by the United States, \$5 million will be in the form of a 15-year loan bearing interest at 3 percent; the remaining \$700,000 will be used to purchase American road building equipment, and to finance a \$200,000 engineering survey by an American firm.

Lebanon's climate is ideal for growing fruits, vegetables, and other crops. In fiscal year 1955, development assistance measures were instituted which provided \$1.4 million for improved equipment for agricultural development. Much of the agricultural land in Lebanon needs irrigation, and an irrigation development program has been started to increase arable acreage. A project to supply pure water to the villages has also been initiated. Pipe and other equipment arrived in June, and construction of pipelines was begun.

Under the guidance of United States extension specialists in Lebanon, an agricultural extension service has been instituted with 30 offices throughout the country. The Terbol Experimental Farm, which has proved so successful that the local demand for quality cows and bulls far exceeds the supply, will be turned over to the Lebanese Government in the fall of 1955 to be operated by Lebanese personnel who were previously trained by American technicians. Prevention of wind erosion by windbreak planting has been demonstrated by an American forestry expert, and it is expected that farmers will soon apply the lessons of this new technique to their own lands.

The development of light industry is important to the economic growth of Lebanon. The Lebanon Industry Institute was established to aid this development with the help of American technicians from the Battelle Memorial Institute of Columbus, Ohio. Ground was broken in January 1955 for the Industry Institute's new buildings and construction is now in process. Technicians from Battelle experienced in business administration, production management, and marketing have arrived and have started a number of productivity projects.

The Litani River surveys, completed in 1954, resulted in the establishment of a National Litani Board. The development of the Litani River will provide water for irrigation and electricity for industry and contribute immeasurably to the economic development and welfare of Lebanon. Water reconnaissance studies are now being made on ten other Lebanese rivers.

Efforts to Help Palestine Refugees

The United States continued to support the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) in its efforts to improve the living conditions of the Arab refugees

and to develop projects to help them become self-supporting.

Of the 900,000 Arab refugees from Palestine, about one-third are completely supported by UNRWA in camps; the remainder are receiving a food ration and basic medical services. The average cost for relief per refugee is approximately \$28 a year.

Educational opportunities for refugee children of school age, who constitute about one-quarter of the total refugee population, are also being provided by UNRWA. While UNRWA's greatest educational effort in the past has been concentrated on elementary education, an expanded secondary school educational program resulted in important increases in the number of pupils during the first half of 1955.

The program for improved housing in the camps, undertaken on the basis of the budget approved by the U. N. Eighth General Assembly, has been largely completed. The camp facilities originally were intended to be of a temporary nature, but it has been necessary to provide for prolonged occupancy in view of the tremendous problems faced in creating permanent homes and jobs in an arid area which historically has been able to provide no more than a bare subsistence for the former population. Plans have been virtually completed, after long and detailed study, for a major project which would resettle more than 50,000 refugees in the Sinai Peninsula. These plans, which are now receiving the final review of the Egyptian Government and UNRWA, provide for the perennial irrigation of some 50,000 acres with water conveyed across eastern Egypt and siphoned under the Suez Canal to western Sinai. Twenty farming villages, two district centers and a capital town are to be constructed on land which is now empty desert.

Negotiations with Lebanon, Syria, Jordan, and Israel have continued in an effort to arrive at a division of the waters of the Jordan River Valley and an agreed program for the Valley's development. Ambassador Eric Johnston, the special representative of the President, resumed his discussions in the Near East during January and February, and was successful in bringing the parties closer to a mutually acceptable program. Technical discussions and the compilation of additional data have been continued in Washington, looking to definitive negotiations in the Near East during the latter half of the year.

It is estimated that the development of the Jordan River system would permit the irrigation of 225,000 acres of land in the four states concerned. This would make possible the eventual settlement of perhaps 200,000 refugees, as well as provide important benefits for the other peoples of the area.

Israel Turns to Industry

Marked progress has been made in Israel's management of its financial problems. A good measure of economic stability has replaced the rampant inflation of earlier years, and the short-term external debt has been satisfactorily refunded. Greater attention is now being paid to programs for orderly economic development, especially in the industrial sector.

United States assistance to Israel under the mutual security program is placing greater emphasis on industrial development projects designed to make maximum use of local raw materials. An increasing share of the local currency generated by the sale of imports under the program is being placed at the disposal of industry in the form of loans to expand output and build new capacity.

Much of Israel's industry will necessarily be on an import-for-export basis, thereby placing a premium on the country's efforts to compete in international markets. New technical cooperation projects have therefore been initiated, in cooperation with the Government of Israel and various public and private institutions, for management training in order to increase industrial productivity. In addition, vocational training is being intensified to provide personnel with the requisite technical skills for achieving the planned expansion in industrial fields. Improvement and extension of rail and highway facilities are also being fostered in order to increase the output potential of the nation and to lower costs.

Agricultural production, an important feature of Israel's development program, must continue to expand. Lack of water is the principal limiting factor on Israel's agricultural output, and a major share of technical assistance is therefore being devoted to helping Israeli farmers expand arable land area by additional irrigation. Considerable emphasis is also being given to range management in order to increase the meat supply without overgrazing. Agricultural extension and demonstration methods are being used on a widening scale

so that farmers and ranchers can put the latest research knowledge to practical use in improving crops and livestock.

Africa

Assistance to the Independent Countries

Ethiopia.—Under the technical cooperation program in Ethiopia, a thoroughgoing examination of the educational needs of the country has been made by a joint commission of educators from Ethiopia and the United States. Plans have been developed to improve elementary and secondary education and to strengthen the administrative procedures of the Ministry of Education.

The program for education in agriculture and mechanical arts is already having a noticeable impact on the country. The Jimma Agricultural Secondary School, currently in its third year of operation, and the Handicraft School in Addis Ababa are now being financed entirely by the Ethiopian Government, except for the cost of United States technicians. Facilities to house the agricultural college being established in Harar province are expected to be completed by the coming winter. A trade school for apprentices is being set up in Addis Ababa by technicians from Oklahoma A&M College who are in charge of the program for developing agricultural and mechanical training. Assistance provided by United States technicians has resulted in a rapidly developing extension program, concentrating on improvements in crop production and animal husbandry practices.

Since May 1953, when Ethiopia was declared eligible to receive grant military aid, the Ethiopian armed services have made substantial progress toward standardization of equipment and supply procedures along American military lines. Training guidance and the limited quantities of materiel shipped to Ethiopia under the military assistance program have helped the Ethiopian Army to move ahead in its capabilities.

Libya.—The Libyan-American Reconstruction Commission has been established to manage the economic aid made available from United States sources. Allocations have been made by it for projects essential to Libya's economic progress. An American has been appointed Executive Director of the Commission, and basic procedures for the Commission's work have been drawn up and

put into effect. Some of the projects are extensions of existing demonstration work under the technical cooperation program, thus maximizing the services of the United States technicians in such fields as irrigation and water development, provision of water supplies, and health facilities.

Under a revised agreement, technical cooperation projects are being integrated within Libyan governmental departments to prepare the way for Libyans to assume full responsibility for project activities. For example, the Libyan-American Joint Service in Public Health is introducing preventive and other public health services which will operate as a unit within the Libyan Ministry of Health. New project agreements provide for joint management with Libyan and American co-directors.

The Libyan Government wishes to provide educational facilities which will enable its students to qualify for entrance in universities abroad. In response to its request, arrangements were made by FOA to send two college officials abroad to appraise Libya's needs and make recommendations for facilities which would approximate those of a United States junior college.

In June, a severe infestation of locusts required an all-out effort at harvest season to reduce insofar as possible the damage to the already subnormal crop. The United States provided experts in locust control, furnished insecticides and planes for spraying, and mobilized its agricultural technicians in the field to aid in the emergency. Although it has not yet been possible to estimate the full extent of the damage, it is known that as a result of the third year of drought and other poor crop conditions, this year's harvest will be well below normal. In response to the Libyan Government's request for aid in this crucial period, the United States has approved an additional grant of 6,800 tons of wheat to be distributed free to Libyans in the distressed areas of the Province of Tripolitania.

Liberia.—Construction of a new school building for the Booker T. Washington Institute is now under way, and classes are expected to start in August. This project is being undertaken through a contract with Prairie View A & M College which provides for the assistance of its staff in the improvement of Liberia's teaching methods, the planning of an educational curriculum, and related matters.

A project has been successfully completed for the demonstration of techniques of growing swamp rice. The results of this demonstration are being applied in many remote parts of Liberia through the agricultural extension system organized with United States assistance.

An agreement has been reached to use the services of a voluntary aid society in organizing and staffing a rural public health demonstration center in the Western Province.

During the first half of 1955, four of the five commercial fishing units now operating in the Monrovia area were assisted in getting established by an American fishery expert.

Dependent Overseas Territories

In response to a request from the Kenya Government and the United Kingdom to investigate the possibility of expanding the Kenya technical cooperation program, FOA sent a survey team to Kenya in March 1955. This team reviewed a number of possible activities and recommended several projects in agriculture, health, education, and community development. All the projects are part of a broad Kenya plan for the expansion of the economy and improvement of living conditions of the native population. They include the opera-

tion of a medical training school in Nairobi; the broadening of a mass literacy campaign in western Kenya; the acceleration of technical, clerical, and commercial education for natives in central Kenya; and the surveying of land units in the Kikuyu reserve.

A number of projects have been instituted in West Africa. Arrangements have been made for sending American technicians to study cattle blood diseases in the Gold Coast; bovine pneumonia and poultry diseases in Nigeria; expansion of technical and vocational education in Sierra Leone; establishment of a trade training center in Gambia; and a large agricultural development program in the Western Region of Nigeria. The West African territories recognize that the United States can offer assistance by providing special technical skills in agriculture and education unavailable in the United Kingdom and Western Europe. They are therefore eager to cooperate with the United States in carrying out local programs in those fields.

An agreement was signed with the Italian Government for the institution of an agricultural program in Somalia designed to help solve some of that area's most pressing problems and to train Somalis to participate increasingly in their own development plans in the future.

CHAPTER IV

Latin America

THE LATIN AMERICAN governments are demonstrating a growing initiative in working out practical plans for their economic development. The knotty problems involved in formulating country development programs have been examined at great length in various inter-American economic consultations, particularly within the Organization of American States and the Economic Commission for Latin America of the United Nations. The technical cooperation projects being carried out jointly by the United States and Latin American countries and territories have often stimulated developmental measures on the part of the participating governments.

Plans for country development have grown in number and scope. In the early part of 1955, Honduras announced that it had drawn up a 5-year program of broad economic development which envisions, in addition to rehabilitation of the flood-damaged Sula Valley, wide improvements in agriculture, road construction, power, and education. Guatemala has established a National Economic Planning Council to work out a feasible long-term development plan to expand the Guatemalan economy. Ecuador has set up a similar planning board. Cuba is another country which has recently mapped out a comprehensive program of economic improvement.

Moving such plans out of the blueprint stage means that the Latin American countries must apply modern methods on a vastly increased scale. It means also that the acquisition of the necessary technical knowledge and skills must be speeded up. In response to these urgent and expanded needs, the United States and participating Latin American governments have strengthened their joint efforts under the technical cooperation program.

Technical Cooperation Progress

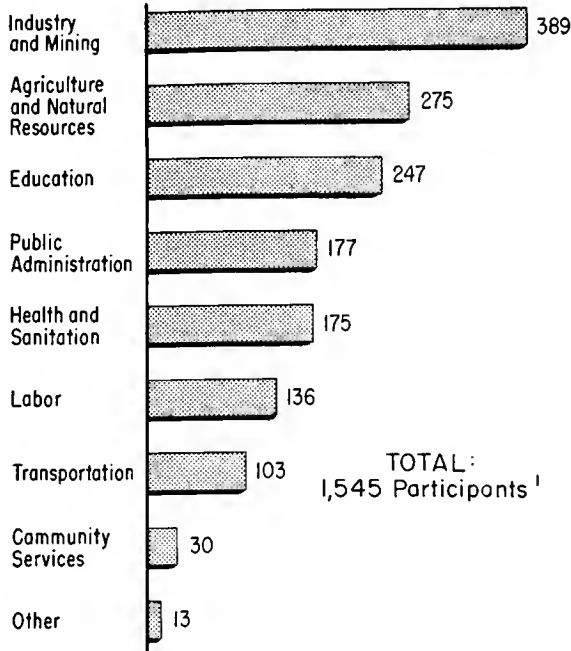
During the fiscal year ended June 30, 1955, the United States made available about \$28 million in direct support of joint technical cooperation programs in Latin America. The United States is engaged in such programs with each of the Latin American republics, except Argentina, and with a number of the dependent territories located in the Western Hemisphere. As in past years, the primary objective of these mutual programs is to share our technical knowledge and skills with the people and institutions of Latin America so that they can speed their own efforts for economic development in their countries. All of the programs continue to be jointly financed, jointly planned and jointly operated by the United States and the participating country. In June, agreements were signed for new technical cooperation programs in Jamaica and British Honduras.

The technical cooperation program in Latin America is being gradually diversified as a natural outgrowth of the growing requests by host countries for technical assistance in fields other than agriculture, health, and education. These three basic fields of activity continue to be the major components of the program, comprising 73 percent of total funds used for technical cooperation in Latin America during fiscal year 1955. A larger proportion of the program, however, was spread among other important activities, such as transportation, industry and mining, public administration, labor, community development, and housing.

United States colleges and universities expanded their participation in the technical cooperation program during the first half of 1955.

Latin Americans Are Acquiring Valuable Knowledge In The United States

Participants in FY 1955,
by Major Field of Study



¹In addition, 47 Latin Americans are studying in countries other than the U.S. and their own country.

By June, a total of 15 United States educational institutions were under contract to work in 12 countries of Latin America. In addition, increasing reliance was placed on the use of private organizations to meet highly specialized technical assistance needs.

Furnishing United States technical experts to work in the host country is a primary means of sharing our planning and productive techniques with other people. By mid-1955, there were about 635 United States technicians on duty in Latin America as compared to 523 at the beginning of the fiscal year.

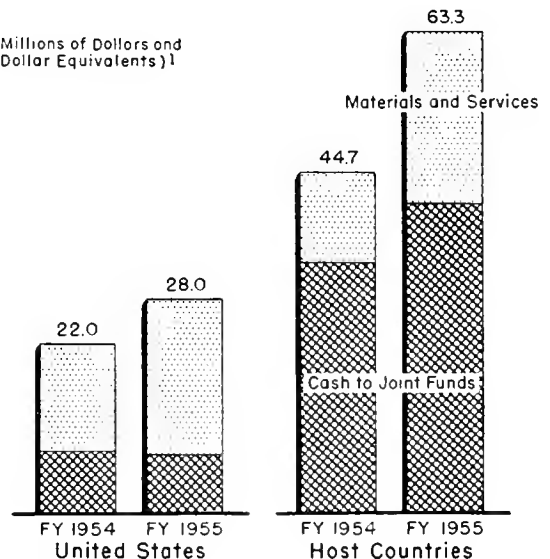
Another major way in which technical knowledge is imparted is through the participant program in which grants are made available for the training of Latin American personnel outside of their own countries, primarily in the continental United States. The participant program has been considerably strengthened; in fiscal year 1955, about 1600 training grants were made available, nearly double the number of such grants in the previous year.

The progress attained in the participant program is reflected in the fact that the great majority of these trainees, upon their return to their own countries, obtain positions which make it possible for them to utilize the full benefits of their training. They are also reaching, within their governments, the senior positions which enable them to have an important impact on the planning and implementation of the development efforts of their countries. In one country, for example, participants who studied in the United States now hold such positions as Director General of Agriculture; Chief of Public Health Education; Chief of International Affairs of the Department of Health; and the directorship of a large trade school in the capital city. Returning participants also fill many high-level positions in *servicios*, the joint U.S.-host country operating organizations established within appropriate ministries of the host governments to carry on technical cooperation programs.

One of the most concrete measurements of program progress in Latin America is the degree to which host countries contribute to joint operating funds. Each year, contributions of participating governments to these joint funds have increased, and in fiscal year 1955, they reached a total of about \$40.6 million in cash alone, or over five

Latin American Countries Have Increased Their Contributions To Joint Programs

(Millions of Dollars and Dollar Equivalents)¹



¹Estimated

times the United States cash contributions of about \$7.4 million.

Host governments are, to an increased degree, taking over full responsibility for projects initiated under the joint technical cooperation program. The Latin American governments are becoming increasingly capable of accepting both administrative and financial responsibility for individual projects and, in certain instances, for entire programs embracing a complete field of activity.

These are some of the more noteworthy activity trends and project developments which took place in recent months:

Agriculture.—Initiation of agricultural credit operations in Bolivia and Guatemala during the first six months of 1955 represented an important new trend for the well-established program of agricultural activities in Latin America. In both countries, authorities were faced with difficult problems of land settlement and ownership arising from earlier land reform programs. Under the new program for better credit facilities, arrangements are being worked out for the local government to provide loans for land purchase, for permanent improvements, and for working capital. The local governments are also planning to provide expert supervision to assist farmers in following sound farm plans to facilitate repayment of loans.

Technical assistance for these supervised credit programs is being supplied through contracts with a non-profit organization having broad experience in this field. Principal responsibilities under these contracts are to supply competent advisors to credit institutions and ministries of agriculture and to train field representatives of credit banks.

Further progress was made in agricultural research and extension activities being carried forward in most Latin American countries. New university contracts were signed to strengthen the programs in Costa Rica and Chile. In Costa Rica, technicians from the University of Florida are advising on the development of a national agricultural research program. In Chile, technicians from the University of California are advising on the improvement of curricula, and research and extension work of agricultural colleges in Santiago and Chillan.

Health and Sanitation.—Joint public health programs have been in operation in Latin America for more than thirteen years. The increasing

competence of the various ministries of health in Latin America is bringing about a progressive change in the way health programs are being carried on. United States technical personnel are gradually withdrawing from the operational phases of the work and limiting their functions more and more to consultation. Greater emphasis is being placed on training activities and on community development in public health. For example, the Ministry of Health of Uruguay has recently requested assistance in the reorganization of the Ministry and in the extension of local community health services throughout the country. This request appears to be a direct outgrowth of a demonstration program of local health services carried out as part of the joint health program over the years in five health centers in Uruguay. Activity in professional education has also been stepped up in a number of countries, and the services of United States technicians are being requested to furnish guidance to medical and nursing schools.

The American Hospital Association has initiated a series of seminars in hospital administration to be held in Brazil, Peru, and Colombia. The University of North Carolina is providing services to Peru's National School of Engineering in the field of sanitary engineering. The work on nutrition under the contract with the Harvard School of Public Health is moving ahead. At the fiscal year's end, there were requests from three additional countries for university contracts in medical education.

In the past year, the Public Health Division of FOA has developed closer working relations with the World Health Organization and its Regional Office, the Pan American Sanitary Bureau. WHO has asked FOA to collaborate with them and with the countries of Latin America to control malaria in the Western Hemisphere, particularly in the malaria-infested regions of Mexico, Colombia, and Haiti.

Education.—Technical cooperation programs in education in Latin America continue to stress the training of teachers. Newly trained teachers are reaching thousands with a type of education that is geared to help solve everyday problems, and that emphasizes the role of the individual within his society. Teachers are not only being trained for work in the elementary schools in the rural areas; they are also being shown how to develop skilled and semi-skilled labor for industry. Latin Amer-



Students at the San Andres vocational agricultural school in El Salvador learning how to operate and maintain farm machinery. United States technicians are working with the teaching staffs of Latin American agricultural schools to improve instruction in modern farming techniques designed to raise productivity and living standards.

ican teachers are being instructed in mechanical operations so that they can pass on the techniques for operating and maintaining simple farm equipment. Their training also includes courses in agricultural improvement so that they can demonstrate how crops can be improved with better seeds, fertilizers, and insecticides. Reform of outdated school laws and improvement of the economic status of teachers are other facets of these education programs.

The assistance of United States colleges and universities has been enlisted to help raise the levels of vocational education in various countries of Latin America. In Mexico, for example, during the first half of 1955 some of the best educators from Teachers College of Columbia University have been working with Mexican leaders in a study to determine the needs for technical education in that country. The Mexican staff has been provided by the Bank of Mexico, and Mexicans will

participate fully in all phases of the study. Procedures and forms have been developed jointly. Teachers College has sent engineers to Mexico to act as consultants in four major fields of the study: chemistry, foods, metals, and textiles. Under their guidance, Mexican teams are now gathering the necessary information.

During the period covered by this report, new technical cooperation programs in education were inaugurated in Costa Rica, Jamaica, and British Honduras. At the request of the Governments of Cuba and Colombia, studies are now in process to determine how United States technical help could best serve these countries in attacking their basic educational problems.

Industry.—Several new industrial programs were begun in Latin America during the first half of 1955. The Mexican Industrial Productivity Center was formally established in May. The El Salvador Industrial Productivity Center, which

was established in January, had initiated several cooperative undertakings by the end of June. A formal technical cooperation agreement for industrial productivity was signed with Uruguay in the latter part of June.

Studies on the development of joint programs in industry in Cuba, Panama, and Peru were carried forward during the period. Continued progress was reported from Chile, where a joint program in industrial development is concentrating on training at both managerial and worker levels, especially in smaller enterprises.

Public Administration.—Interest in improvement of public administration continues to grow among the Latin American republics as they become increasingly aware of its importance in individual country programs for economic development. Fifteen countries have requested United States technical assistance in improving governmental operations.

In Guatemala, the new government sought United States assistance in strengthening public administration procedures. FOA arranged to provide this service through a contract with a management firm with extensive experience in Latin America. The primary problem was identified as public finance, and experts were sent to Guatemala to work with the government on improving its tax structure and national budget system.

The Getulio Vargas Foundation School of Business Administration in Sao Paulo, Brazil, launched its 4-year undergraduate program in March 1955. This program, developed with the assistance of Michigan State University, has provided a number of short-term courses to help meet the need in Brazil for trained business and governmental leaders. The school now has started on its long-range program, with 57 undergraduates enrolled. As an important feature of this joint program, six Brazilian professors have been sent to Michigan State College for a year of training; when they return, they will be used as Brazilian replacements for the American professors of business administration.

Housing.—In Chile, the United States has furnished technical guidance and a limited amount of equipment to help the Chilean Government and people in their efforts to meet their acute housing needs. The Chilean Government has authorized expenditures of the equivalent of \$900,000 for purchase of building materials and for administrative

and technical supervision of the program. Chile also authorized an additional \$900,000 for housing sites and construction work involving 1,000 families. The United States provided \$100,000 for tools, cement, earth-moving equipment, and other construction material that had to be imported.

In Colombia, the Small Homes Council of the University of Illinois has contracted to study the country's housing needs in order to assist the Colombian Institute of Territorial Credit in adopting modern housing methods which will improve Colombia's housing program.

Working on a regional basis, United States technicians in the Caribbean area have stimulated local self-help programs for home construction in Surinam, British Guiana, Barbados, Trinidad, St. Lucia, Granada, and Jamaica. The objective has been to show the people in these regions how to develop low-cost methods of construction, utilizing local materials whenever possible, and enlisting family labor on a cooperative basis.

In areas where the construction phase of the housing program is well under way, more attention is being given to the development and training of group leaders who can disseminate the knowledge and experience obtained, and thereby multiply the considerable achievements already made.

Regional Assistance Through OAS.—During the first half of 1955, seven regional training projects continued in operation under the technical cooperation program of the Organization of American States. These training projects were in the fields of economic and financial statistics, housing, training of teachers for rural normal schools, evaluation of natural resources, child welfare, improvement of agricultural methods and rural life, and animal husbandry.

Such projects are limited to fields in which present facilities in Latin America are inadequate or nonexistent. Constant care is exercised to assure that OAS projects do not duplicate activities of other technical assistance programs. Under the OAS program, no assistance is given to individual countries. The objective is for all participating countries to benefit from each project.

In the first half of the year, the United States contracted for the use of training facilities developed under OAS programs in Turrialba, Costa Rica. The facilities will be used to train agricultural participants, particularly in the fields of

coffee and cacao research, under United States bilateral programs.

The United States continues its support of OAS projects. It has offered to contribute up to \$1.5 million, but not more than 70 percent of the total contributions to the 1955 program. As of June 30, 1955, 19 Latin American countries had made pledges totaling approximately \$500,000 to the 1955 program.

Technical Support to Territories

Surinam

The first year's operation of the technical co-operation program in Surinam concerned cooperative projects in agriculture, education, health and sanitation, and housing. Under the extension program, a Surinam staff has been trained in United States extension methods and practices. United States technicians are carrying out demonstration projects to determine the possibilities for introducing new varieties of vegetable crops suitable for cultivation in Surinam.

A large vocational school is now being constructed by the local government on the outskirts of Paramaribo. A United States technician has been helping in the development of a curriculum and training methods and in supervising installation of U. S.-furnished equipment in school shops.

In the self-help housing program in Surinam, in which United States housing specialists are providing technical assistance, 400 houses have been completed. United States technicians are assisting the Department of Social Affairs in the organization of its housing office and in the planning of an expanded program. About 500 units are scheduled for immediate construction. In addition, designs for rural houses are being provided for use throughout the country, and a self-help project for a fishery village of 150 units is ready to begin operations.

In April 1955, a sudden outbreak of rabies among cattle infected by vampire bats threatened to destroy large numbers of livestock. FOA technicians helped the Surinam Department of Agriculture carry out a mass inoculation program which successfully stamped out the disease and saved Surinam's farmers from large-scale cattle losses.

British Guiana

The 2-year development program launched by British Guiana in 1954 is well under way. The program is devoted largely to agriculture, land reclamation, health, transportation, and housing projects. The U. S. Operations Mission and field parties from the University of Maryland are cooperating in providing technical assistance for specific project activities. The University of Maryland supplied additional technicians during May and June to assist with soil analysis, resettlement and reclamation work, rural youth activities, and poultry and hog raising. Arrangements have been made with a voluntary agency for a project designed to promote health, vocational training, and the handicraft industry for the Indian population of the interior.

Development Assistance

The United States has provided development assistance to Bolivia, Brazil, Guatemala, and Haiti. Dollar funds amounting to nearly \$18.3 million were made available for these activities, and additional amounts of local currency for developmental projects were obtained through the sale of surplus agricultural commodities provided under the Agricultural Trade Development and Assistance Act of 1954.

Bolivia

Economic diversification is the key to continued recovery and stability in Bolivia. The Bolivian Government and people, with United States aid under the mutual security program, are making a concerted effort to overcome their heavy dependence on a single export commodity—tin. Bolivia continues to suffer from an unfavorable balance of payments, a severe shortage of foreign exchange, and a spiraling inflation. Bolivia does not at present grow enough food nor does it have the financial resources to import the supplemental food commodities necessary to feed its people, or to pay for certain items of equipment needed for diversifying its production base.

Despite the many remaining obstacles to its economic stability, Bolivia has made progress in a number of fields. Recent developments in the petroleum industry have already made the country self-sufficient in gasoline and certain light oils. Petroleum and petroleum products are beginning



Bolivian farmers watching to see how well a modern tractor will replace oxen. This is a practical demonstration at the Warisata school in the Bolivian highlands, where joint technical cooperation programs are helping to make rural schools more influential in the lives of the people.

to count as exports. Construction of a pipeline to Argentina and plans for a pipeline to the Pacific Coast reinforce the expectation that oil will become a major earner of foreign exchange. The United States is assisting the Bolivian Government in the rewriting of its petroleum code so as to make additional foreign private investment in this field more attractive. Bolivian efforts to create a favorable climate for foreign investors are beginning to draw the attention of United States mining interests.

The completion of the Santa Cruz-Cochabamba Highway has opened a vast new agricultural area in the country. A U. S.-Bolivian cooperative road program has stimulated construction of farm-to-market roads, and work is in progress to clear and put into production additional farm land in the newly opened areas.

Continued United States assistance has been a major factor in helping Bolivia meet its critical

problems. During fiscal year 1955, \$2.1 million worth of agricultural surplus commodities were sold to Bolivia under Section 402 of the Mutual Security Act of 1954. Moreover, about \$1.6 million of mutual security funds was used to pay ocean freight costs of additional surplus agricultural commodities supplied under Title II of the Agricultural Trade Development and Assistance Act of 1954. A total of \$6.4 million was used for agricultural equipment and other supplies and machinery to help Bolivia become more self-sufficient in some of its basic food crops and to improve its transportation and industry.

Normal marketing channels have been used in the sale of commodities supplied to Bolivia. Local currency generated from the sale of these commodities is being used in development plans jointly approved by Bolivia and the United States, primarily for road building, land clearing, and agricultural improvement.

Guatemala

The United States has assisted the new Guatemalan Government in maintaining economic stability during its transition period to permit it to mobilize its resources more effectively. In support of this objective, the technical cooperation program was broadened in fiscal year 1955, and a new program of development assistance was instituted.

The principal project under the development assistance program in Guatemala is completion of a 97-mile section of the Pacific Slope Highway. Construction of the two-lane road was about half completed at the end of June, and is expected to be finished by the end of 1955. Allocation of \$3.7 million to the project by the United States will be matched by not less than the equivalent of \$1.1 million in services, materials, or local currency contributed by the Guatemalan Government.

Development assistance funds amounting to \$960,000 were made available to help complete

construction and equipment of the Roosevelt Hospital. This sum was matched by an equal contribution in local currency by the Guatemalan Government. At the end of the fiscal year, a team of consultants in medical and hospital administration was on its way to Guatemala to explore possibilities for using the hospital as a base for a regional program of medical education in Central America.

Under Title II of the Agricultural Trade Development and Assistance Act of 1954, 27,000 metric tons of corn are being authorized for shipment to Guatemala as emergency relief to alleviate an acute corn shortage. Approximately 3,000 tons were delivered in June; the balance was scheduled for delivery in July and August. The first project to be financed with counterpart funds obtained from local sale of the corn is a highway from Cocales to Santa Ana Mixtan. This road will give access to a large agricultural resettlement area known as Tiquisate, part of which was



Foundations being prepared for a Pacific Slope Highway bridge across the Rio Bravo in Guatemala. The United States has earmarked \$3.7 million to help complete this highway which will open coastal agricultural regions for development and help improve economic conditions in the country.

donated to Guatemala by the United Fruit Company.

Haiti and Brazil

In May and June, \$750,000 of development assistance funds was made available to Haiti for rehabilitation of irrigation systems, farm lands, and farm-to-market roads damaged by Hurricane Hazel. Much of the reconstruction will be done by the Haiti-United States Agricultural Service and the Haiti Ministry of Public Works.

In June, \$1.5 million of development assistance funds was allotted for highly specialized air navigation equipment for Brazil's two largest airports, at Sao Paulo and Rio de Janeiro. The equipment will be installed by Brazilian labor with technical advice by United States experts. Local materials and land needed for installation will be provided by Brazil.

Hemisphere Defense

Bilateral military assistance agreements with the Government of Haiti and with the Government of Guatemala were concluded in January and

June, respectively, of this year. These agreements are consistent with the Inter-American Treaty of Reciprocal Assistance and the planning of the Inter-American Defense Board. Twelve Latin American Republics have now undertaken specific military roles and missions for the mutual defense of the Western Hemisphere. In addition to Guatemala and Haiti these countries are: Brazil, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, Honduras, Nicaragua, Peru, and Uruguay.

Funds provided from appropriations through fiscal year 1954, when fully expended, will substantially complete the equipment of those units presently designated for Western Hemisphere defense. Fiscal year 1955 and later funds will be used primarily for maintenance, replacement, and training.

United States military personnel are helping to train the members of the armed forces of the Latin American countries in the use and maintenance of the equipment provided under the military assistance program. As of May 31, 1955, nearly 1300 courses of instruction were completed by military students from the American republics.

CHAPTER V

Europe

MUTUAL security objectives in Europe were brought much closer in the first half of 1955 when the Federal Republic of Germany in May became a sovereign member of the Atlantic family of free nations. The addition of Germany to the Atlantic community on a basis of full and equal partnership was a most important event not only because it makes possible a more powerful NATO deterrent force; even more, it establishes the framework for a new unity so that nations long separated by ancient rivalries can work together for a durable peace. Realization of final accord on Germany opens the way for the additional unification measures necessary for long-term European security and further economic expansion.

The high levels of economic activity reached by most European nations during 1954 have been maintained and, in some instances, surpassed in 1955. Industrial production for Europe as a whole set a new record in the first half of the year. Certain financial strains were in evidence in particular countries, but on the whole, the European economic boom was still flourishing.

The rate of nonmilitary program expenditures for Europe made from mutual security funds has been falling steadily. In fiscal year 1955, such expenditures from funds made available in previous years were about half of what they were in fiscal year 1954. No new economic dollar aid to the European countries originally included in the Marshall Plan is contemplated for fiscal year 1956.

Difficult problems, both economic and military, lie ahead in Europe—problems of trade restrictions, convertibility, dependence on United States special dollar expenditures, making the new Western European Union into an effective operating organization, to cite a few. But never in postwar years has there been a more solid foundation in Europe upon which to work toward the solution of these difficulties.

Security of Free Europe

NATO's 15th Member

Under the Paris Agreements which came into force early in May 1955, the Federal Republic of Germany became an equal partner in the Atlantic Community and the 15th member of the North Atlantic Treaty Organization. By this act, the people of West Germany crowned their postwar development as a democratic nation firmly bound to the West.

The Paris Agreements also brought into effect the arrangements for the accession of Italy and the Federal Republic of Germany to the Brussels Treaty of 1948. The Western European Union (WEU)—the name given to the revised Brussels Treaty Organization—is empowered to limit and control the force levels and armaments of the WEU member countries. A WEU Arms Control Agency was established for this purpose in the Paris Agreements themselves. In addition, the Council of WEU in May formed a Standing Armaments Committee to foster standardization and closer cooperation in armaments production among WEU members. The work of this Committee will be carried out in coordination with similar work under way in various NATO agencies.

The new relationship in Europe confers certain rights and responsibilities upon both the United States and the Federal Republic of Germany. The United States, in line with the policies expressed during the negotiations of the Paris Agreements, renewed its assurances that it would continue to participate actively in NATO programs and would keep in Europe a fair share of the forces required for the common defense. We also pledged that our military assistance programs for the WEU countries would be carried out in consonance with the provisions laid down in the Paris Agreements with respect to control over the

forces and armaments of the WEU countries. The United States will carry out its aid programs in consultation with both the North Atlantic Council and the WEU Council.

The Federal Republic of Germany at the end of June was in process of taking the first legislative and executive steps required to carry out its pledge to create an effective military establishment as an integral part of the common defense effort. These steps were being carried out in consultation with the other NATO countries, and in particular with the United States. In support of Germany's effort to contribute to Western strength, the United States has reaffirmed its willingness to turn over to the Federal Republic certain military equipment needed for the initial stages of its defense buildup. This equipment in large part has already been programmed from mutual security appropriations of previous years. Delivery is scheduled to start after Germany enacts the legislation required for the creation of its armed forces, and after it ratifies the military assistance agreement with this country signed on June 30, 1955.

It will be some time before Germany will be making its full contribution to the NATO effort, but the very fact of German participation in the North Atlantic Alliance makes possible plans for broader and more effective security measures in free Europe.

NATO Defense Operations

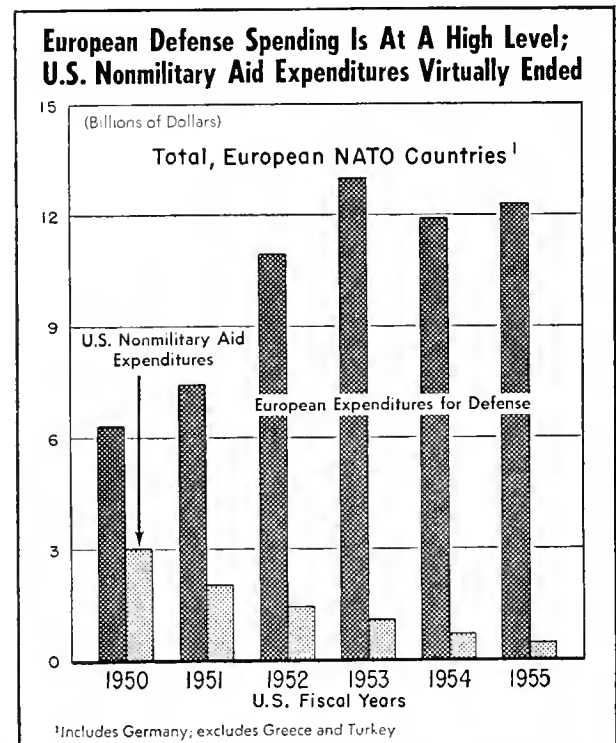
This past spring marked the sixth anniversary of the founding of what has been called "a revolutionary and constructive experiment in international relations." The North Atlantic Treaty Organization has been welded into a real force for peace in Europe. With its first objective that of avoiding war, NATO has created an effective deterrent to would-be aggressors. Today, NATO forces in being could not be overwhelmed without prior major preparations on the part of an attacking enemy land force. Such advance preparations would alert the entire retaliatory capabilities of NATO.

One of the most significant developments has been the use of the North Atlantic Council for frank political discussions by the member governments. Such discussions are evidence of the continuing solidarity of the Alliance and are particularly useful in a period when the Soviets have been showing a more flexible approach toward the

Western countries. The May meeting of NATO Foreign Ministers in Paris was a striking example of such consultation. The discussions at that meeting covered not only matters of concern within the NATO area but also the impending Four Power negotiations at the summit and a review of the situation in the Middle East and the Far East.

Since early 1951, NATO's military strength has increased from 15 to some 100 divisions, in varying states of combat readiness. In the air, there has been an increase from less than 1,000 operational aircraft to more than 6,000 modern fighting planes. Naval forces have also improved greatly. The number of additional naval ships available has increased by over 30 percent since 1951. Men on active duty in the European NATO countries have increased from 2.5 million to 3.1 million.

Our NATO allies are using a substantial part of their available resources for defense purposes. Outlays of European NATO countries (excluding Greece and Turkey) for defense in the year ended June 30, 1955, are estimated at \$12.3 billion, about double the pre-Korea rate; they are expected to rise still further as a result of the German defense effort. Expenditures for military hardgoods have increased more than threefold, and now stand at over \$2.8 billion annually.



During the first six months of 1955, there was a continued qualitative improvement in the effectiveness of European NATO forces as a result of additional military shipments from the United States, increased European production of equipment, modernized organizations, and enlarged training programs. More attention was being given to development of plans for coordinating military and civilian actions in the event of a wartime emergency. These included studies on wartime commodity problems, defense production, use of transportation facilities, civil defense, and manpower mobilization.

Following through on the decision of Congress as expressed in the United States Atomic Energy Act of 1954, the United States proposed an agreement with NATO countries for coordination regarding the communication of atomic information to NATO. In March 1955, the North Atlantic Council approved the United States draft of this agreement, and on June 22 the final agreement was signed in Paris by representatives of each of the NATO governments. The agreement will enter into force as soon as all signatories notify the United States that they are bound by its terms. The information we provide is to be used exclusively in the preparation and implementation of NATO defense plans, in training personnel in the use of and defense against atomic weapons, and in evaluating the capabilities of potential enemies in the employment of such weapons. Atomic information furnished by the United States will assist the NATO military experts who are now re-examining current military plans and organization with a view to adapting them to nuclear capabilities. NATO planning is therefore in a transitional period as allied strategists assess the impact of modern weapons development, especially in the atomic and guided missiles fields. Results of experiments in France, the United Kingdom, and the United States will provide valuable guidance on the respective roles of land, sea, and air forces in the atomic era, and on future budgeting of funds for more conventional types of weapons and military units.

Air defense has been perhaps the major area of weakness of NATO. A special staff has been set up at NATO headquarters to study the problem of defending Western Europe from air attack. The SIIAPE Air Defense Technical Center in The Hague began operations in April with a staff

of highly skilled scientific personnel selected from various NATO countries.

During the first half of 1955, a number of new maneuvers were carried out in Europe in a continuing effort to improve the combat and operating efficiency of NATO forces, especially in the use of atomic weapons. At the end of February, NATO's Southern Command carried out exercise BLUE TRIDENT I in which 20 units of the U. S. Sixth Fleet and a Canberra squadron of the Royal Air Force took part in simulated atomic air strikes against targets in Italy and France. In the same month, other atomic maneuvers were held in Denmark and Norway.

In mid-March, combined exercises were held to test defenses against a simulated invasion of Western Turkey by amphibious and airborne troops. Participants included elements of the U. S. Fleet, the Royal Air Force, and the Turkish Army. In another exercise, SHORT LOP, maneuvers were carried out to improve operations of ships and naval aircraft under varying situations, with special attention to air-sea cooperation during anti-submarine actions. French and Portuguese naval aircraft participated.

Late in June, large NATO atomic air maneuvers were held in Central Europe, involving 3,000 aircraft and 11 nations. Such NATO exercises have made it possible to forge dissimilar international forces into coordinated combat teams. They have helped to develop common training methods, integration of headquarters and units, and a large measure of standardization of equipment and organization.

Joint Facilities for NATO Use

"Common infrastructure" denotes fixed military installations necessary for the maintenance and training of NATO international forces in time of peace, and for their effective operation in time of war. Infrastructure installations are paid for collectively by member governments. They include such facilities for the effective support of modern armed forces as airfields, fuel distribution facilities, naval fleet bases, telecommunications, and electronic warning systems.

As of June 30, 1955, agreed NATO programs for infrastructure construction through the end of calendar year 1956 amounted to the equivalent of approximately \$2 billion. The United States share of these costs which the Congress has author-

ized the President to contribute to this program amounted to about \$780 million, less than 38 percent of the total. Of this amount, \$614 million was appropriated through mid-1955. Planning for the long-term permits NATO commanders to program requirements for construction more efficiently, prevents arbitrary cuts in military projects, and enables governments to make adequate budgetary provision for infrastructure expenditures.

Every effort is being made to eliminate waste and duplication through intensive screening procedures carried out by expert committees of the Council and by civilian and military inspectors. These control procedures assure that essential military requirements are met with minimum expense. The cooperation of member governments, in turn, assures that standards established through the NATO mechanism are met.

The majority of infrastructure contracts are open to international competitive bidding. This has tended to reduce cost and improve quality. Many American firms have been successful bidders and are engaged in infrastructure construction work in almost every NATO country, either as contractors or suppliers of equipment.

A few examples will help to illustrate the nature and progress of the infrastructure program. Over half of the \$2-billion program is being used to construct 174 tactical airfields. By mid-1955, there were about 142 airfields in a sufficiently advanced state of construction to permit use in an emergency by modern jet aircraft. By the end of 1955, it is expected that 152 airfields will meet minimum military requirements under wartime conditions. These figures compare with the approximately 15 airfields which were capable of handling jet aircraft in 1951.

A fuel distribution system, being built under the program, contemplates the construction of about 3,800 miles of pipeline and nearly 450 million gallons of storage capacity essential for the support of modern jet air forces in forward areas. This project will provide a central European network of fuel pipelines, with ports on the Channel and Mediterranean coasts that can be supplied by the tanker fleets of NATO countries. By June 30, 1955, construction work on about one-half of the pipeline and one-third of the storage facilities was under contract. This work was progressing satisfactorily, and major portions of the system will be ready for use this year.

The telecommunications program now in progress will reinforce existing facilities by the addition of about 4,000 miles of land lines, 3,700 miles of radio relay circuits, and over 700 miles of submarine cables. These facilities will provide for the immediate and full contact of forces essential to the effective exercise of command. Approximately 90 percent of this \$400-million communications program has been contracted for, with about 65 percent already completed. Steady progress on construction of air training bases, fleet facilities, and radar warning stations is also helping to develop a more coordinated and effective NATO combat potential.

U. S. Support to European Defense

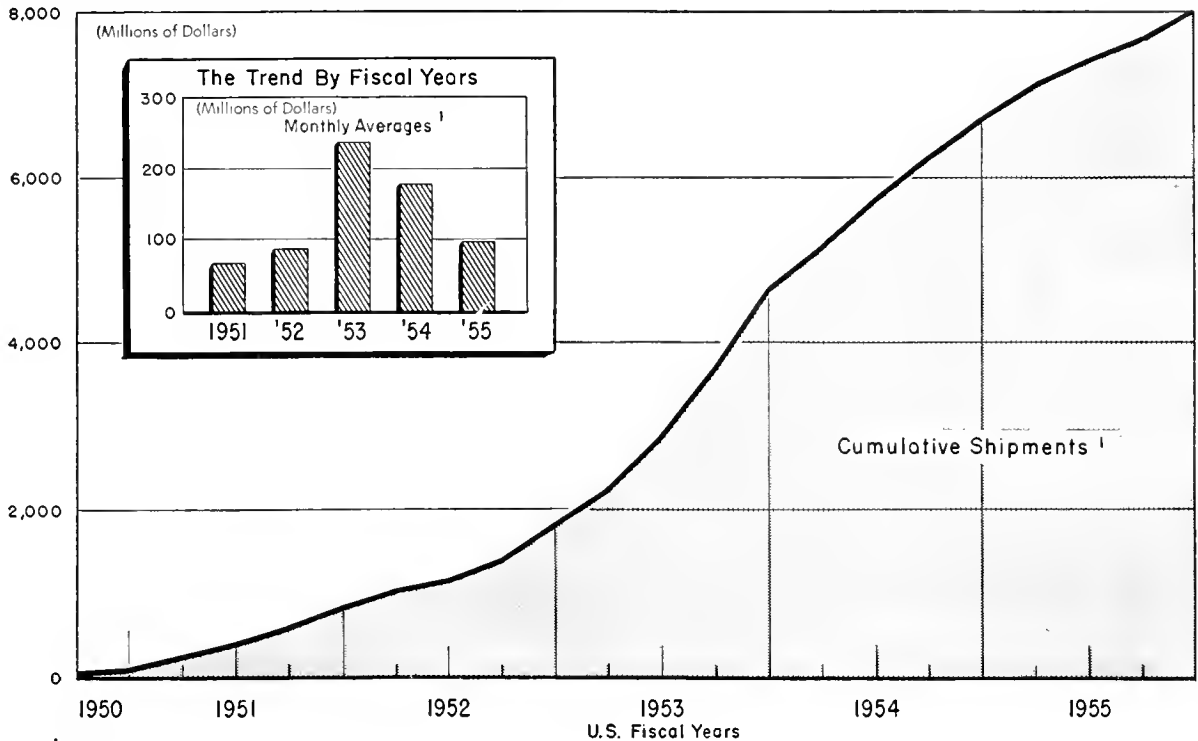
During the first half of 1955, shipment of military items to our European allies amounted to \$578 million. This brought the value of weapons and equipment shipped as grant aid to Europe (excluding Greece and Turkey) for fiscal year 1955 to \$1.3 billion, and the cumulative value of such shipments since the start of the military assistance program in fiscal year 1950 to about \$8 billion.

Part of the materiel made available under the military assistance program is procured overseas. Through the end of June, a cumulative total of \$2.6 billion in offshore procurement contracts had been placed in Europe (excluding Greece and Turkey), with \$141 million placed in fiscal year 1955. These countries have delivered to the United States for further delivery to recipient governments equipment valued at \$1.1 billion through June 1955; \$190 million was delivered in the first six months of this year.

By mid-1955, over 375 aircraft manufactured in the United Kingdom, consisting of Canberra light bombers, Valiant medium bombers, and Hunter day fighters and reconnaissance planes, had been delivered to the Royal Air Force as the first installment of a special aircraft assistance program concluded in June 1954. The United States had paid the agreed total of \$85 million toward the cost of their manufacture.

In May 1955, the United States signed a memorandum of understanding with the British Government whereby \$35 million is being provided as the second installment of this program. The entire \$35 million is being made available in the form

\$8 Billion Worth Of Military Weapons and Equipment Has Been Shipped To European Countries



of U. S. surplus agricultural commodities; the sterling proceeds from the sale of these commodities will be used to help finance the manufacture in the United Kingdom of some 70 Valiant medium bombers and Canberra light bombers of more recent design for the use of the RAF in defense of the NATO area.

In June 1954, the United States signed an agreement with the French Government whereby \$85 million is being provided to France to finance the manufacture of artillery, ammunition, and small arms for the French NATO forces. This program is moving ahead, and by June 30, 1955, almost 25 percent of the scheduled production had been completed.

During fiscal year 1955, allotments to Europe of funds for other than direct military assistance amounted to \$232 million. This amount included \$152.5 million to finance the sales of surplus agricultural commodities under Section 402 of the Mutual Security Act of 1954, the local currency proceeds of which are to be used for direct forces support and defense-support programs. The major recipients of total allotments were: Spain,

\$85 million; the United Kingdom, \$55 million; Yugoslavia, \$44 million; Italy, \$16 million; and the Federal Republic of Germany for support of West Berlin, \$24 million.

Mutual Weapons Development

In an effort to increase mutual defense capabilities, Congress in fiscal year 1954 authorized a program to accelerate the research and development in friendly countries of advanced types of non-nuclear weapons. Through June 30, 1955, approximately \$40 million had been obligated for this purpose; \$22 million more had been authorized for approved projects now under negotiation.

The special weapons program is helping to speed the completion of selected projects of European countries which give promise of providing weapons that meet specific operational requirements of one or more NATO countries. Provision is also made for transplanting some United States projects to certain countries at a stage prior to production, where security considerations permit. Thus, technical advice and limited financial assistance are getting new types of advanced weap-

ons into service years before they would otherwise be perfected. Weapons developed by friendly countries will be easier for them to produce, maintain, and replace. Requirements for United States support in this respect will consequently be reduced. As a by-product of such assistance, the United States expects to receive the right to all theoretical and technical knowledge and the use of any weapons developed that may prove desirable for defense purposes.

Projects thus far chosen for support are of a classified nature and cannot be described in detail. They cover such items as proximity fuses and anti-tank, anti-aircraft and anti-submarine weapons, including guided missiles. As a result of requirements specified by SHAPE for a light tactical support fighter for NATO forces, several models have been selected for United States assistance under the special weapons program.

Facilities Assistance for Munitions Production

The foreign military facilities assistance program is designed to help friendly countries expand their capacity for manufacture and maintenance of armaments needed for defense. Pressures on American facilities and supply line difficulties in the event of hostilities make it essential that indigenous sources be available to provide the necessary production and maintenance support.

Since the beginning of the program two years ago, emphasis has been placed on expanding Europe's capacity to manufacture propellants and explosives for ammunition. Facilities in Europe for the manufacture of these chemical components had been seriously damaged during World War II. It is estimated that upon completion of projects already planned, Europe's ability to produce ammunition will have doubled.

In addition to ammunition production, the facilities assistance program includes projects for establishing major overhaul shops and maintenance facilities needed overseas to protect our investment in armaments already delivered under the military assistance program.

In fiscal year 1954, \$26 million of mutual security funds was obligated for this program, all in Europe. The United States contribution constituted 48 percent of the total cost of the projects; the recipient countries contributed about \$28 million, or 52 percent of the total. During the fiscal

year ended June 30, 1955, \$39 million was obligated for 41 projects in Europe, making the United States contribution 56 percent of the total cost. In addition, \$5 million was obligated for one project in the Far East.

Aiding Spain's Defense Effort

Under agreements concluded in September 1953, the United States is constructing military base facilities in Spain for the use of our armed forces. To strengthen Spain's capabilities for the common defense of the West, the United States is providing assistance under the mutual security program.

The program for construction of military facilities is now well under way. Construction contracts totaling \$55 million have been authorized through June 30, 1955. Contract awards cover work on the air bases at Torrejon, Zaragoza, and Moron; the naval facilities at Rota; and the oil pipeline from Cadiz to Madrid and Zaragoza. Much of this work is already in progress.

The major effect of the military assistance program has been to alert the Spanish armed forces to deficiencies and inadequacies in their logistic, personnel, and training systems. Materiel shipped to the Spanish Army has consisted of such items as tanks, anti-aircraft and anti-tank weapons, and various types of communication equipment. Some items have been placed into temporary storage, pending completion of training, reorganization of army units, and development of adequate support facilities to insure that the delivered equipment will be efficiently utilized and maintained. Other items, particularly tanks and recoilless rifles, are being used by the Spanish armed forces.

Although mine sweepers have been delivered to the Spanish Navy, the military assistance program is directed primarily toward the improvement of existing vessels. Spanish shipyards have not been modernized, and progress therefore will necessarily be slow. During the first half of 1955, the Spanish Air Force worked with the T-33 and T-6 training planes to enhance its capabilities for using jet aircraft which have been scheduled for future delivery.

Through June 30, 1955, a total of \$170 million (excluding a \$62.5 million loan in fiscal year 1951), had been programmed for defense support and technical exchange in Spain, \$85 million of which

was allotted in fiscal year 1955. Of the \$85 million, the equivalent of \$55 million was made available in the form of surplus cotton and cottonseed oil, sold to Spain for pesetas; \$29.5 million was earmarked for railway improvement, farm mechanization, irrigation, electric power, and similar purposes which will broaden Spain's economic base. The remaining \$500,000 is being used to finance a technical exchange program. Of the proceeds from the surplus sales, the equivalent of \$44 million will be returned to Spain to assist in improving the Spanish economy; \$20 million will be on a long-term loan basis, and \$24 million will be a grant.

Economic conditions in Spain have substantially improved since last year. Plentiful spring rains have refilled reservoirs depleted in last fall's drought, so that prospects are generally brighter for crops and for production of hydroelectric power. Industrial production is also encouraging, especially in such key sectors as steel and cement. These favorable developments, together with the commodity shipments under the mutual security program, have enabled Spain to strengthen its foreign exchange position. Gold and dollar reserves increased \$83 million in fiscal year 1955.

Strengthening Yugoslavia's Defense

The underlying objective of the mutual security program in Yugoslavia has been the strengthening of the country's capabilities for keeping free of outside domination. The Balkan Alliance (Yugoslavia, Greece and Turkey) and improved relations with Italy after the Trieste settlement have opened the way for Yugoslavia to associate more closely with the Western European community. Yugoslavia requested and was granted observer status in the Organization for European Economic Cooperation in January 1955.

Yugoslavia continues to maintain a high level of defense preparedness, notwithstanding efforts toward normalization of relations with the Soviet Bloc. Because of its geographical situation and despite its low national income, Yugoslavia spends a higher proportion of its resources for defense than any other country in Europe.

The United States military assistance program is directed toward improving Yugoslavia's existing forces by providing modern weapons and equipment. Deliveries of tanks, trucks, artillery,

radios, radar, and engineer items have converted what was once a large guerrilla force into a modern army. Through our military assistance, Yugoslav coastal destroyers have been modernized, small minesweepers have been provided with sweep gear, and a number of patrol craft have been placed in good operational condition. The Yugoslav Air Force has been provided with jet training and jet fighter aircraft. Military students from the Yugoslav armed services have been given formal courses of instruction in United States service schools in this country and overseas.

During fiscal year 1955, nonmilitary aid to Yugoslavia totaled \$43.7 million. Of this amount, about \$23 million was used to procure and ship agricultural surplus commodities, primarily wheat and cotton, for sale under Section 402 of the Mutual Security Act of 1954. Almost \$6 million was used to procure coking coal; \$3 million to provide wool; and most of the remainder for fertilizer, pharmaceuticals, fats and oils, and transportation costs. It is expected that the major part of the local currency sales proceeds will be used for the building of vital roads and agricultural development projects. Some \$340,000 was used for the technical exchange program which includes agricultural projects to improve production and distribution methods, and industrial and industrial management projects in critical defense sectors.

Additional amounts of wheat and cotton were supplied to Yugoslavia under the provisions of the Agricultural Trade Development and Assistance Act of 1954. Under Title I, 525,000 tons of wheat and 50,000 bales of cotton were sold to Yugoslavia for local currency; under the emergency provisions of Title II, 375,000 tons of wheat were provided as a grant. In addition, 10,000 tons of wheat and 750 tons of butter were granted under the Danube Flood Relief Program.

Economic Developments

Economically, Western Europe continued to make considerable progress. Its gross national product for fiscal year 1955, adjusted for price changes, rose over 4 percent. This growth was due mainly to a substantial advance in industrial production. For the first six months of 1955, industrial output set a new record, almost 10 percent above the comparable period of the year before. Preliminary estimates indicate that al-

though unfavorable weather adversely affected the output of crops in the agricultural year of 1954-55, the output of livestock products expanded so that on balance total agricultural production neared the peak reached in the previous year. Economic expansion has been supported by a level of employment probably higher than ever before and by increased productivity. Trade is at record levels, and exports to the dollar area, which had fallen in 1954, were 8 percent higher in the first quarter of 1955 than in the comparable period of the previous year. This vigorous European economic activity was accompanied by general price stability, although in a few countries demand rose faster than supply, creating mild inflationary pressures.

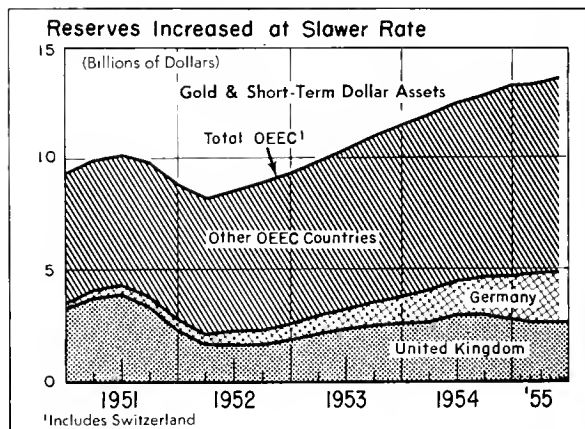
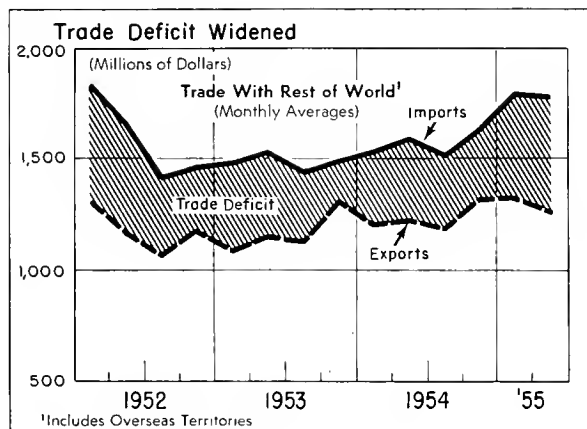
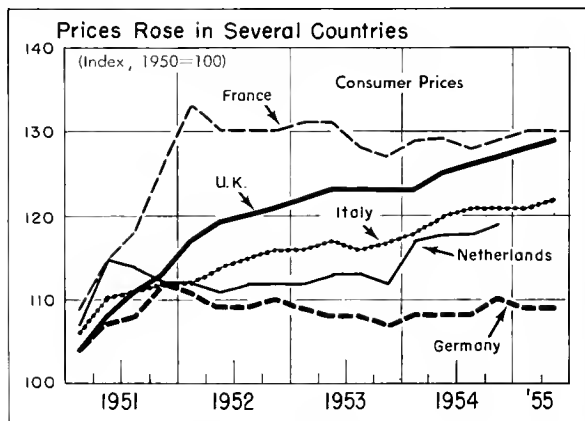
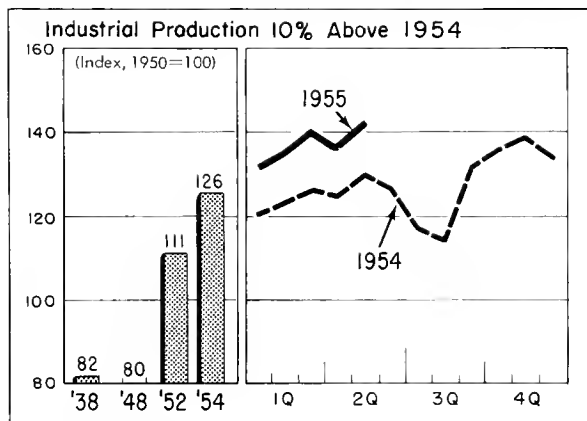
Western Europe's gold and short-term dollar holdings rose by an estimated \$500 million in the first half of 1955, reaching an all-time high of \$13.8 billion at the end of June. However, the rate of increase in these reserves has slowed

steadily since 1953. In addition, the overall foreign exchange position in a number of countries deteriorated as expanding internal demand produced a steep rise in imports as against only a moderate rise in exports.

The United Kingdom was one of the countries most affected by financial pressures. Gold and short-term dollar assets of the sterling area, which are held in London, dipped by some \$335 million during fiscal year 1955 to reach \$2.7 billion, the lowest level in a year and a half. The decrease resulted mainly from a larger trade deficit with the dollar area. Britain's difficulties were aggravated in some measure by the rail and dock strikes of late May and June.

In its 1954 annual review, the Organization for European Economic Cooperation (OEEC) found that almost all the economic goals set forth in 1948 had been achieved, and in some cases, exceeded. Western Europe now enjoys greater prosperity, greater common military strength, and

Recent Economic Developments In Western Europe



greater unity of purpose than ever before in peacetime.

Some note should be made, however, of the factors that cloud an otherwise bright picture. A portion of Europe's growing reserves flow from extraordinary United States dollar expenditures of about \$2.5 billion a year in the form of troop maintenance, offshore procurement orders, and aid expenditures: many of these payments will be progressively reduced. The extreme poverty and low living standards in certain geographic areas continue to present serious economic and social problems and form important obstacles to further economic growth. A hopeful factor in this respect is the recent agreement by the OEEC countries to make southern Italy an area of collective interest; they are currently reviewing development plans which Italy has put forward.

It also should be noted that the rise in industrial output in Europe appears to have been generally achieved through fuller employment, while productivity, though improved, has not increased sufficiently to assure continued long-term economic growth.

Use of \$100-Million Loan to Coal-Steel Community

One of the most important steps taken toward the economic integration of Western Europe was the formation of the European Coal and Steel Community (CSC) as the first federal institution in Europe within which national sovereignties have been merged. The establishment of the CSC as a supranational organization reflects European aspirations for economic unification and political federation which parallel the fundamental objectives of the mutual security program.

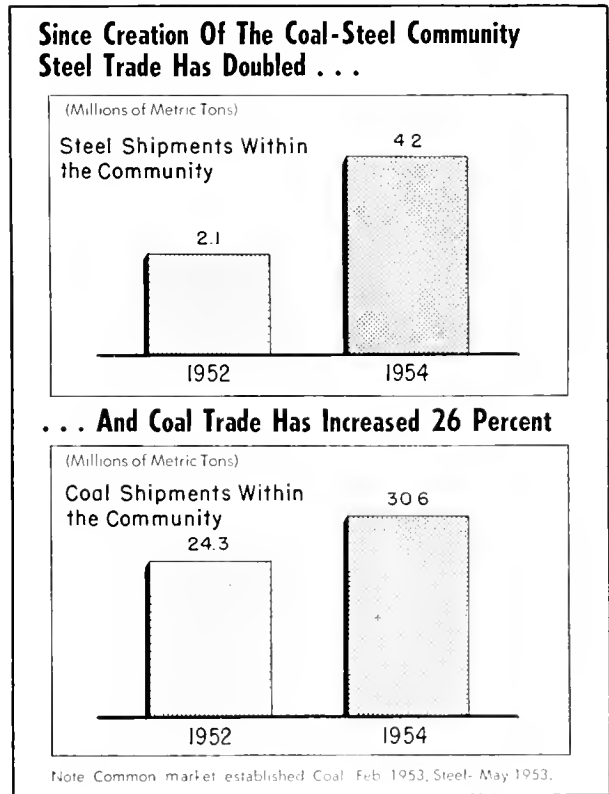
In April 1954, the United States granted an investment loan of \$100 million to the High Authority of the CSC for modernizing and developing the natural resources of the Community and thereby fostering European integration in a concrete and useful way. This loan is being administered by the Export-Import Bank with funds provided under the Mutual Security Act, and is to be repaid over 25 years with interest at 3½ percent.

As of June 30, 1955, the High Authority had allocated the entire \$100 million for long-term, low-interest loans to enterprises in the Community to improve the production and utilization of raw

materials. About \$46 million is being used to construct and modernize power stations at pitheads which will enable low-grade coal to be used more economically; \$35 million is being used to help develop other facilities for more efficient production of coal and coke; and nearly \$19 million is being used to improve iron-ore mining.

The United States loan has facilitated the raising of additional investment funds in the European market required to meet the total cost of \$370 million represented by the planned industrial projects. Funds for the High Authority's \$25-million program of loans for the construction of miners' housing are also being raised in Europe.

Common markets for coal, iron ore, and steel were established in 1953 and 1954, eliminating trade restrictions across some 1,700 miles of land frontier of the six member nations. Formation of this single market in coal and steel has acted to strengthen competition among producers, to lower prices, and to increase intra-Community trade in the two basic industrial commodities. Despite higher demand, steel prices in May and June 1955 were slightly lower than when the common market was opened in May 1953.



During the first half of 1955, a number of important actions affecting transportation rates and cartels were taken. High Authority decisions to end discrimination in transport charges within the Community already have resulted in as much as a 25-percent saving in transportation costs for many firms shipping goods across frontiers embraced by the single market.

At their conference in Messina, Italy, in June 1955, representatives of the six nations of the Community agreed to sponsor further conferences looking toward the enlargement of international accords and treaties to accomplish the goal of a united Europe. A committee of government delegates is scheduled to report by October 1, 1955, on the next steps which should be taken toward European economic integration. The committee will examine in particular the possibility of extending the common market concept to the fields of transportation and energy.

Progress Toward Convertibility

Encouraging steps have been taken by European countries to chart and facilitate orderly progress toward limited convertibility of their currencies with the dollar. Impetus was given to these developments by the favorable economic climate in the first half of 1955 which produced an increasing volume of intra-European and extra-European trade, and saw Western Europe's gold and dollar reserves continue to rise substantially.

Since its establishment in 1950, the European Payments Union has contributed to the ultimate achievement of general convertibility of currencies on a worldwide basis. The EPU has provided automatic credit facilities to assist in settling trade surpluses and deficits among OEEC countries. Payments are settled on a multilateral basis through a central clearing house so that currency earned anywhere in the EPU area can be used to pay a debt anywhere in the EPU area. Thus, in effect, Western European currencies are convertible among themselves. This limited convertibility has been a most important factor in the gradual removal of the various restrictions on the flow of intra-European trade.

At their meeting in January 1955, the Council of Ministers of the OEEC set a new target of 90 percent for intra-European trade liberalization—that is, freeing of quantitative restrictions 90 per-

cent of the value of private intra-European imports made in 1948.

In June 1955, the Ministers agreed upon renewal of the EPU, and provided for settlement of deficits and surpluses in fiscal year 1956 on a 75-percent hard currency (gold or dollars) and 25-percent credit basis, instead of the previous 50-50 ratio. It was further agreed that the EPU should continue until member countries which account for at least half of total intra-European trade establish a limited convertibility of their currencies with the dollar. These decisions were predicated on completion of agreements concerning a European Fund for extending loans, a new system of multilateral settlements, and necessary modifications in the Code of Liberalization for intra-European trade, all of which are to be instituted upon establishment of limited convertibility and the termination of the EPU.

In brief, the purpose of the proposed European Fund, as envisaged, would be to provide credit to member countries to help them more easily withstand temporary balance of payments difficulties, and thus maintain a high level of trade and liberalization. All OEEC members that accept the intra-European Code of Liberalization for trade would be eligible to borrow from the Fund. Credits would be non-automatic and limited to two years. The granting of credits will be based on the overall balance of payments situation of an applicant, and the interests of the OEEC. Resources of the Fund, totaling \$600 million, would consist of the \$271.6 million capital grant originally made by the United States to the EPU, and \$328.4 million in gold contributed by members. In event of liquidation, the United States rights over the EPU capital would be substantially preserved.

Other Programs in Europe

Aiding the Efforts of West Berlin

Programs to restore the productive base of the West Berlin economy and to reduce its high rate of unemployment have been continued. Industrial production by mid-1955 was more than three times that of 1950, and had reached the prewar level. Employment had risen from 643,000 in 1950 to well over 800,000. Unemployment was further reduced from about 18 percent of the labor force at the end of 1954 to about 14 percent.

Agreements were concluded in March 1955 with the Federal Republic of Germany and with West Berlin authorities for the use of proceeds accruing from sales of \$23.6 million of United States wheat. The bulk of the local currency funds made available will be used to supplement existing investment programs. The Federal Republic itself is providing from its own resources, directly and indirectly, the equivalent of about \$300 million a year, and it is expected that this support to West Berlin will be continued at the same level during fiscal year 1956.

Technical Exchange For Greater Productivity

The European technical exchange program is basically a person-to-person program, specifically designed to support mutual security objectives. These objectives include economic expansion through more competitive business practices, reduction of Communist strength in labor organizations through healthier labor relations, and greater economic integration through the process of tackling common problems on a multilateral basis.

Under the technical exchange program, American experts are sent to Europe to conduct seminars and demonstrations in specific subjects such as retail food merchandising, production planning and control, marketing of fruits and vegetables, and foreman training. Europeans, in turn, are brought to this country to study our methods and organizations in these fields. Technical exchange funds finance the dollar costs of these projects, while the Europeans pay the ocean travel and other non-dollar costs. During fiscal year 1955, approximately \$5.6 million of new funds was obligated for this program. On June 30, some 600 Europeans were in the United States under technical exchange projects.

The emphasis of program activities has gradually shifted during the past year from technological projects to other important aspects of productivity, such as management practices, marketing, and training in public and private administration. Western Europeans are becoming increasingly interested in techniques which can yield higher production, better wages, lower prices, and expanded markets. What were once considered uniquely American ideas and methods of work are beginning to enter the mainstream of European economic life. Trade unions are tending to empha-

size economic aims rather than political objectives, and universities are becoming conscious of the need to train management personnel.

Of major importance has been the establishment of the European Productivity Agency (EPA) of the OEEC as an international agency capable of giving service and leadership to a cooperative European effort in this field. EPA-sponsored seminars and related projects have been enthusiastically received by a number of member countries: a capable staff has been assembled and is giving its full support to EPA work.

A number of noteworthy steps have been taken in the past six months. In May, the first issue of the European Technical Digest was issued, incorporating data from more than 1,000 European and American journals. In June, arrangements were completed by EPA to continue independently the technical question and answer service formerly supported by FOA. The Trade Union Information Bulletin was started in January to provide a means of exchange of information on labor activities in the productivity program.

The EPA has made considerable progress in stimulating and supporting productivity activities of individual countries. There are now 10 national productivity centers in Europe. Through local initiative and community efforts, local productivity centers are also being established in increasing number. France, for example, has 5 such centers.

As one means of strengthening EPA's position as a focal point in the European productivity movement, the United States proposed to the OEEC in January that programs for financing dollar costs of technical exchange projects should be coordinated by EPA. Thus, in addition to planning and arranging for multicountry European technical exchange projects, the Agency would review individual country programs for such projects. By this means, projects in closely related fields in several countries could be brought together. At its April meeting, the OEEC Council accepted this proposed procedure. The technical exchange program in the future will therefore stress European action through EPA coordination, and the development and strengthening of permanent institutions in Europe from which productivity knowledge can be spread to an ever-increasing number of persons.

ICEM Helps Resettle Another 53,000 People From Europe

The Intergovernmental Committee for European Migration (ICEM), originally on a provisional basis, now has a more formal status provided by a constitution which came into force on November 30, 1954. Two new members were added to the Committee in the first half of 1955 when New Zealand and the Federation of Rhodesia and Nyasaland joined ICEM in April.

During the first six months of 1955, ICEM moved another 53,000 persons from the overpopulated countries in Western Europe to new homes overseas. From early 1952 through June 30, 1955, ICEM had moved a total of nearly 340,000 persons,

most of whom had been resettled in Australia, Canada, Latin America, and the United States.

ICEM plans to spend \$48.2 million in 1955—\$45.6 million for operations, and \$2.6 million for administrative purposes. The United States contributions to ICEM are contingent upon the contributions of the other 25 member governments and upon the volume of movement actually achieved. The United States share appropriated by Congress for calendar year 1955 amounted to \$10.5 million. During the first half of 1955, the United States paid to the Committee \$5.2 million—\$4.9 million for program operations, and \$317,263 for administrative expenses. A second installment of \$313,200 was also paid as part of the United States contribution to ICEM's \$3-million cash reserve fund.

Other Parts of the Program

A NUMBER of activities of the mutual security program are global in scope and do not fit readily into a regional grouping. A report on these activities is given in this section.

Use Abroad of U. S. Surplus Farm Products

Sales of \$467 Million Worth Under the Mutual Security Act.—Section 402 of the Mutual Security Act of 1954 provided that a minimum of \$350 million of mutual security funds be used to finance the sale abroad, for foreign currencies, of our surplus agricultural commodities. Sales made during fiscal year 1955 under this provision totaled \$467 million, including \$147 million in grains, \$250 million in cotton, and \$24 million in fats and oils. About \$365 million of these sales were concluded during the January-June period of 1955. The local currency proceeds derived from such surplus sales become the property of the United States. They are being used, in accordance with agreements with each government, to carry out the objectives of the mutual security program—that is, for military assistance, defense support, or development assistance.

The sales completed in fiscal year 1955 under Section 402, added on to those completed under a similar provision in force during fiscal year 1954 (Section 550), brought the total surplus sales made by the Foreign Operations Administration in the 24-month period to over \$700 million.

The commodities financed for export and sale in connection with the mutual security program abroad were generally sold at prevailing United States market prices, and private trade channels were used to the maximum extent. Shipments were subject to the statutory requirement that 50 percent be shipped in American vessels as far as practicable. Commodities were considered eligi-

ble for sale in accordance with the recommendations of the Secretary of Agriculture.

Sales Proceeds under Title I of the Agricultural Trade Development and Assistance Act.—FOA participated in the development of policies and sales programs under Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) through its membership on the interagency committees on agricultural surplus use. Primary responsibility for sales of surplus farm products for local currency was assigned to the Secretary of Agriculture. FOA was given responsibility for administering the use of sales proceeds set aside for financing purchases of goods or services for other friendly countries, and for making loans or grants to promote economic development and expanded trade.

As of June 30, 1955, 21 agreements for surplus sales under Title I had been negotiated with 17 foreign governments and totaled \$361 million at United States export market prices. These sales included \$124 million worth of cotton, \$135 million worth of grain, and \$40 million worth of tobacco. The remainder covered other products and cost of transportation. The uses of the foreign currency realized from the sales are agreed upon by the United States and the purchasing country.

Of the \$361 million worth of sales, \$99 million will be used for payment of United States expenses in the country, and \$74 million will be used to procure items for the common defense of the United States and allied nations. A total of \$161 million will be set aside for loans and grants to promote multilateral trade and economic development—\$153 million for loans and \$7.5 million for grants. In addition, \$13 million will be used for purchases of goods or services for other friendly countries. Deposits of local currency will be made to the account of the United States Government, and the United States will determine the

priority of expenditures for the purposes agreed upon.

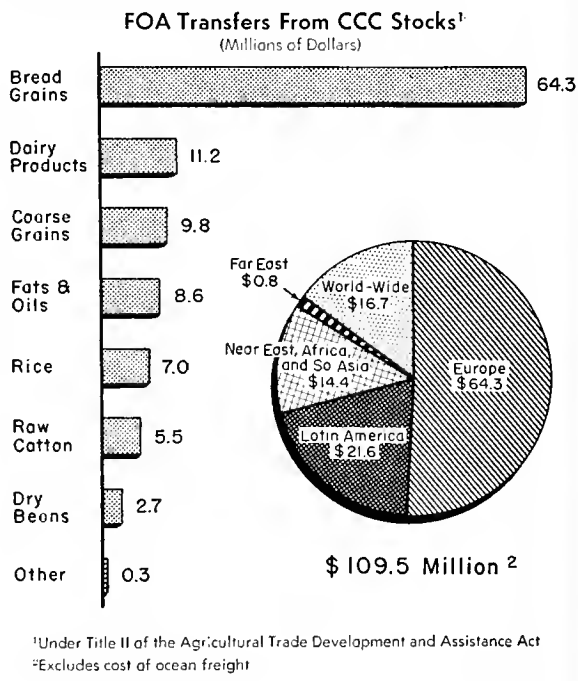
Emergency Shipments under Title II.—Title II of the Agricultural Trade Development and Assistance Act provides that up to \$300 million worth of surplus commodities held by the Commodity Credit Corporation (CCC) may be used over a 3-year period to provide assistance to friendly peoples in meeting famine or other urgent relief requirements. By the end of the 1955 fiscal year, program commitments totaled about \$150 million, and authorizations had been issued for \$109 million worth of commodities, valued on the basis of CCC cost and investment. Commodities authorized included \$81 million worth of grains, \$9 million worth of fats and oils, \$11 million worth of dairy products (including butter and butter oil), \$5.5 million worth of cotton, and \$3 million worth of dry beans. Programs have been undertaken in all parts of the world, as shown in the following tabulation:

<u>Region</u>	<u>Value</u> (million dollars)
Europe.....	56.0
Danube flood relief ¹	10.3
Italy.....	1.2
Yugoslavia.....	44.5
Near East and Africa.....	4.2
Libya.....	4.2
Asia.....	11.0
Nepal.....	0.2
Pakistan.....	10.0
Viet Nam.....	0.8
Latin America.....	21.6
Bolivia.....	15.2
Guatemala.....	3.0
Haiti.....	3.2
Honduras.....	0.2
Worldwide (45 countries).....	16.7
Food packages.....	16.7
Total.....	109.5

¹ Assisted countries were: Austria, Czechoslovakia, East Germany, Federal Republic of Germany, Hungary, and Yugoslavia.

New programs in the first half of 1955 included the following shipments: 15,000 tons of corn to Italy to alleviate distress occasioned by severe drought; 5,600 tons of flour to Viet Nam for relief of destitute civilian refugees; about 27,000 tons of corn to Guatemala to relieve a serious crop shortage; and a number of different surplus commodities to Honduras for flood relief. Programs in

Nearly \$110 Million Worth Of Surplus Commodities Was Used For Relief Purposes Abroad



Yugoslavia, Libya, Pakistan, Haiti, and Bolivia were expanded to meet continued needs in those countries. Costs of ocean transportation financed from mutual security funds amounted to \$12.4 million. In the first half of 1955 also, a commitment was made to expand existing Italian school lunch programs by supplying United States surplus products to improve the diet of Italian school children.

Freight Paid on Voluntary Relief Shipments

For the fiscal year 1955, Congress appropriated \$4.4 million under the Mutual Security Act of 1954 for financing the ocean freight costs of relief shipments of American voluntary non-profit relief agencies registered with the Advisory Committee on Voluntary Foreign Aid. Of this amount, \$1.5 million was obligated to pay for ocean transportation of relief shipments, and \$2.9 million for ocean transportation of surplus commodities made available to the registered agencies by the Department of Agriculture under Public Law 480.

The original appropriation of \$4.4 million was insufficient to cover ocean freight costs of all

agricultural surplus commodities made available to the voluntary agencies during the fiscal year. Therefore, under the authority of Section 409 (d) of the Mutual Security Act of 1954, another \$5.4 million was transferred for such ocean freight costs. In addition, \$1.4 million was allotted from program funds to cover the cost of voluntary relief and surplus agricultural commodities shipments to Korea. Thus, a total of \$11.2 million was made available for ocean freight for the 1955 fiscal year.

From July 1, 1954 through June 30, 1955, \$6.6 million of the total obligations of \$11.2 million had been expended. This brought to \$38.6 million the payments since July 1948 to defray the cost of ocean transportation of voluntary relief shipments.

During the fiscal year 1955, the ocean freight subsidy was applied to shipments to eight additional countries: Jordan, Viet Nam, Egypt, Peru, Bolivia, Afghanistan, Honduras, and Chile. The other countries are Austria, France (including Algeria, Morocco, and Tunisia), Germany, Greece, Hong Kong, Italy, Trieste, Yugoslavia, India, Pakistan, Korea, Formosa, and Iran.

Transportation:

Over 50 percent in U. S. Ships

FOA-financed cargoes in the period July 1, 1954 through April 30, 1955, were being shipped at a faster rate than in the previous fiscal year; 4.1 million tons were moved in the 10-month period as compared with 3 million tons for all of fiscal year 1954. This larger movement was due to increased activity in shipment of dry-bulk cargoes, particularly coal and grain. U. S.-flag vessels carried more than 50 percent of nonmilitary aid shipments in all categories and to all areas for the first ten months of fiscal year 1955.

Preliminary figures for the 10-month period show that the percentage of U. S.-flag vessels carrying nonmilitary aid shipments from this country to Europe were: dry-bulk carrier, 56 percent; liner, 59 percent; tanker, 89 percent. For the Far East, the percentage recorded was dry-bulk, 61 percent; and liner, 76 percent; for the Near East and Africa, it was dry-bulk, 51 percent, and liner, 63 percent. Shipments to Latin America were in the liner category only, with a U. S.-flag participation of 94 percent. Total tanker shipments outside the European area involved less than 6,000 tons.

U. S.-flag liner vessels carried 80 percent of all inbound strategic materials procured with United States counterpart funds. Also, U. S.-flag vessels carried 67 percent of all military items shipped under grant aid programs through June 1955.

Public Law 664, passed in August 1954, required FOA to extend its administration of the U. S.-flag preference provisions to nonmilitary aid shipments originating in countries outside the United States—that is, shipments from one foreign port to another. Many of the participating countries already had commitments which covered the period immediately following enactment of the new law. It was therefore administratively determined that the accounting period for aid shipments originating offshore would begin with commitments made in October 1954. There are not enough data assembled on these offshore movements to provide a basis for an adequate report at this time.

Escapees from Communism Helped to a New Life

The United States escapee program, established to provide assistance to recent escapees from Communist countries, has devoted increased efforts to securing the permanent resettlement of escapees, either locally in the country of asylum or overseas. In Europe, projects for care and maintenance, supplementary to facilities provided by the governments of the countries of asylum, are being strengthened to insure that escapees are adequately cared for while awaiting resettlement. Programs of medical rehabilitation, language instruction, and vocational training are carried out to prepare escapees for resettlement opportunities and increase their chances of measuring up to the criteria set by national immigration authorities. Counseling and orientation programs are being reviewed and reinforced with particular attention to those activities which will serve to maintain the morale of people facing a completely new life. By June 30, 1955, almost 28,000 escapees from the Communist-controlled areas of Europe and the Far East had been resettled through the escapee program.

In the first half of the year, new steps were taken to accelerate the movement of escapees registered for resettlement. The Foreign Operations Administration, together with the Department of State, established procedures under which proces-

sing of eligible escapees is given priority under the Refugee Relief Act. Registered escapees are now being processed for visas when it is probable that the assurances necessary for acceptance under the Act will be obtained, instead of waiting until such assurances are actually in hand.

Several voluntary agencies have been engaged under a contract to assist in securing such assurances for eligible escapees. Over 3,400 assurances, covering more than 6,000 persons, have been obtained to date; 2,700 were obtained during the first half of 1955.

The Foreign Operations Administration has assisted several voluntary agencies and organizations which are carrying on projects to help anti-Communist political refugees in the Far East, including selected Chinese and European refugees in the Hong Kong area. These projects include the movement of refugees from Hong Kong to regions where permanent resettlement is feasible. They also include activities to integrate refugees into local community life. Over 38,000 persons in the Far East have been given direct assistance, including over 7,800 resettled from Hong Kong.

In recent months, the Soviet and satellite countries have been conducting an intensified campaign to persuade Eastern European emigres residing in Western countries to return to their native land. They have been using every device to pressure these people into coming back behind the Iron Curtain, promising sympathetic treatment, assuring rehabilitation, and taking full advantage of a natural nostalgia for one's homeland.

In combating the Communist "come-home" propaganda, the free nations have as their most effective allies the emigres and refugees themselves. These people have been energetic and successful in thwarting the Soviet purpose. The efforts undertaken through the escapee program and by the other organizations interested in the welfare of refugees, reinforced by the support of the people who have themselves experienced life under Communist regimes, have acted as effective countermeasures against the Communist campaign.

Guaranty Program Insures Private Investment Overseas

The investment guaranty program is an important means of carrying out United States policy to encourage American private capital to move

into investments overseas. Through this program, the United States Government makes available, for a fee, insurance to guaranty private investors against the risks of inconvertibility of foreign currency receipts and loss through expropriation or confiscation. This type of insurance is offered to protect investments in any country with which the United States has formally agreed to institute the guaranty program.

Through our diplomatic and operations missions abroad, and by various other means, continuing efforts have been made to negotiate guaranty agreements with countries in which investors have expressed an interest. Intensification of these efforts during the first half of 1955 produced such agreements with six new countries: Costa Rica, Guatemala, Peru, Ecuador, Honduras, and Pakistan. As of June 30, 1955, the guaranty program covered 26 countries—12 in Europe, 6 in Latin America, 4 in the Far East, and 4 in the Near East.

Through June 30, 1955, insurance totaling \$91.4 million had been issued to cover 91 separate investments. Of the total value of guaranties written, \$77.6 million was for insurance against inconvertibility for foreign exchange reasons, and \$13.8 million against loss through expropriation and confiscation. Total fees collected by the United States for this insurance service amounted to \$1.3 million; no payments on the guaranty contracts have as yet been required.

FOA made a number of policy and operational changes in the latter part of 1954 to improve guaranty program procedures and provide better insurance at lower cost. In the first half of 1955, the total value of guaranties written increased from \$48.6 million to \$91.4 million, a rise of nearly 88 percent. These new guaranties covered for the first time American private investment in projects in Formosa and the Philippines; other guaranties issued in the six months were written to protect investments in France, Italy, the Netherlands, Turkey, and the United Kingdom.

Opportunities for American Small Business

FOA's Office of Small Business continued to serve the interest of American small business firms by alerting them to procurement and service opportunities in connection with the mutual security program. In the first half of 1955, the Office of Small Business circulated 650 advance notices on

FOA procurement to American suppliers. These advance notices informed American smaller enterprises of the types of goods and services being considered for FOA financing in order to enable them to participate in procurement bidding.

In addition to the advance notices on procurement, award notices were published during the 6-month period listing successful bidders on 4,000 specific FOA purchases. Such releases on awarded contracts are issued for the benefit of American organizations which specialize in services, such as shippers and freight forwarders.

The Contact Clearing House Service is a mechanism through which direct contact is established between American and foreign concerns interested in mutually beneficial arrangements for investment or licensing. This Service was reorganized in accordance with an Executive Order issued on November 6, 1954. The reorganization took effect on May 1, 1955. Under current procedures, the Office of Small Business continues to be responsible for finding investment and licensing opportunities in foreign countries. The Department of Commerce takes over the responsibility of calling such opportunities to the attention of firms in the United States. Through May 1, 1955, the date of the changeover in functions, the Office of Small Business had publicized 2,300 foreign investment opportunities in this country through the Contact Clearing House Service.

The Office of Small Business continues the distribution abroad of American investment and licensing offers. Through the end of June 30, 1955, 452 specific proposals of this kind were publicized in 15 countries of Western Europe. In addition, 106 proposals were published in 18 areas outside Europe. Of the total of 558 proposals, 54 were circulated in the first half of 1955.

Sales of Military Equipment to Friendly Free World Countries

An important part of the mutual security program is the sale to friendly foreign governments of military equipment, materials and services. This program, referred to as the reimbursable military assistance program, has been carried on for the past five and one-half years at virtually no cost to the United States. The purchasing countries pay with their own dollar resources for the items received. These payments generally follow commercial practices and are made either

in cash or on short-term credit. Deliveries of equipment and materials since the beginning of the program in October 1949 have reached a total value of almost \$500 million.

Through May 1955, 61 countries and 3 international organizations were eligible to purchase military equipment under this program. Of these, 52 countries have made military purchases from the United States. The material procured has included 6 light cruisers, 5 destroyer escorts, 6 coast guard utility vessels, 4 patrol frigates, 667 aircraft of all types, 487 tanks, 187 gun motor carriages, 425 armored cars, 61,232 rifles (including automatic and recoilless), and 28,351 carbines.

Total purchases of military goods and services were valued at \$884 million (Army \$281, Navy \$218, Air Force \$385). The purchasing governments had paid \$731 million toward the amount purchased.

Legislation enacted by the Congress in 1954 makes it possible to provide equipment on extended terms of payment. This has eased some of the hardships previously encountered by certain eligible countries under the requirement of cash with order or within 60 days of delivery. As of June 30, 1955, sales on credit have amounted to \$17 million. These purchases consisted primarily of aircraft.

In addition to sales made under the provisions of Section 106 of the Mutual Security Act of 1954, loan assistance under the provisions of Section 505 has been furnished in the amount of \$15 million.

Participation in International Organizations

United Nations Expanded Program for Technical Assistance.—The United States renewed its support for the United Nations Expanded Program of Technical Assistance (UNTA) by contributing \$6.5 million to the program for the first half of calendar year 1955. At the UNTA pledging conference in November 1954, 56 governments pledged the equivalent of approximately \$13 million to support the program for calendar year 1955. The United States made no pledge at that time in view of the fact that funds had not been appropriated for a contribution. The \$6.5 million was appropriated by Congress in April, and was immediately made available to the UNTA program.

The uncertainty of the total United States contribution for calendar year 1955 created a number of operating problems for the UNTA program, particularly since the United States contribution has constituted between 55 and 60 percent of the central fund from which the program is financed. It was not possible, therefore, to proceed on a firm basis with long-range planning. The program in the first six months of 1955 was primarily a continuation of projects which were in operation at the end of 1954. During this period, there were approximately 1,000 experts in the field from 60 countries. The projects were in all fields of activity of the specialized agencies and the United Nations, including health, agriculture, labor, education, aviation, and public administration.

UNICEF Steps Up Its Programs.—The United Nations Children's Fund (UNICEF) in 1955 reached more children in more countries than ever before. During the first half of the year, UNICEF was assisting 254 programs in 91 countries and territories, a marked increase over the previous record set in 1954.

It is estimated that through these programs, and others to be initiated later in 1955, 32 million children and mothers will be benefited. This year is expected to be a peak year for anti-tuberculosis vaccinations. The target of 15 million children to be vaccinated exceeds the previous peak in 1954 by 1.5 million. Similarly, 2 million children will be treated for yaws, and nearly 9 million will be protected against malaria and other insect-borne diseases. UNICEF-aided programs for the control of trachoma will reach 1.4 million children, or twice as many as in 1954. An estimated 2.6 million children will receive a daily ration under the long-range feeding programs.

In addition, many children and nursing and pregnant mothers will receive benefits from the 7,000 maternal and child welfare centers and clinics for which UNICEF is furnishing the basic equipment and supplies. In the development of maternal and child health and welfare programs, UNICEF is emphasizing the extension of basic services to new areas to assure as wide a geographic coverage as possible. At the same time,

plans are being drawn up for training of midwives, nurses, and other supervisory personnel in areas where these services already exist.

Aid to Africa was increased substantially in the first six months of 1955. UNICEF aid was extended for the first time to four new African territories—British Somaliland, the Trust Territory of Somaliland, Gambia and Sierra Leone. Aid to Latin America was also increased, and a UNICEF program was instituted in Barbados Island. No new assistance was approved for countries in Europe.

A significant development is the increasing success which UNICEF is having in stimulating self-help on the part of governments and assisted peoples. Self-help is not only evidenced by the increasingly large amounts of matching funds which the governments are contributing toward projects in their territories. It is also reflected in actions such as the taking over by governments of projects started with UNICEF aid; increased public health budgets for child health programs; encouragement given to the recruitment of competent personnel for maternal and child health work; and in some instances, the creation of maternal and child health or welfare departments within government ministries.

The United States contributed \$4.2 million toward the first half of the calendar year 1955 program of UNICEF. This amount represents 60 percent of government contributions to the central account of UNICEF, or a decrease in the United States contribution of approximately 10 percent during the 18-month period January 1, 1954 through June 30, 1955. In addition, the United States supplied UNICEF, without cost, approximately 58 million pounds of surplus milk powder for use in its child feeding programs.

The contributions of other governments to the central account of UNICEF continued to increase. As of June 30, 49 other governments, including 6 which had not previously contributed to UNICEF, had pledged a total of \$4.87 million for 1955, or an increase of about 8 percent over the combined pledges of these governments for 1954. A number of pledges are still to be made.

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UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

MEMORANDUM

MURKIN RE: [REDACTED] [REDACTED] [REDACTED]



Special Agent in Charge

Director, FBI



Report to Congress
on the
Mutual Security Program

December 31, 1955

PRESIDENT'S LETTER OF TRANSMITTAL

To the Congress of the United States:

I am transmitting herewith the Ninth Semiannual Report on the Mutual Security Program, covering operations from July 1, 1955, to December 31, 1955, in furtherance of the purposes of the Mutual Security Act of 1954.

As the report records, continued progress has been made through joint efforts in improving the economic growth and the military security of our own nation and of our partners in the free world. Much, however, remains to be done, for the threat continues.

Two conspicuous changes occurring during these six months were:

1. The efficient transfer of responsibility for the Mutual Security Program to the newly created International Cooperation Administration.
2. A sharply increased activity by the Soviet Union in barter trade and in economic and military assistance to nations outside the Communist bloc.

In sending this six months' record of accomplishment to the Congress, I would like to make special mention of the thousands of our fellow citizens who are carrying forward this important work devotedly and voluntarily in almost 80 countries of the free world. They and their counterparts in the nations where they are working have accomplished much to date, and will be called upon for imaginative and productive efforts in the future.



The White House,

May 3, 1956

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CHAPTER I

Progress and Program

BUILDING on past progress, the United States continued to help free people throughout the world strengthen their individual and collective efforts to safeguard their independence and at the same time move ahead with effective measures for economic self-improvement.

During the July–December period of 1955, further actions were taken to maintain and improve the military posture of friendly nations who stand with us both through collective security arrangements and through bilateral agreements. Additional equipment, including advanced types of guided missiles, was sent to United States forces in Western Europe to help insure the strongest kind of defense capability for free world forces there. Western Germany completed the parliamentary process necessary to begin its contribution of strength to the NATO alliance. NATO, itself, undertook a careful reappraisal of its defense plans in light of new thermonuclear potentialities. On the other side of the world, the SEATO alliance of free Asian and Western nations strengthened its organizational structure and took concrete steps to coordinate available resources for maximum effectiveness.

Mutual security programs for joining our efforts with the efforts for economic improvement being undertaken by newly developing countries also went forward during the six-month period. Going developmental projects were being pushed toward completion, and additional projects were begun. Hydro and thermal power projects in South Korea and Taiwan, for example, are putting down the necessary foundations for the building of essential industry and diversification of the economy. Expansion of transportation facilities under way in Cambodia and Thailand will open up new roads to market outlets. Minerals development in Bolivia and Pakistan is converting latent resources into needed consumer and export items. In free Viet Nam, good progress is

being made toward permanently resettling thousands of freedom-seeking refugees so that they can become useful and self-supporting citizens in their new homeland. These are but a few of the projects which are assisting free governments in their endeavors to bring a greater measure of economic well-being and security to their people.

During the period, agricultural products that the United States has in abundance were used as an integral part of specific programs and projects. They were used also to furnish urgently needed relief to flood victims in Pakistan and India and to drought victims in Cambodia.

American technicians were working in virtually every part of the world to advance the capabilities of other people for helping themselves to a better life. More balance between the various activity fields has been achieved in the planning of the current programs, and additional contracts were concluded with American universities and other non-governmental agencies for carrying out certain field operations. Additional participants were brought in from other countries to study American techniques and see the American way of doing things.

Soviet Shift in Tactics

The last six months of 1955 saw Soviet tactics shift increasingly from threats and violence to more subtle methods for extending Communist influence across new borders. The underlying purpose of this shift requires careful study, especially in light of the past Soviet policy of artful infiltration and subversion as a means of ultimate domination over the life of a country.

The United States is at present examining the implications of the Soviet tactics as they bear on the conduct of the mutual security program. In this connection, the Executive Branch has come to the conclusion that it is important to add greater flexibility and continuity in the admin-

istration of this program so that, within limits, the United States will be able to meet special circumstances and make comparatively long-range commitments without which it is impractical to assist in certain projects vital to countries participating in the program.

Laying Out the Fiscal Year 1956 Program

For the fiscal year which will end on June 30, 1956, the Congress appropriated \$2.7 billion in new funds for mutual security purposes. With funds available from previous appropriations, a total of \$2.9 billion was programmed for the 1956 fiscal year.² About 45 percent of the total amount was for items which go directly to the armed forces of partner nations to reinforce total free world security. Approximately 35 percent was for programs which give additional support to the defense efforts of these nations by providing economic assistance; and some 20 percent was for development aid, technical cooperation, and a number of other purposes such as our contributions to United Nations programs, funds for West Berlin, and refugee programs.

The greatest share of the \$1.4 billion in military aid, including direct forces support, was pro-

grammed for the Far East and South Asia, but appreciable amounts were earmarked also for military shipments to Europe and the Near East.

Of the non-military aid, defense support was by far the largest component, amounting to about \$1 billion and accounting for about two-thirds of funds for other than direct military assistance. Defense support helps to provide the supplemental economic resources required if a country participating in the military aspects of the mutual security program is to carry out an adequate defense effort and achieve or maintain economic stability. Virtually all of this aid was programmed for the less developed areas; the only recipients in Europe were Spain and Yugoslavia.

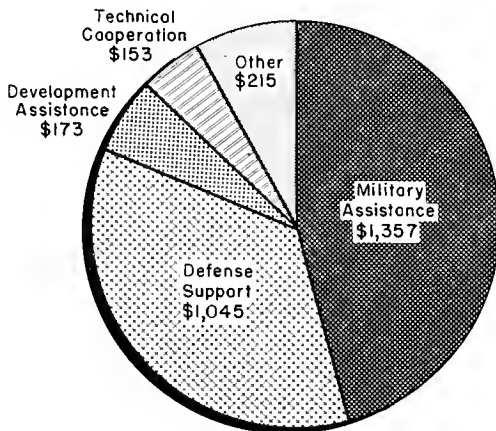
The \$173 million programmed for development assistance in fiscal year 1956 went entirely to the economically less developed areas. This form of economic aid assists key projects in development programs which are being carried on by the recipient countries themselves. In addition to development assistance destined for individual countries, the Congress appropriated \$100 million to the Asian Development Fund to be used over a

² These figures reflect the program as of March 15, 1956.

The Mutual Security Program For FY 1956

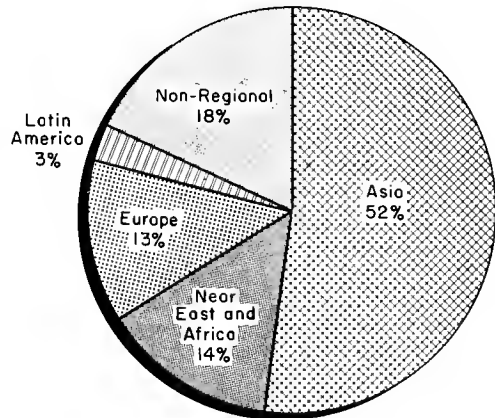
BY FUNCTION

(Millions of Dollars)



BY REGION

(Percent)

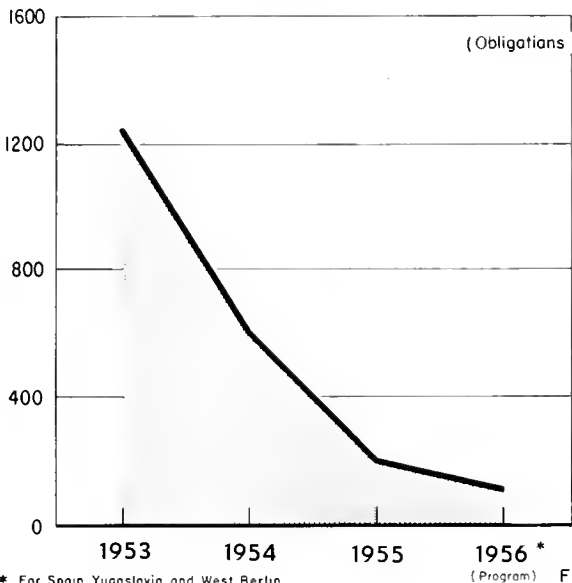


Total \$2.9 Billion*

* Includes funds made available from previous years

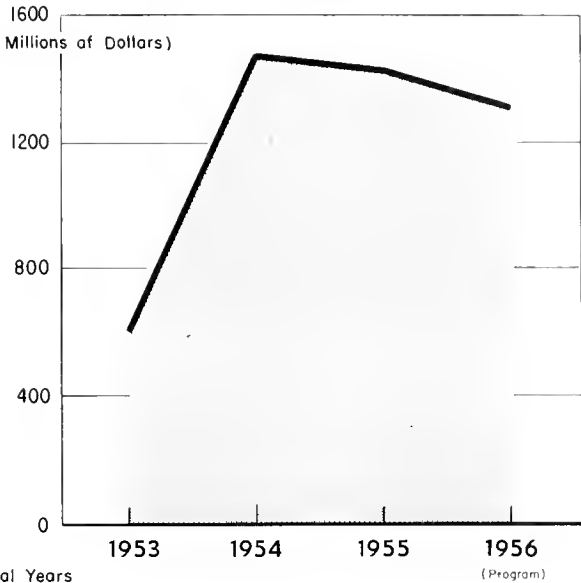
Non-Military Programs Have Shifted From Europe To Economically Less Developed Areas

EUROPE



* For Spain, Yugoslavia and West Berlin.

LESS DEVELOPED AREAS



(Program)

three-year period in Asia. Forty million dollars of this has been tentatively programmed.

Some \$153 million was programmed for technical cooperation, about 15 percent more than in the preceding fiscal year. Upwards of one-third of this amount was planned for Asia, with the Near East and Africa, Latin America and the non-regional programs receiving roughly equal portions of the remaining two-thirds.

Other activities of the mutual security program accounted for about \$175 million. These included costs of ocean freight for surplus agricultural commodities, assistance to joint control areas in Europe, assistance to Palestine refugees, and other purposes.

Strengthening Organizational Efficiency

In July 1955, ICA was formally incorporated as a semi-autonomous agency operating within the Department of State. In the course of the half-year under review, a number of measures were taken to promote greater efficiency of operations. Plans were under way for eliminating some of the functions under the ICA programs for refugees,

escapees, and voluntary assistance and transferring part of such functions elsewhere in the Department of State. The investment guaranty program was also under study to determine where it could best be administered. One possibility under consideration was to transfer that program to the Export-Import Bank for administration.

In recognition of the diminishing non-military program in Europe, the ICA staff there is being progressively reduced. By the end of fiscal year 1956, personnel strength will be 20 percent below the preceding year; an additional reduction of 35 percent is planned for fiscal year 1957. A number of European missions will be terminated by June 1956. Moreover, several missions, mainly in the Near East and Far East, have been reorganized to secure more uniform and effective operations, especially in strengthening fiscal controls.

Contracting procedures are receiving detailed attention. This function at present is shared by several different organizational units, but plans are in the final stages for centralizing contracting responsibility in order to provide better control and more expeditious action, and to assure uniform contracting standards.

To provide better management control over agency operations, several organizational changes are in process. A small evaluation unit of highly trained and experienced personnel is being organized to visit key overseas missions periodically to review the direction, content and effectiveness of the country programs. Another change represents part of a continuous effort to strengthen fiscal control. A special assistant for finance has been appointed to provide critical review and analysis of financial programs, particularly those involving loans. In addition, a special engineering unit is being established to improve technical supervision over the capital projects which absorb such a large share of program funds. This unit, staffed with competent engineers will be able, with the help of private engineering consultation on a contract basis, to maintain the necessary technical review and surveillance over the joint projects under way. Such a unit would also insure that major projects are economically and technically sound before funds are committed to them.

Problems in the Achievement of Progress

The mutual security program is one of the most far-spread and complex operations ever undertaken, involving military, economic or technical activities in cooperation with nearly 80 countries and territories in different stages of economic development, of widely varying political and social structures, and with diverse and sometimes conflicting national interests. Through determined and dedicated effort, our cooperative endeavors have produced real and considerable accomplishments toward the common goals of greater free world security and accelerated economic development.

It should be noted, however, that carrying out a program of such magnitude and complexity necessarily involves a number of operational problems which slow down the rate of progress. Many overseas projects, for example, especially in the field of technical cooperation, are being held back because competent specialists with the right qualifications and aptitudes for work in distant lands are hard to find. Important overseas positions still remain unfilled despite constant improvements in recruitment procedures and the hiring

under contract of personnel from non-governmental organizations and institutions.

A number of operational problems flow from the legal requirements embodied in the Mutual Security Act. It is becoming increasingly difficult to complete the amount of surplus agricultural sales specified under the Act. Although every effort is being made to reach the \$300 million target set for the 1956 fiscal year, a number of considerations may prevent full attainment of that goal. One consideration involves the fact that program emphasis has shifted to the newly developing countries where overall consumption of food and fibres is at a low level, and where economic systems are not yet capable of providing a market for a significant expansion of such consumption. Then, too, many of these countries, especially in Southeast Asia, are predominantly agricultural and have export surpluses of their own. In an attempt to increase its surplus sales, ICA is endeavoring to negotiate triangular arrangements—that is, to sell surpluses to one country and use the local currency obtained to procure goods for programming in another country. But here, too, there are limiting factors in the form of legislative restrictions.

In mapping out our programs abroad, assistance has been put on a loan basis where possible. In so doing, ICA has tried to make sure that such loans did not supplant those which might be available from public lending institutions or replace potential private capital investment. During fiscal year 1955, nearly \$210 million of mutual security assistance was furnished on a loan basis. Efforts this year to increase the volume of loans, however, have run into obstacles, primarily because in many instances the substitution of a loan for a grant would not be feasible unless the terms were made so liberal as in effect to constitute a partial grant.

Considerable attention has been given to the problem of getting private industry in the United States to participate increasingly in the economic development of other countries. ICA actions taken along these lines include assistance to countries in promoting a more favorable investment climate, through such measures as furnishing advice in the preparation of investment laws and codes, dissemination of investment opportunities to the United States business community, and the guaranty program offering American investors

abroad protection against loss from expropriation and inconvertibility. It will take time, however, for such efforts to induce an accelerating flow of private capital to areas characterized by political hazards, remoteness, internal insecurity, and a general lack of consumer purchasing power.

Besides these operational problems, there are the broader and more basic problems which flow from the attempts of newly developing countries to speed up their economic progress under handicaps of insufficient financial resources, heavy defense expenditures and technological shortages of all kinds. Despite these handicaps, the people of these coun-

tries and their leaders are determined to push forward at all costs to lift themselves above their present subsistence standards of living.

In carrying out mutual security operations in furtherance of United States foreign policy objectives, program procedures and program direction are under constant study to insure the most effective use of available funds and resources. Program operations will continue to be designed to meet changing conditions and to take full advantage of new opportunities for promoting free world stability and progress.

CHAPTER II

Military Defenses for Freedom Are Strengthened

GOOD PROGRESS was made in the second half of 1955 in strengthening free world defense capabilities. United States shipments of weapons and equipment continued to buttress forces which other free nations are maintaining in all parts of the world. The general magnitude of these forces is equivalent to more than 200 divisions, over 2,000 naval ships and about 300 air squadrons as well as related supporting units.

In Free Europe, defenses on the continent were made stronger by the addition of new guided missiles for use of our armed forces serving there; at the same time, NATO initiated a reassessment of its defense plans in light of new advances in nuclear warfare. In South and Southeast Asia, the SEATO alliance was becoming more effective through specific measures to strengthen its organizational structure and to establish the machinery for combined military exercises. In Northeast Asia, the United States helped the Republic of Korea and the Chinese Government on Taiwan tighten their defenses, and furnished training and equipment needed by Japan in building up its armed forces. In the Middle East, the Baghdad Pact provided a basis for joint defense efforts of nations in that area with common security interests. In Latin America, military assistance continued to those countries working together for the security of the Western Hemisphere.

U. S. Military Support to Free Nations

Supplementing the defense efforts and commitments of its free world partners, the United States sent about \$900 million worth of military equipment and supplies to friendly nations during the latter half of 1955. Since the beginning of the military assistance program in October 1949, the

United States has shipped over \$12.4 billion of materiel of all kinds to free world countries in the mutual security program. These shipments included planes, tanks and combat vehicles, and naval vessels, as well as artillery, small arms, machine guns, electronics, and other military supplies.

Offshore Procurement—A portion of the military weapons and supplies provided under the mutual security program is manufactured in friendly countries overseas under the offshore procurement program. From September 1951 through December 1955, contracts placed under this operation amounted to almost \$2.8 billion. Most of these orders, about \$2.7 billion, were in Europe and the remainder in the Far East. Payments for deliveries through December 1955 have come to \$1.7 billion. Plans for fiscal year 1956 did not finally crystallize until about midway in the six-month period; accordingly, only about \$2 million worth of contracts was placed during July–December 1955.

Significant political and economic benefits grow out of the offshore procurement program, but its primary purpose is to develop military production bases overseas. In the event of an emergency there would thus be less dependence on supply lines from the United States. Substantial strides toward the achievement of this objective have been made. Efforts are now under way to assure the maintenance of established production plants in a standby status. It is hoped that this will result in a gradual but significant reduction in offshore procurement orders as the countries in which production facilities are located assume greater responsibility for maintaining the important munitions production potential that has been developed.

NATO in Europe

Discussions in the North Atlantic Treaty Organization Council and in NATO committees during the second half of 1955 pointed out that NATO has entered a new phase of its defense preparations. NATO planners are concentrating on the need to modernize the Alliance's armed forces in line with the rapid development of new weapons and the increasing thermonuclear capabilities of the Soviet Union.

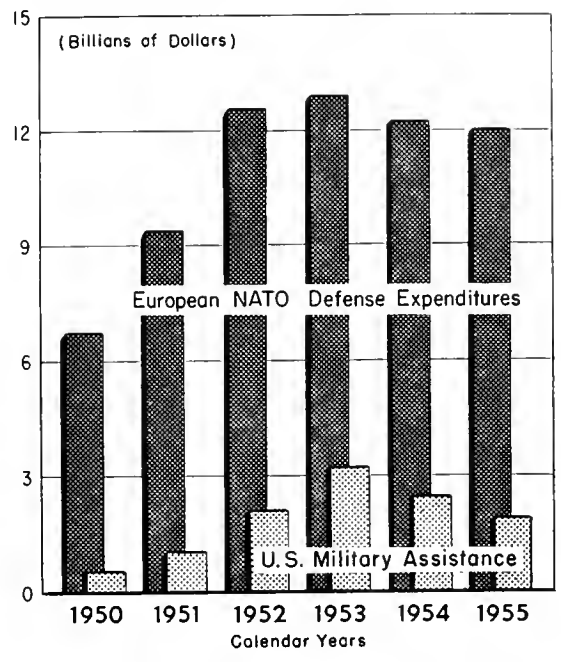
The reassessment of NATO military planning in light of nuclear warfare possibilities necessarily involves important changes in organization and equipment. Firm goals for the size of NATO forces were approved for 1956, and tentative goals were agreed upon for 1957 and 1958. Apart from the forces of the Federal Republic of Germany, these goals do not call for major increases except in the air forces which have not yet completed their scheduled buildup. Primary emphasis will continue on measures to improve the combat readiness of existing forces rather than on efforts to increase the number of frontline units.

In appraising the changes required for modernizing their forces, the NATO countries face a dual problem. On the one hand, they must weigh the cost of financing more modern equipment against the cost of maintaining and replacing the conventional equipment they now have. At the same time, they must balance these costs against the availability of funds committed for defense.

Defense expenditures by the European NATO governments (including Greece and Turkey) amounted to some \$12 billion in 1955, about the same level as in 1954. These NATO members have put up from their own resources about 85 percent of the total cost of the European NATO buildup; the United States has contributed through the military assistance program about 15 percent of that total. Moreover, NATO Europe supplies about 90 percent of NATO's integrated ground forces, 75 percent of its combined air forces, and a substantial share of its total naval strength.

During various meetings in the latter part of 1955, new procedures were worked out which would help NATO members, particularly the smaller countries, to keep abreast of the latest developments in more advanced weapons and tactics. Such information will enable them to measure future defense requirements in terms of the resources they have available.

European NATO Countries Finance The Bulk Of Their Military Effort



A New Air Defense Network—Air defense has been a serious weak spot in the NATO structure. In a major step toward correcting this weakness, the NATO Council authorized General Gruenther to proceed with plans for developing a coordinated air defense system for NATO Europe. The United States offered to finance two pilot links, estimated at \$8 million, in a new jam-proof communications system for the air defense and radar warning network. These pilot links, underwritten with mutual security program funds, will connect Paris headquarters with Naples in Italy, and Naples with Izmir in Turkey. A shorter link will connect two points in Norway. General Gruenther has proposed that the remaining links of the system, which will cost about \$45 million, be financed by all countries on a multilateral basis inasmuch as all NATO members will be benefited. Present plans contemplate that the system will be operated by the Supreme Headquarters for Allied Powers in Europe (SHAPE) and will be completely independent of civilian communications facilities.

Advanced Weapons for NATO—Continental defense forces were considerably strengthened during the second half of 1955 by the arrival of the latest types of weapons and planes for the American armed forces now stationed in Europe. Nike,



A formation of F-100 Super Sabres. These jet supersonic fighters are being sent to United States forces in Europe to buttress NATO defenses.

Corporal, Honest John, and Matador missiles and 280 mm gun battalions, all with an atomic capability, were dispatched to Europe in increasing quantities. Moreover, the United States Air Force recently announced the first step toward replacing its F-86 Sabrejets in Europe with F-100 Super Sabres. The first flight of the Super Sabres was scheduled to depart from the United States in January 1956. These F-100's are the first of the Century Series of supersonic fighters to be based overseas in strength and will constitute a major asset to NATO's defense forces.

The United States plans to provide its NATO partners with certain types of modern defense weapons and equipment which we are now furnishing in increasing numbers to our own NATO forces in Europe. Many European countries are now able to finance a greater share of the cost of maintaining their existing forces using United States equipment furnished in prior years. A greater proportion of United States assistance can therefore be used in helping them acquire the new

weapons necessary for strengthening the common defense effort.

Germany Ratifies MDAP—Since the Federal Republic of Germany became a member of the North Atlantic Treaty Organization in May 1955, a number of steps have been taken to bring into being the German forces so vital to the defense of Western Europe. The buildup of these forces will be accomplished in line with the provisions of the NATO and the Western European Union treaties.

In December 1955, the German Parliament ratified the U. S.-German Mutual Defense Assistance Agreement, and the way was cleared for cooperation in equipping and training the required German armed forces. The United States will provide certain major items which must be obtained from outside Germany to equip initial German forces. The total forces planned are to be in the dimensions originally scheduled—12 army divisions, approximately 1,300 aircraft, and a small coastal navy.



West German officers receiving instruction in the operation and maintenance of United States ordnance equipment as part of the training provided under the mutual security program.

An American military advisory group is already operating in Bonn under the terms of the assistance agreement. Prospective German officers are now in training in United States military establishments both in Germany and in this country. The first delivery of MDAP equipment for the German forces was slated for shipment in January 1956, in token quantities for orientation of key military personnel. Deliveries of more substantial quantities will begin with the activation of the first formal German training units, at present scheduled for spring of 1956. German legislation has already provided for the immediate induction of 6,000 personnel.

NATO as a Forum for Non-Military Affairs—On the occasion of the Summit Meeting and the subsequent Conference of Foreign Ministers in Geneva, the Western Powers represented used the North Atlantic Council of NATO as a forum for full consultation with the other NATO Governments in order to insure understanding and unity on the Western side. Discussions took place prior

to both meetings, and the Permanent NATO Council in Paris was kept fully informed of developments as the Geneva negotiations progressed. To a greater extent than at any time before in its history, the North Atlantic Council became, during these months, the focal point for political consultation by the member governments on the problem of relations with the USSR. The Council in December also stressed the importance of further consultations within NATO on the question of German reunification and noted that Soviet moves and declarations regarding Asia and the Middle East constituted a new challenge to the Free World.

NATO has made other advances recently in the field of political and social cooperation. The Council of Permanent Representatives was asked in December to study and implement all possible measures of cooperation in the non-military fields. Among the steps taken was the establishment of a fellowship program to further the study of the common traditions, historical experience, and

present problems of the North Atlantic Community nations.

Meanwhile, last July some 200 legislators from member countries met to consider methods of more closely associating NATO with their respective parliamentary bodies; and through them with the electorates of their countries. These legislators also discussed the various political and economic aspects of the North Atlantic Treaty and unanimously agreed to hold similar meetings in the future.

Joint Facilities for NATO Use—Modern military forces, although highly mobile, still require the support of certain fixed military installations to retain their mobility and to provide the required staying power. These military “public works” for NATO are termed infrastructure; they include airfields, pipelines, naval fleet bases, telecommunications, radar systems, ammunition storage and fuel oil tanks. Inasmuch as these military installations are for joint use of the NATO forces, the cost is shared jointly by all NATO countries.

As of December 31, 1955, agreed NATO programs for infrastructure construction through the end of calendar year 1956 amounted to approximately \$2 billion. The United States share of these costs is about \$780 million, approximately 38 percent of the total.

Over half of the \$2 billion program is being used to construct 174 tactical airfields. By mid-1955, there were 142 airfields in a sufficiently advanced state of construction to permit use in an emergency by modern jet aircraft. During the latter half of 1955, however, little further progress was made on airfield construction since most projects were held up in view of the current reassessment of the NATO military posture.

One of the major infrastructure projects underway is a continental fuel distribution system which will include about 3,800 miles of pipeline and nearly 450 million gallons of storage capacity essential for the support of modern jet air forces. This project will provide a central European network of fuel pipelines, connecting with ports on the Channel and Mediterranean coasts, that can be supplied by the tanker fleets of NATO countries. By December 1955, work was well along on more than half of the planned pipeline and fuel storage facilities.

Another important development now in progress is the telecommunications program. This will reinforce existing facilities by the addition of

about 4,000 miles of land lines, 3,700 miles of radio relay circuits, and more than 700 miles of submarine cables. Nearly all the contracts for this communications program, totaling some \$400 million, have been placed; more than 65 percent of the projects have already been completed.

Assistance to Spain and Yugoslavia—United States military assistance to Spain covers provision of military equipment and improvement of the logistics and training systems of Spain’s armed forces.

The United States is building naval and air base facilities in Spain under a series of agreements concluded with the Spanish Government. This program of military construction is progressing satisfactorily. By the end of December 1955, contracts totaling \$145 million had been authorized. For the air bases at Torrejon, Zaragoza and Moron, these contracts covered provision of pavements, drainage, on-base fuel facilities, troop housing and messing facilities, and warehousing. For the naval base at Rota, the contracts included waterfront work, airfield paving, and related facilities. In addition, the contracts provide for fuel terminals and transmission pipelines from Rota through Madrid to Zaragoza.

During the six-month period of this report the United States continued to furnish Spain’s army with tanks, anti-aircraft and anti-tank weapons, and various types of communication equipment. Spain’s navy received a net tender, in addition to minesweepers already delivered, and material for ship modernization and harbor defense; however, progress on the modernization program is slow. The Spanish air force is using T-33 and T-6 training planes provided by the United States to develop capabilities for using jet fighters. The initial consignment of F-86F day fighters was delivered during the six-month period, and the Spanish air force was able to activate its first jet fighter unit.

In Yugoslavia, the fundamental aim of the mutual security program has been to assist that country’s own efforts to keep free of foreign domination. United States military assistance is directed toward improving Yugoslavia’s existing forces by providing modern weapons, equipment, and training. Deliveries of tanks, trucks, artillery, radios, radar and engineer items have converted what were once largely guerrilla forces into a modern army. Through United States aid, Yugoslavia’s coastal destroyers have been modern-

ized, small mine sweepers received sweep gear, and a number of patrol craft have been placed in good operational condition. In addition, the Yugoslav Air Force has been provided with jet training aircraft and is now engaged in a program under which it will be equipped with jet fighter bombers and jet pursuit planes. Military students from the Yugoslav armed forces have been given formal courses of instruction in United States service schools in this country and overseas.

In keeping with its policy of pursuing an independent course politically, Yugoslavia resumed normal relations with the Soviet Bloc. At the same time, it maintained close ties with Greece and Turkey, its allies in the Balkan Alliance, and strengthened its relations with Western European countries both directly and through its association with certain Western European bodies such as the Organization for European Economic Cooperation (OEEC). Recently, Yugoslavia, which has observer status in the OEEC, has expressed an interest in participating more fully in the work of that organization, including activities of the European Productivity Agency.

SEATO in Southeast Asia

The United States is actively engaged in providing military assistance to the Asian countries of the Southeast Asia Treaty Organization. The Asian members of SEATO are Pakistan, the Philippines, and Thailand. Other SEATO members, in addition to the United States, are Australia, France, New Zealand, and the United Kingdom. Cambodia, Laos, and free Viet Nam fall within the area covered by the Treaty.

The defense capacity of the Asian members of SEATO continued to be strengthened during the second half of 1955 with military equipment furnished by the United States. In addition, American military advisers are assisting in the training of troops in these SEATO countries; approximately 3,000 military students were training in United States installations.

SEATO took several measures in the second part of 1955 to strengthen its organizational structure. The Foreign Ministers of member countries make up a central Council. Serving the Council are representatives of the member countries who coordinate activities on a permanent basis. The Council also has a group of military advisers who,

in turn, are backstopped by committees which deal with the various elements of military planning.

It is not contemplated that SEATO will set up an extensive permanent structure. It is felt, however, that a continuous Secretariat is necessary to enable the organization to function on an efficient basis. General agreement has been reached for establishing a SEATO public relations office and a research center in Bangkok, Thailand. These bodies would provide member countries with information on developments which affect SEATO objectives, as well as material on Communist subversive activities and means for countering such subversion.

SEATO military advisers and supporting committees have made good progress in exchanging views necessary for improving military coordination. They have conferred on methods of achieving better standardization of weapons and equipment, of improving training, and of using the training facilities of one nation to assist the forces of another. These discussions will furnish a firmer basis for combined military exercises.

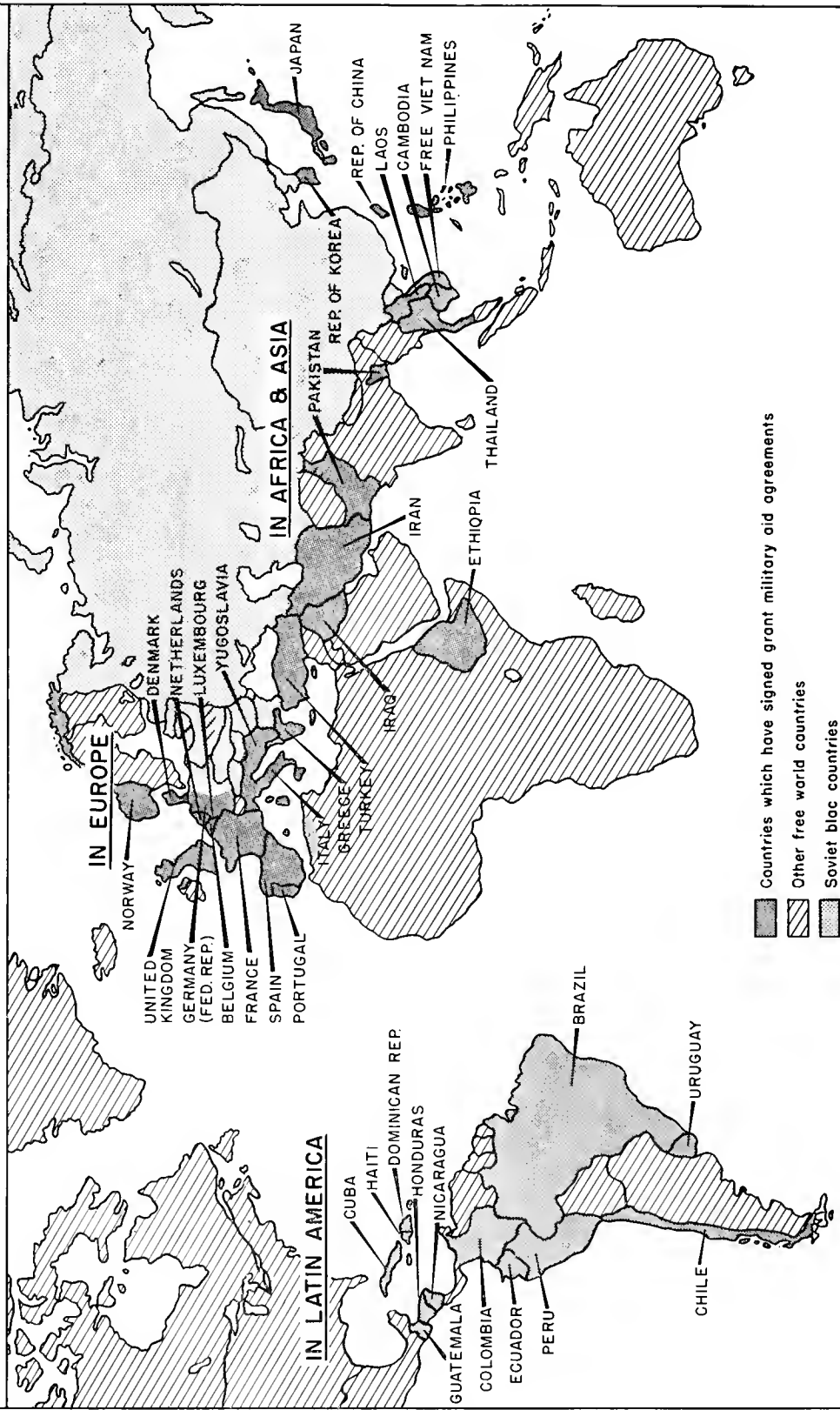
Much remains to be done in SEATO, but the new alliance in Asia enters its second year with the knowledge that tangible initial steps have been taken toward the creation of an effective organization for freedom.

Aid to Northeast Asia and Taiwan

Rounding out the SEATO defense line, the United States has assisted the individual efforts of the Republics of China and Korea to maintain and strengthen their capabilities of defense against potential military aggression. We have also cooperated in Japan's efforts for defense by providing training and selected types of equipment which the Japanese need to get their defense buildup under way.

In Korea, essential military weapons, equipment, and training supplied during the second half of 1955, together with defense support aid, made it possible for the ROK Government to maintain a force strength of 20 active divisions, a marine division, a navy of approximately 50 vessels, and an air force of one fighter wing plus miscellaneous supporting aircraft. Reserve divisions also have been developed. In further efforts to improve Korea's military capabilities, the United States provided logistical training to the Korean Second Army. This unit is now conducting the logistical support

38 Free World Countries Have Entered Into Agreements For Grant Military Aid Under The Mutual Security Program



- Countries which have signed grant military aid agreements
- Other free world countries
- Soviet bloc countries

As of Dec. 31, 1955

activities which were formerly performed by our own armed forces.

In Taiwan, the United States continued to furnish assistance in the form of training, equipment and other materials used by the Chinese armed forces on the island. Deliveries of major items of military weapons and supplies during the second half of 1955 helped to strengthen the Republic of China's capabilities for coping with the continued threat of Communist military action. Replacement of conventional fighter-type aircraft by jet aircraft in the Chinese Nationalist Air Force continued.

In Japan's recent program of constructing a broad base for defensive strength, progress has been made in developing ground forces, maritime defense forces with supporting vessels and aircraft, and a small air force. Most of the equipment of Japan's air units has been furnished through United States military aid; but by mutual agreement Japan is beginning to produce a limited number of trainer and interceptor fighter-type aircraft. In addition, Japan is constructing vessels to be used in its coastal defense. Although Japan's air force is still a fledgling, it is rapidly developing capacity to absorb various types of programmed aid equipment. To insure that the ships and aircraft we supply are used most effectively, selected Japanese personnel are being given "on-the-job" training in Japan and more formal training in the United States.

Aid to Baghdad Pact Nations in the Middle East

The Pact of Mutual Cooperation between Turkey and Iraq, generally known as the Baghdad Pact, was concluded in February 1955. It was

subsequently enlarged by the addition of the United Kingdom in April, of Pakistan in September, and of Iran in November. Like other free world alliances, the Pact established a regional system of collective defense against aggression, within the framework of the United Nations Charter, as a basis for promoting peace, political stability, and economic well-being within its area. Though not a member, the United States has publicly endorsed the pact as a demonstration of the common security interest among the northern tier of nations in the Middle East area. Because of its geographic overlap with NATO and SEATO, the Baghdad Pact constitutes a vital span anchored in neighboring free world alliances to the west and east.

The armed forces of the Middle East and South Asian members of the Baghdad Pact are being strengthened with United States military assistance. Turkey, Iran, Iraq, and Pakistan have signed mutual defense assistance agreements with the United States. During the half-year, military equipment and training measures were carried out to improve their capacity for fulfilling individual and collective defense responsibilities.

The organizational structure of the Baghdad Pact is still in the formative stage. Beginning with its first organizational meeting at Baghdad in November 1955, the Council of Deputies formed military and economic committees in recognition of the interdependence of military and economic measures in promoting security and peace in the region. As the year closed, the Economic Committee was preparing to meet in order to establish effective organizational arrangements and launch specific activities in the field of economic cooperation.

CHAPTER III

Use of U.S. Economic Resources Abroad

AS part of the mutual security program, the United States is actively engaged in helping people in newly developing countries to build a broader and more diversified economic base. In strengthening their economic foundation, many of these countries face a twofold problem. Security requirements necessitate their carrying a defense burden beyond the present capability of their economies to support without outside aid. United States economic resources are being used to help the participating countries in their efforts to cope with this particular problem. Industrial and agricultural commodities are being furnished in substantial measure both to fill existing shortages and to provide additional local currency for use of the recipient government in meeting developmental and military needs.

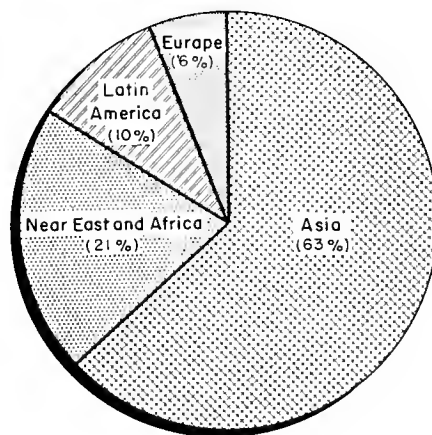
The other part of the problem which these countries face involves the achievement of legitimate economic objectives necessary to maintain political stability and meet the aspirations of their people. In this respect, the United States is furnishing the materials and technicians to supplement local efforts in carrying forward key developmental projects. In some cases, we are also aiding in the solution of special difficulties such as refugee care and resettlement.

Accelerating Specific Development Projects

The projects which are being assisted through the mutual security program encompass virtually every type of activity designed to bring the potential resources of the participating countries into full production so that they can better meet their security needs and at the same time move steadily forward with essential self-development plans. They have included hydro and thermal

power projects to promote greater industrialization, vital irrigation works to increase land available for food production in deficit areas and prevent recurrent food crises, port improvements to enable a country to earn more foreign exchange and take a bigger part as a partner in world trade. They have included projects in highway and railroad construction to open up hinterland areas and new markets as well as projects to develop mineral resources and expand small industries. Activities such as these not only make possible a more effective and self-sustaining effort by the people of the participating country; they also open the way for a larger inflow of private capital, both foreign and

Almost Two-Thirds Of Aid For Specific Projects In FY 1956 Is Earmarked For Asia



Total Project Aid
\$455 Million

domestic, by providing expanded opportunities for productive investment.

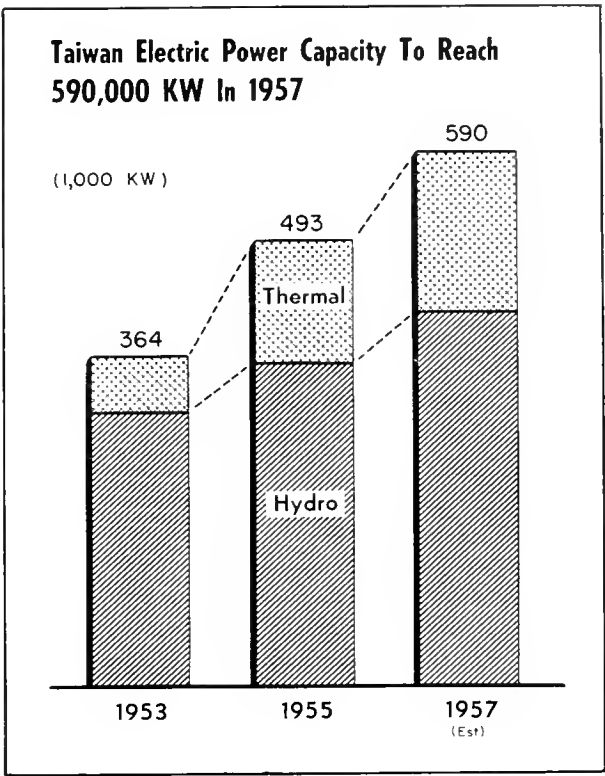
Almost two-thirds of the project aid programmed during the first half of fiscal year 1956 was for Asia, where countries such as Korea, free Viet Nam and Taiwan face serious problems of economic rehabilitation as a result of Communist aggression. Approximately one-fifth was allocated to countries in the Near East and Africa area, and most of the remainder to Latin America. The small portion of project aid for Europe went to Spain.

The following paragraphs describe some of the projects under way in the July–December period of 1955 to which the United States provided supplemental assistance in commodities, supplies, equipment and technical guidance.

Building Needed Power Resources.—*Korea* is handicapped by a severe power shortage originally created when the Communists cut off the country's main generating sources in the North. In addition, the few power installations in the South were extensively damaged in the Communist invasion. To meet Korea's critical need for power, plans were laid in 1954 to expand generating capacity from 68,000 kilowatts to about 300,000 kilowatts by 1960. As part of this effort, three new plants with a total generating capacity of 100,000 kilowatts are being constructed to serve the capital city, Seoul, the manufacturing and port city of Pusan, and the important coal mining center at Samchok on the east coast. In addition, the hydroplant at Hwachon is being expanded. The major portion of this new capacity should be in operation by mid-1956. Rehabilitation of other existing power facilities at Tangin-ri, Unam and Yongwol, when completed, will further increase output. Fiscal year 1956 funds are also being used to extend and improve power transmission and distribution systems.

Taiwan's present electric power capacity is not sufficient to support essential expansion of the island's industrial resources. To remedy this situation, it is planned to increase installed capacity by 226,000 kilowatts above the level existing at the end of 1953, so that Taiwan can achieve a total power output of 590,000 kilowatts by 1957. These plans include rehabilitation of existing installations.

In November 1955, the first unit of the Nan Pu thermal power plant went into commercial operation. This steam turbine generator unit and boiler



has a capacity of 40,000 kilowatts. Construction of this plant improves the relationship between thermal generating capacity and run-of-river hydro-plants. The latter must have reliable standby thermal capacity during the dry seasons, when output of hydro-power is reduced, in order to help meet the demands for peak and base load operation.

Constructing Essential Transport Facilities.—*Cambodia* presently relies on the Port of Saigon in free Viet Nam to ship out and bring in its goods. This arrangement is uneconomical and is causing costly delays. Negotiations were completed at the end of 1955 for a contract to design and supervise construction of a highway linking the capital city of Cambodia, Phnom Penh, with the new deep seaport of Kompong Som being constructed by the French on the Gulf of Siam. The completion of the highway and port will not only reduce high shipping costs and delays resulting from dependence on foreign ports; it will also stimulate local agriculture and industry and make essential consumer goods available to the people at reduced costs. The United States is providing needed materials and equipment for the highway; Cambodia is furnishing the labor and paying the local currency costs of construction.

The lack of transportation facilities in *Thailand* hampers economic development, limits government services to the people and seriously restricts the mobility and effectiveness of Thai defense and internal security forces. This is especially true of the isolated region of northeastern Thailand where living standards are quite low and crop failures are frequent. These factors, together with its proximity to Communist-held areas and the presence of large numbers of North Vietnamese refugees, make this area especially vulnerable to subversion. A \$20 million, all-weather Northeast Highway is being constructed through virgin territory for about 100 miles from Sara Buri on the Central Plains to Korat in the northeast to assist in the defense and economic development of this depressed area.

Another transportation project provides for general highway improvement throughout Thailand in order to strengthen a skeleton network of all-weather highways to meet the country's basic military and economic needs. During fiscal years 1955 and 1956, the United States expects to contribute about \$18 million to this project.

South Korea's railways were severely damaged during the Communist invasion. In addition, the North-South orientation of the country's track system did not provide the lateral connecting lines necessary for adequate transportation from coastal to inland points. Under the mutual security program, the United States has been helping Korea rebuild and operate its railroads for the past two years. It is expected that about \$25 million will be made available for this purpose in fiscal year 1956.

In December 1955, the newly built Cholan spur line was completed. This spur will carry coal from the Samehok mines on the east coast of Korea directly to its point of consumption at Seoul on the west coast. Transportation time has been cut from ten days to ten hours, since the long coastal trip to Pusan has been eliminated, and it is no longer necessary to reload from shore to barge and on to shore again.

Developing Irrigation and Natural Resources.—*Haiti* is working to repair and improve the irrigation systems which were damaged by Hurricane Hazel in October 1954. In support of this project, \$1.3 million of mutual security funds were made available. The resulting direct increase in agricultural production will be used to meet Haiti's internal consumption needs. In addition, many

sections of mountainous land will be freed for the production of coffee and other crops which could provide foreign exchange revenues. Work under the present plan includes strengthening the main irrigation canals and distribution systems in order to minimize potential damage from future floods. It will also improve the drainage system so that seepage water may be collected and re-used for irrigation on the lower plains. In the latter half of 1955, three diversion dams destroyed by the hurricane were replaced; a number of damaged emergency flood protection works were also repaired and new ones constructed.

Bolivia is trying to find another source of foreign exchange earnings to make up for heavy losses resulting from the fall in the production and price of tin, the main source of its export revenues. Oil shows promise of providing excellent returns. Last year, for the first time, Bolivia became a net exporter of petroleum.

To assist Bolivia in the development of a new petroleum law, the United States sent a top-flight American expert at the request of the Bolivian Government to work with a Bolivian team of specialists. A petroleum code was formulated to protect the basic rights and interests of Bolivia in its oil resources and at the same time to attract foreign capital to develop them. The Bolivian Government has put the new code into effect, and several United States firms have already shown that they are interested in providing capital for further exploration of the country's petroleum resources.

Israel's pressing population problem calls for the fullest use of its limited natural resources. An American engineering firm has been evaluating Israeli deposits of copper, magnesium and iron so that the economic possibilities of developing such resources can be examined. Copper and iron deposits appear to be the most promising. The second stage of the project is now being started, and two trained drillers with necessary equipment are being sent to Israel to help determine the extent of actual resources at the copper and iron mines. A training program will also be initiated under which Israeli technicians will be trained in drilling, sampling, and technical analysis, thereby enabling them to carry on with additional exploration of the nation's natural resources in other fields.

Expanding Manufacturing Industries.—Inadequate supplies of fertilizer in past years have

limited *Taiwan's* yields of rice and other food-stuffs. By increasing local production of fertilizer, Taiwan will be able to raise its crop levels and at the same time save some of the scarce foreign exchange it has had to spend for fertilizer imports. In 1955, Taiwan imported about 300,000 tons of chemical fertilizer valued at \$22 million. This item accounted for more than 10 percent of total imports.

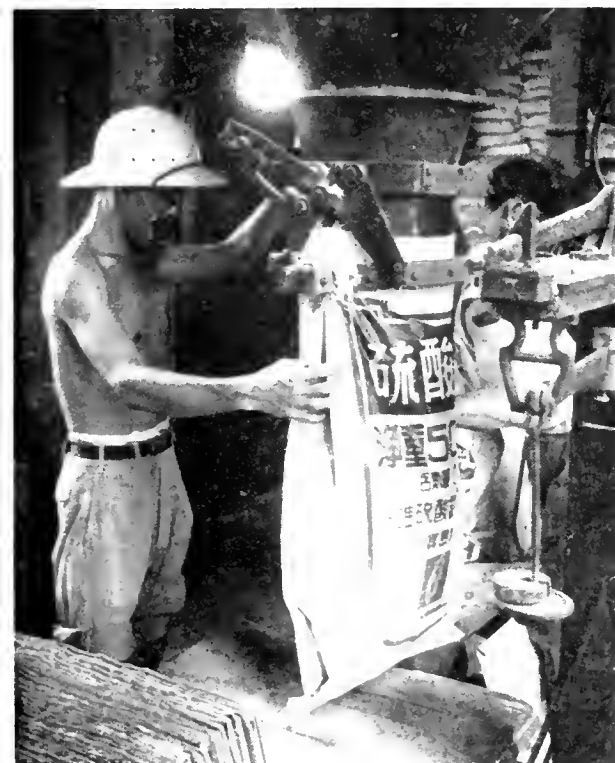
Through the mutual security program, Taiwan is being helped to establish a domestic fertilizer industry that will make maximum use of the island's raw materials. For example, expansion of the Kaohsiung ammonium sulphate plant now under way will increase production of ammonium sulphate from 20 tons to 100 tons a day. It is expected that the plant will be completed by the fall

plant which will use ammonium sulphate from the Kaohsiung plant for the production of liquid nitrogen fertilizer. The other is a pyrite exploration project which aims to insure a continuous supply of sulphur for the Kaohsiung and other fertilizer factories. The Kaohsiung works will cost approximately \$3.3 million, with almost \$2 million coming from United States funds and the balance from counterpart and local government funds.

Because *Spain* is highly susceptible to adverse weather conditions, its agricultural sector is not too reliable an earner of the foreign exchange required for essential imports of manufactured goods. Therefore, manufacturing for local consumption is being encouraged to give the economy greater stability. To meet Spain's growing industrial requirements for stamped steel products, the United States is assisting in construction of a cold-finishing mill in Bilbao which is being carried out by a Spanish steel company. This mill is expected to go into production in mid-1957 with an initial output of about 40,000 metric tons of sheet steel a year. As demand increases, production is expected to expand to the full 120,000 ton capacity. The United States contribution of equipment for this steel-finishing plant amounts to \$3.9 million; the company is financing \$2.7 million of the total cost.

Pakistan must diversify its productive resources in order not to become overly dependent on the agricultural sector of its economy. The Pakistan Government, therefore, is working on plans to expand its modest manufacturing industry. The city of Lahore, in the northern part of West Pakistan, is the main manufacturing area of the country. A survey of the metal products industry there pointed out a number of deficiencies in manufacturing processes. There was little or no quality control, tools were inadequate, personnel were poorly trained, and manufacturing costs were excessive. At the request of the Pakistani Government, the United States is helping to establish a training center in Lahore to demonstrate efficient techniques of industrial production and to advise local manufacturers on their particular problems.

The United States is providing technicians to help staff the center and is furnishing the dollar costs of instructional equipment. The center will furnish guidance in such fields as machine shop operation, tool grinding, welding, heat treatment, plating and inspection. There will also be train-



Packaging ammonium sulphate at the Kaohsiung fertilizer plant in Taiwan. This plant is being expanded to make maximum use of the island's raw materials and cut down on import requirements.

of 1956. The Kaohsiung plant will also produce 25 tons of anhydrous ammonia a day for other fertilizer projects. In addition, this plant is related to two other projects. One is a nitrogen solution

ing in foundry operations, pattern making and forging, along with tool, gauge and die making. By the end of 1955, the building to house the center was almost completed, and contract negotiations for the United States staff were well under way.

Resettling Refugees From Communism.—Up to June 1955, \$56 million of mutual security funds had been allotted to free Viet Nam for the evacuation, reception and emergency relief of some 600,000 civilian refugees from Communism in the North. During the second half of 1955, an additional \$37 million was programmed for the permanent resettlement and rehabilitation of these freedom-seeking people. This last phase of United States assistance will help relocate the new population on unused but potentially productive land. Assistance takes the form of equipment for land preparation, farm tools, draft animals, seed, and fertilizer. The program is also providing equipment to meet the needs of fishing and village industries and basic community services, including medical and sanitation facilities. At the end of the year, the Vietnamese Government's land reform program got off to a vigorous start. A block of almost 200,000 acres of land was made available for resettlement purposes, with prospects of more acreage being made available in the near future.

President's Fund for Asian Economic Development

A new measure to assist the area of free Asia in expanding its economic growth on the basis of self-help and mutual cooperation was created by the establishment of the President's Fund for Asian Economic Development. Under this authority, \$100 million was appropriated in fiscal year 1956, to remain available for use over a three-year period. Preference is to be given to projects which will clearly contribute to promoting greater economic strength in the Asian region as a whole or in one or more groups of countries in it.

This legislation represented a new element in the mutual security program, particularly in its regional approach. Before using the funds, therefore, it was necessary to work out new guidelines fully reflecting the intent of the law and to get some indication from the countries in the area on feasible projects which they could undertake. Informal views of Asian countries were obtained, for example, during the October 1955 meetings in

Singapore of the Consultative Committee of the Colombo Plan.

During the period of July-December 1955, a workable basis was established for using the Fund, and a number of projects which appeared to qualify for financing through the Fund were selected for further careful examination. Among proposals favorably considered was the establishment of a regional nuclear research center for the benefit of Asian countries.¹

Such a center for regional study will permit Asian scientists to learn how to apply the benefits of nuclear science to area problems in medicine, agriculture and industry. Specific proposals have emerged also for transportation and telecommunications links between countries as well as for development of minerals production in certain countries for export to others in the region. In addition, consideration is being given to the establishment of technical training centers for the Asian region as a whole.

The establishment of the Fund has stimulated keen interest on the part of the countries of free Asia and has given them a greater incentive to work together for their mutual economic advantage.

Providing Saleable Commodities

In addition to assistance for specific projects, the United States furnishes a substantial amount of commodities which go directly to consumers and private industries through sale in the local markets of the recipient countries. More than \$750 million worth of such saleable commodities was programmed for the 1956 fiscal year. A substantial portion is in the form of agricultural products, most of which are in surplus in this country. Chief among these are grains, raw cotton, and fats and oils. Principal industrial commodities furnished are made up of textiles, machinery, iron and steel, and fuels.

These commodities help to meet the essential needs of consumers and of industry, and in so doing they act to curb inflationary forces. They also provide additional financial resources to the recipient government for meeting local currency costs of economic development and of supporting the armed forces.

About 60 percent of the proceeds in local currencies realized from the marketing of saleable

¹This center was subsequently approved for location at Manila in the Philippines.

commodities programmed for this fiscal year will be used by the recipient countries for specific development projects, enabling the purchase of local materials and the payment of local labor.

The proceeds from the sale of these commodities are also used to carry out essential military activities. Approximately 40 percent of such proceeds provide financing for troop pay, locally available military supplies and vital military construction such as airfields, barracks, and storage facilities.

Use of Surplus Agricultural Commodities

To put United States surplus farm products to constructive use overseas, work continued on three broad programs.

Sales of \$60 Million Worth Under the Mutual Security Act.—Section 402 of the Mutual Security Act of 1954 as amended requires that a minimum of \$300 million of funds made available for fiscal year 1956 be used to finance the export and sale of United States surplus agricultural commodities in exchange for foreign currencies. Proceeds from these sales are used on a loan or grant basis to carry out the objectives of the mutual security program—that is, for military assistance, defense sup-

port, or development assistance.

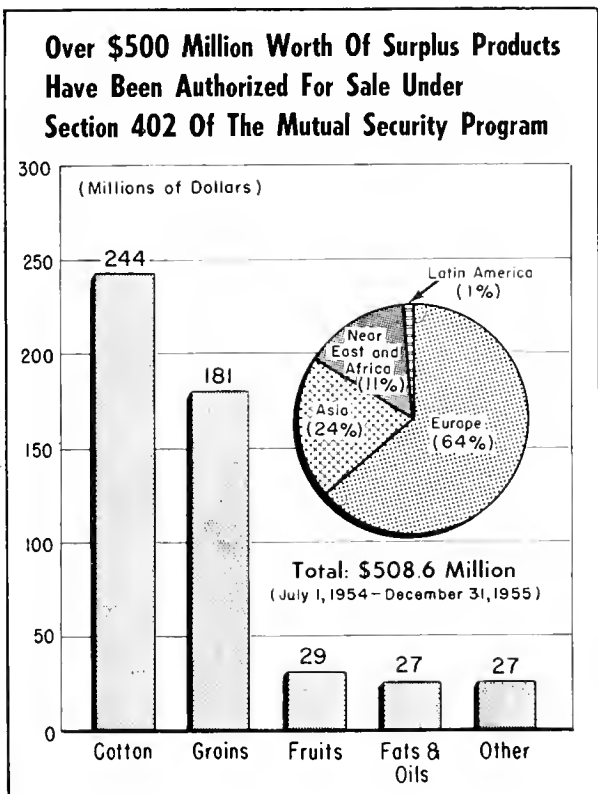
During the six-month period, sales reached \$60 million, and sales involving several times this figure were in process of negotiation. The major item of the surplus commodities component was \$34 million for grains. Other commodities included \$8 million for cotton, \$5 million for frozen beef, \$1.5 million for shell eggs, and \$2.8 million for sugar. The sugar is part of the 100,000 tons which the U. S. Department of Agriculture procured to relieve a pressing domestic problem. Negotiations for additional sales, including the remainder of the sugar, will be concluded in conjunction with ICA programming. Commodities are considered eligible for sale in accordance with the recommendations of the Secretary of Agriculture. Sales were generally made at prices prevailing in the United States export market. Private trade channels were used to the maximum extent possible. Shipments of these commodities were subject to the statutory requirement that 50 percent be shipped in American vessels as far as practicable.

Sales Proceeds Under Title I of the Agricultural Trade Development and Assistance Act.

—Other legislation outside the mutual security program—specifically, Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480 as amended)—provides that local currency proceeds derived from sales of surplus agricultural commodities may be used by the United States for several purposes. ICA is responsible for administration of funds set aside for loans or grants for economic development and promotion of multilateral trade, and for procurement of goods or services for other friendly countries.

By December 31, agreements providing for sales of over \$500 million (United States export market value) of surplus farm products had been concluded. The sales agreements provide that the equivalent of \$236 million of the sales proceeds may be used for loans, \$7.5 million for grants, and \$15 million for purchases for other friendly countries.

During the period under review, loan agreements made pursuant to the sales agreements, amounting to the equivalent of about \$80 million in local currencies, were concluded with four countries—Japan, Israel, Peru, and Spain. Programs for utilization of loan funds are developed jointly by the United States and the foreign governments. By the end of the year, pro-



grams totaling about \$69 million had been approved in Japan, Israel and Peru. Funds will be used for electric power development, irrigation and reclamation of land, and improvement of productivity.

Shipments Under Title II.—Title II of Public Law 480 provides that up to \$300 million of surplus commodities held by the Commodity Credit Corporation (CCC) may be used over a three-year period for assistance to friendly peoples in meeting famine or other urgent relief requirements.

By the end of 1955, programs undertaken under this continuing authority reached \$141 million, valued on the basis of CCC cost and investment. During July–December 1955, ICA authorized the transfer of about \$32 million of surplus commod-

ities under Title II. This amount included \$11 million of nonfat dry milk, \$11 million of wheat and corn, \$5 million of rice, \$3 million of fats and oils and \$2 million of raw cotton and dry beans. These commodities were used mainly for urgent relief requirements in seven countries in the Near East, Far East and Latin America, and the expansion of a school lunch program in Italy.

To assist victims of flood conditions, an initial shipment of 40,000 tons of wheat was authorized for Pakistan; also 10,000 tons each of rice and wheat were distributed in northeast India for similar reasons. To cope with another form of disaster, Cambodia was furnished 10,000 tons of rice to deal with urgent relief needs resulting from a severe drought in 1954.

CHAPTER IV

Sharing American Know-How

THE LATTER half of 1955 marked the fifth anniversary of technical cooperation between the United States and the economically less developed areas around the world under the Act for International Development and successor legislation, although small cooperative programs had been carried on in Latin America since 1942. In the five-year period, the program of sharing technical skills with others has grown from an idea on paper to a productive reality. Today, thousands of American technicians are working with other free people in every part of the world; thousands of nationals from other lands are coming to the United States for technical training; and hundreds of individual demonstration projects are being carried on in virtually every field of activity needed to underpin a country's economic growth.

Since we cannot transmit modern technical knowledge directly to each of the hundreds of millions of economically less developed people in the free world, our technicians train local people who in turn train others. They start one demonstration of a better way. This grows to ten and then to a hundred demonstrations through local initiative so that ultimately the improved way becomes the standard method of doing things in a country. They work with local agencies to develop and staff locally rooted institutions and organizations which can expand and continue the work begun.

The effects of our cooperative programs of demonstration, training, and advisory services are becoming more and more self-evident. Wherever American technical resources have been joined with the resources of others, you will find tangible achievements. Better health, a longer and more productive life, improved food crops, accelerated and more efficient manufactures, more meaningful and useful educational methods, more effective administrative procedures in govern-

ment—all of these gains are directly attributable to the unified initiative of American technicians and their counterparts in a cooperating country. Encouraged by these visible results, host countries today are contributing by far the greater share of manpower and funds in almost every technical cooperation project.

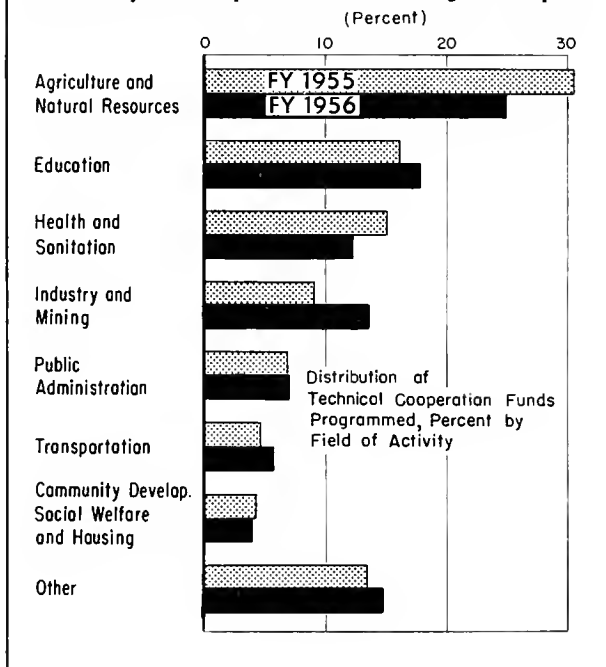
Economic development through technical cooperation, though continuous and cumulative, is necessarily a gradual operation. It is an effort to help people help themselves by transmitting needed know-how. It is faced with near primitive economic conditions in many areas. Often, political, social and administrative barriers must be overcome. Confidence and trust must be won before plans can be worked on. Progress, therefore, is an evolutionary process of planting seeds of ideas and techniques and waiting for them to grow.

Current Program Trends

Current programs of technical cooperation are focusing on the development of greater balance and integration among activities in various functional fields. They are being aimed also at broadening the base of the program through use of contracts with non-governmental agencies to carry out certain field operations. Then, too, the program as a whole has grown in terms of actual numbers of American and cooperating country personnel at work.

A More Balanced Program—Although work in agriculture and natural resources still accounts for more than one-fourth of the technical cooperation activities scheduled for fiscal year 1956, this field is receiving relatively less emphasis than in past years. Activities in public health have also been somewhat curtailed proportionately. The program is moving increasingly toward assistance in industry and mining, transportation, public administration, and other sectors as countries

Agriculture And Health Activities Receive Relatively Less Emphasis As Other Programs Expand



strive for better balance and diversification in their development efforts.

Greater Use of Contracts—Additional technical cooperation contracts have been placed with United States universities, private firms, and other nongovernmental agencies. At the end of 1955, 51 American universities held 79 contracts for undertakings abroad in 37 countries. The number of technicians operating under such contracts increased from 31 percent to 37 percent of total technicians abroad in the course of the six months covered in this report. The program for fiscal year 1956 shows a continuation of that movement.

A significant development has been the increased use of inter-university contracts between American and foreign educational institutions. Under these arrangements, American universities assist in strengthening the foreign institutions in those areas of higher education and extension work which are of greatest significance to economic development.

The effectiveness of the contract technique varies by field of activity. In public administration, the program has about an equal number of people under direct hire as compared to contract hire. Similarly in education, about 46 percent of the

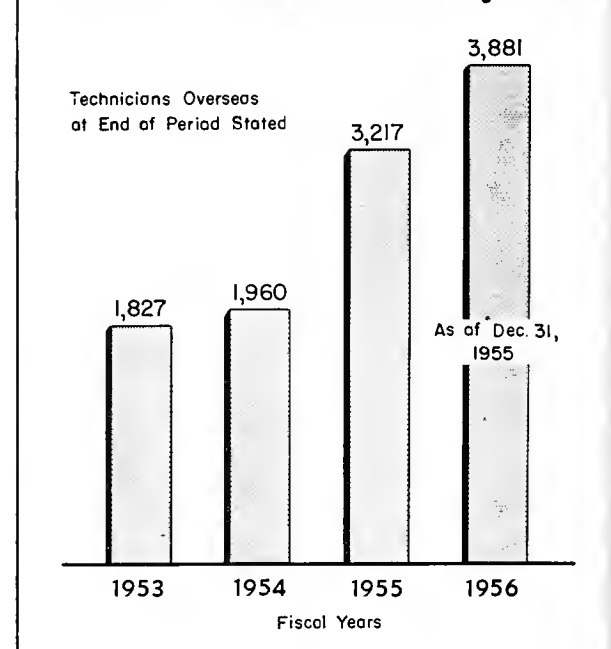
educational technicians are under contract arrangements. Contracts are not as practical in the field of agriculture because such a large proportion of American technicians is recruited from the Department of Agriculture and land-grant colleges. As a result, only 15 percent of agricultural technicians are expected to be recruited under contract arrangements during fiscal year 1956.

Over-all Program Growth—From June 30 to December 31, 1955, the number of technical cooperation technicians actually on duty overseas increased from 3,217 to 3,881, a growth of over 20 percent. It is expected that there will be well over 4,000 technicians on duty by June 30, 1956. These figures include both technicians directly employed and those under contracts.

It is difficult to recruit competent American technicians for overseas assignments in certain fields of activity. Qualified public administrators, for example, are reluctant to go overseas at moderate salaries and make the necessary adjustments in living conditions.

The most critical shortage area is in the field of public health where it has been impossible to obtain enough qualified public health doctors and sanitary engineers. The problem is attributable to the limited number of Americans who are trained in these fields and to the very great demand for such personnel in this country.

More American Technicians Are Serving Abroad



The flow of participants from the cooperating countries to the United States to take part in programs of technical training and observation of American methods is increasing significantly. Some 5,665 persons are scheduled to participate in such programs in fiscal year 1956, an increase of 24 percent over fiscal year 1955. Participant programs are putting more stress on the broad fields of community development and housing. Activities in labor and education are also receiving more attention.

During the July–December period of 1955, a study was begun to determine the desirability of providing certain types of technical training in places outside the United States. In those cases where training in the United States may be too highly advanced and too technical, or because of language difficulties, it is felt that training in another country might be of more positive assistance to the participants concerned. ICA is continuing to study this matter. In the meantime, somewhat increased use is being made of established training institutions overseas.

At best the two-way flow of technicians and trainees directly engaged in a technical cooperation program can reach but a small fraction of the population of the participating countries. Therefore, to achieve a greater mass impact, intensified efforts have been made to expand the distribution of technical literature, films, visual aids, and other specialized types of training materials in the cooperating countries. These valuable materials for learning, commonplace in the United States, are lacking in most newly developing countries.

Activity Highlights in Selected Fields

Some of the more noteworthy developments in technical cooperation activities during the July–December period are described in the following paragraphs.

Atoms-for-Peace—In terms of its implications for the future, possibly one of the most far-reaching developments was the start made in carrying out the program for advancing peaceful uses of nuclear energy.

In October 1955, the first group of 30 physicists and electrical and chemical engineers from 19 countries finished the first course in the School of Nuclear Science and Engineering, at the Argonne National Laboratory in Illinois. The course was conducted under the combined auspices of the

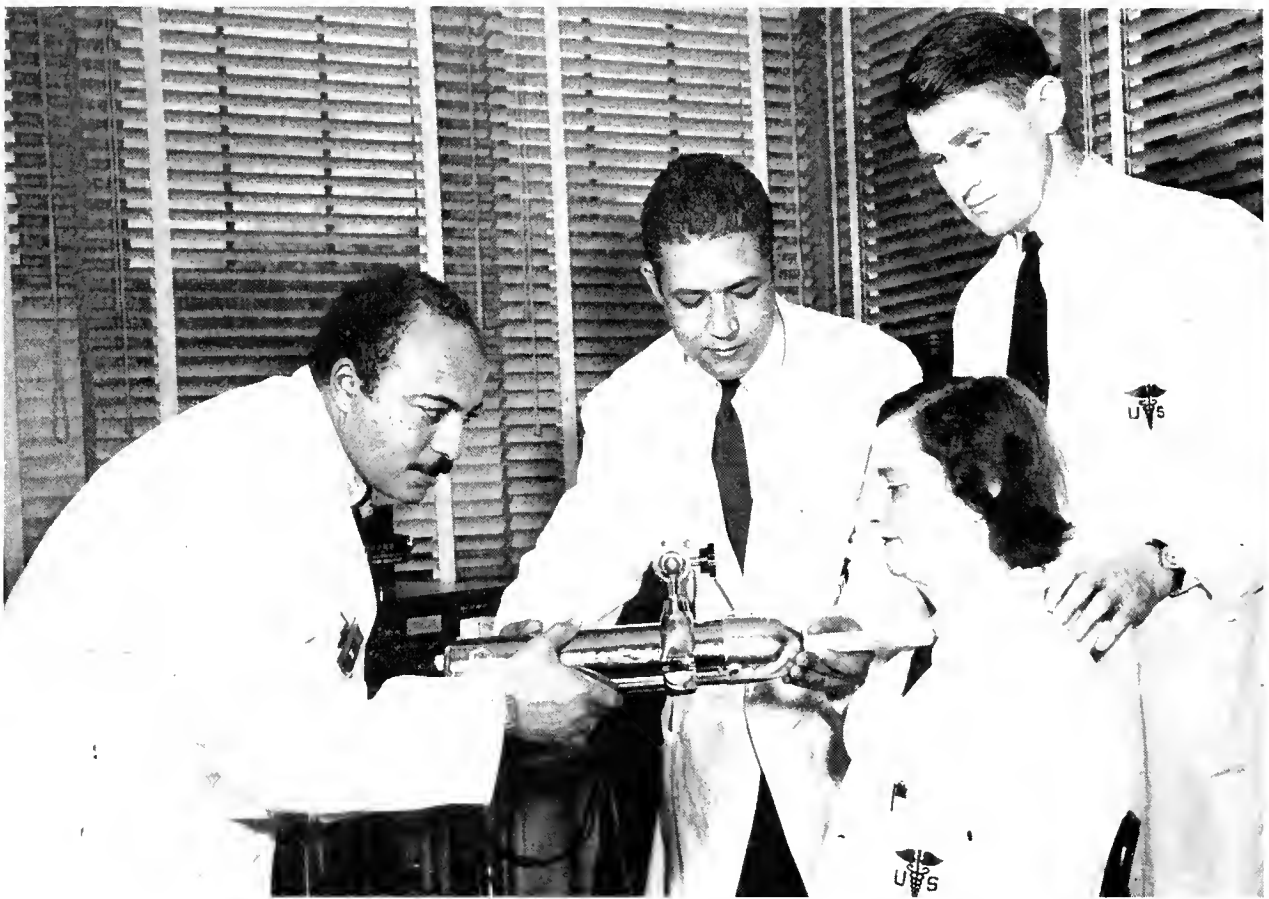
Atomic Energy Commission, the State Department, and the International Cooperation Administration. Thirty-nine more scientists and engineers arrived in October for the second course at Argonne; a total of 27 different countries were represented in the two courses. The visiting scientists received a thorough grounding in reactor science and technology, with particular emphasis on the versatile nuclear research reactors which are basic to building a sound atomic energy program.

Another phase of the Atoms-for-Peace Program was carried out at the Oak Ridge Institute of Nuclear Studies in Tennessee. Here, scientists from countries receiving radio-isotopes from the Atomic Energy Commission were brought in to study the research uses of such isotopes in medicine, biology, agriculture, industry and the physical sciences. Scientists taking this course came from India, Guatemala, the Philippines, Taiwan, Thailand, and Greece.

Through these courses, nuclear information will be provided to other countries of the free world to assist them in making practical applications of atomic energy in a wide range of fields. Examples of such applications are: in industry, the detection of wear, flaws and quality in materials; in medicine, treatment of types of cancer, and blood diseases; and in agriculture, development of hardier strains of plants.

Technical Cooperation in Industry—Cooperating governments have expressed increased interest in improving industrial production processes and general management techniques. During the six-month period, the United States expanded its assistance in industrial methods to cover more countries. Team of senior executives from American industries served as seminar leaders in conferences with top management in Mexico, Chile, and Japan. The Pakistan Industrial Development Board employed an American management firm to help map out a broad outline of an industrial development policy and program stressing immediate investment opportunities.

ICA concluded new contracts with three American universities to furnish assistance in engineering and related work to educational institutions in India, Indonesia, and Japan. Five other American universities continued their relationship in these fields with partner institutions in India, Thailand, Peru, and Taiwan.



Two Egyptian scientists being trained in the use of radio-isotopes for medical diagnosis. Scientists from all over the free world are studying peaceful uses of atomic energy at American research centers under the Atoms-for-Peace Program.

In India, an American steel expert advised the management of an iron and steel plant to simplify the shapes and sizes of steel mill products and to establish a minimum amount for production orders, thereby avoiding operations at uneconomically low levels. These steps are expected to increase the output of the plant by nearly 180,000 tons annually. In addition, by using mechanically mined hard ores, the plant should be able to raise pig iron production by 226,000 tons annually. These improvements, when fully realized, are expected to yield cost savings of \$10 million annually, and use of the hard ore will eliminate the need for investing \$8.5 million in an ore-crushing and sintering plant.

Agriculture—In the field of agriculture and natural resources, greater emphasis was placed on extension work, credit facilities, and applied agricultural research. Conservation and marketing also received more attention.

In one major project during the six-month period, five American land-grant colleges joined together to assist the agricultural colleges and major research institutions of India. Some 40 agricultural technicians from these land-grant colleges will go to India to help strengthen agricultural teaching, and applied research and extension programs of local institutions.

In keeping with the principles of self-help basic to the technical cooperation program, projects started with United States assistance have been taken over by the cooperating foreign governments wherever possible. For example, in Costa Rica the Extension Service, formerly operated as a joint undertaking, is now completely under the administration of the Costa Rican Ministry of Agriculture. Since its creation in 1948, this service has expanded to an organization with 34 field offices serving 92,000 individual farmers. As another example, during the half-year under

review normal responsibilities for carrying out locust-control measures were assumed by the governments of Pakistan, Iraq, Jordan, and Iran. These countries now have well organized and competent departments of plant protection; four of them operate their own spray-plane units.

Public Administration—As economic development proceeds, many of the countries are seeking to improve their governmental administrative practices and train personnel to run their increasingly complex operations. Requests for assistance in public administration have been received from nearly 50 countries. While emphasis in technical assistance in public administration has been on aiding improvement of central government services, ICA is also giving particular attention to projects which will contribute to the development

Increasing efforts have been made to meet growing requirements. ICA has 225 public administration technicians overseas under direct employment, and an equal number of technicians working under 42 university and management-firm contracts.

During the six-month period, the participant program in public administration continued to expand in numbers of foreign officials visiting the United States for training and for observation of American practices. More than 350 key officials representing 26 countries are now in this country on practical training programs in public administration. Such training is integrated with the work of the United States technicians abroad and is an important contribution to the building of local institutional strength in cooperating countries.

ICA has given priority to projects that will result in bringing better services directly to the people. A noteworthy development in this connection was the completion of a private management-firm contract to assist the Philippine Government in improving issuances of land titles. When this project was first undertaken some 15 months ago, the government was issuing land titles at the rate of 5,000 a year. By December 1955, with United States help under this contract, the rate of issuance of land titles by the Philippine Bureau of Lands had increased to more than 60,000 a year. This operation has contributed significantly toward giving added security to the people in the ownership of their lands.

Under a contract with Michigan State University, an extensive program of in-service training

was inaugurated in free Viet Nam to enable the new government to improve the competence of its civil service and its services to the people.

In Honduras, technical assistance in customs administration is leading to the installation of simpler methods for revision of tariff rates and a faster and more equitable handling of imports.

Education—In the second half of 1955, ICA financed a contract with the University of Tennessee to assist India in improving training in home economics. Another contract with Columbia University was expanded to assist Afghanistan in reconstructing its entire educational system and in revising its curriculum materials and teacher training methods.

In the Philippines, a cooperative project was started to furnish practical training in a number of secondary schools in agronomy, fisheries, weaving, industrial arts, and homemaking. The United States will supply hand tools and power equipment for demonstration. The schools selected will become pilot schools for others of the same level. In a companion project, three small high schools will undertake development of a comprehensive secondary curriculum for typically rural areas. Major emphasis will be on functional studies geared to the preparation of rural youth for community improvement.

Housing—Technical cooperation in housing seeks to demonstrate to people in newly developing areas how they can work together to build better homes with very little capital by the efficient use of local materials. Financial assistance from the United States is minimal and largely confined to furnishing technicians.

A typical example of the techniques employed is in Indonesia, where American technicians carried out a six-month training course in housing. Indonesian students received classroom instruction from American housing experts who were assisted by qualified local technicians. Two courses were given, each of them to an enrollment of 30 students. These students are now in a position to train their fellow citizens across the country. The skills they learned will be used in the Indonesian Government's 500-unit demonstration project in Djarkarta.

In Taiwan, American technicians have introduced the concept of long-term residential mortgage credit. During the second half of 1955, loans covering over 1,800 family dwelling units were approved by local lending agencies.



A vocational education shop at the School of Arts and Crafts in Panama. Cooperative education programs in Latin America emphasize the teaching of practical skills related to real-life situations.

Transportation—Under the technical cooperation program, American experts have assisted other nations with technical guidance and training in all the major forms of transportation. Transportation authorities in Spain were aided in the installation of centralized traffic control on Spanish railroads. This operation greatly increased the flow of traffic on two existing routes and eliminated the necessity of expensive double-tracking. In the Philippines, the United States has provided the services of American transportation technicians to make a survey of Philippine transportation and outline methods for integration, improvement and expansion.

A regional survey involving Viet Nam, Laos, Cambodia, and Thailand will produce data on the navigability of the Mekong River, as well as related information pertaining to power development potentialities and the feasibility of irrigation in this strategic area of Southeast Asia.

As a result of United States engineering studies in Egypt, extensive improvements in highway construction are now being introduced which will provide better roads and reduce construction costs by as much as 50 percent. In addition, a large Egyptian training center is being established to show how to maintain and operate transportation equipment.

Public Health—Because of its direct impact on the well-being of individuals, assistance in public health is one of the most productive and attractive forms of technical cooperation. Cooperative efforts in this field have brought striking and widespread benefits to people in virtually every one of the participating countries.

Additional progress was made during the period in helping countries located in the world's malaria belt. In the Far East, individual malaria control programs were broadened to aim at complete eradication of this disease. Of special significance was the regional approach of the

Southeast Asian countries with common borders—Thailand, Laos, Cambodia, and Viet Nam—in a coordinated attack on their malaria problem. In Iran, the Iranian Government assumed the entire financial support of the malaria control program. India expanded its program to include 100 million people in exposed areas.

In Latin America, three new health centers were completed in Bolivia with United States technical guidance. Hospital administration seminars were held in Colombia, Peru, and Brazil under the supervision of the American Hospital Association.

Two particularly critical situations received attention during the six-month period. ICA rushed drugs and medical supplies to West Pakistan to prevent epidemics from the October floods. In free Viet Nam, where health problems in the rural areas were sharply aggravated by the heavy influx of refugees from the North, United States technicians helped the Vietnamese make preparations to develop a school for training health technicians.

Community Development—Host country community development programs and activities are expanding in number and scope, particularly in

the Near East and South Asia. During the second half of 1955, American technicians aided the Iraqi people in initiating a national village improvement program in Shaqlawa. This program was based in large part on the demonstration of methods and techniques by the International Voluntary Services, Inc., under contract with ICA.

In the Philippines, the government embarked upon a nation-wide rural improvement program which included the establishment of provincial and municipal councils and the training of staff at all levels in community development techniques.

Pakistan is doubling its facilities to train field workers in the village-improvement program. In India, the program now reaches a total of more than 100,000 villages embracing a population of over 60 million people.

Other countries which have either expanded their programs in community development or initiated pilot projects include Iran, Jordan, Afghanistan, Libya, Laos, and Brazil. In each of these programs, the United States participated with technical staff or demonstration equipment, or both, during the period of this report.

CHAPTER V

The Picture in Selected Countries

THIS SECTION describes noteworthy developments during the six-month period in selected participating countries. The main aspects of United States military assistance to these countries through the mutual security program have been described in Chapter II of this report. Many specific details on the amounts and types of military aid programs and activities in a particular country are of a classified nature and must of necessity be omitted from the following country highlights.

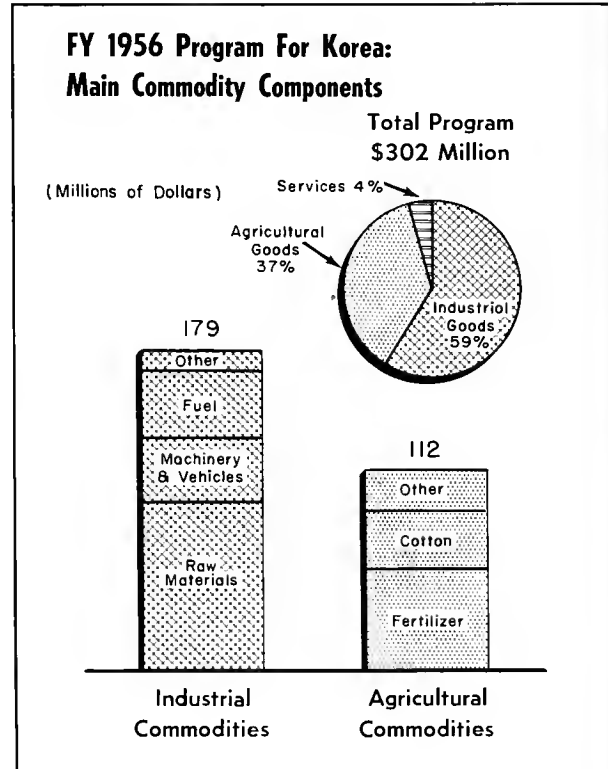
Asia

Korea

With a heavy defense burden superimposed on a war-damaged and power-short economy, the Republic of Korea must depend to a large extent on external resources to rebuild its strength. Accordingly, a tentative aid level of \$297 million was programmed for defense support in fiscal year 1956. Of this amount, \$91 million was earmarked for specific projects, covering chiefly electric power, railway rehabilitation, communications and the development of needed industries. The remaining \$206 million was earmarked for assistance in the form of fertilizer, raw cotton, fuels, cereals, and industrial goods. A substantial portion of the local currency received from the domestic sale of these commodities will be used to support the ROK military budget. Other sales proceeds will help finance the local costs of essential development projects.

Complementing the defense support program and increasing its effectiveness are the joint activities in technical cooperation. About \$5 million was tentatively programmed for fiscal year 1956 for advisory services and training to help Korea develop essential technical, managerial, and administrative skills.

Korea made some progress during the last



months of 1955 in slowing down the inflationary forces which have retarded the rate of economic progress. The Korean Government initiated a number of deflationary measures, including adjustment in the value of the Korean hwan; in addition, the domestic sale of commodities imported under the mutual security program helped drain off some of the purchasing power which had inflated prices of essential goods in short supply. Underlying inflationary forces were still strong, however, at the end of the year.

Korea's agricultural production had regained pre-World War II levels by the end of 1955. Korean efforts to achieve needed food output gains were supported by United States assistance in instituting effective irrigation and flood control

measures and in developing better methods for raising fish and livestock production. These gains, though encouraging, have not kept pace with normal population growth, and per capita output is still about 25 percent below prewar.

Industrial production in general reached approximately the level of 1949. Gains in some segments were partially offset, however, by declines in others because of Korea's severe shortage of electric power. The power shortage should be considerably eased by the end of 1956, when the construction of three new thermal power plants, with a total generating capacity of 100,000 kilowatts, should be largely completed.

Among other aid projects showing progress was the rehabilitation of transport facilities. An outstanding development in the six-month period was the completion of the Maesong-Cholan railroad spur. This new spur line supplied the missing link needed to transport coal from the Samehok mines on the east coast to Seonl in the west. Rail transportation was helped also by increased rolling stock and signal equipment, better track maintenance, and a variety of other improvements. Additional progress was made in the replacement of war-damaged bridges and in harbor and port rehabilitation. In these improvements of Korea's transportation facilities, the United States has supplied most of the heavy equipment, and Korea has provided the labor component.

Taiwan

Taiwan does not have the productive resources to support simultaneously its rapidly increasing population and an armed force of the present size. The mutual security program in Taiwan is geared to underpin those military and related undertakings essential to United States interests which are beyond the capacity of the Government of the Republic of China. During the July-December period of 1955, \$60 million was tentatively programmed for these purposes; of this amount, \$20 million was on a loan basis.

Taiwan's economic picture in the latter part of 1955 was again clouded by inflation. Wholesale prices rose by 18 percent in the six-month period, a greater rise than any during the last two years. This price upswing was attributable in large measure to defense outlays. Stricter import controls and, in lesser degree, exchange rate devaluation were other measures which accounted for the new upturn in the inflationary trend. The force

of inflationary pressures was somewhat eased by United States deliveries of nearly \$50 million worth of grains, cotton, fats and oils, chemicals and other commodities which supplemented Taiwan's local output of commodities during the half-year by more than 10 percent. In addition, a substantial portion of the local currency proceeds realized from the sales of such commodities in Taiwan are being used for construction and repair of military bases and airfields and for the improvement of harbor and communication facilities.

The price rise in the six-month period was a disturbing factor, but there were a number of favorable developments which indicated forward progress in Taiwan's economic growth. Agricultural production improved as did industrial production. Foreign exchange reserves showed a small increase at the end of 1955, an improvement which stemmed mainly from increased exports to Japan under the Sino-Japanese trade agreement.

A loan fund has been established in Taiwan, designed specifically to help the development of the island's small industries by making capital available at moderate interest rates. This fund is financed in large part from local currency that was acquired by the government through the sale on local markets of commodities furnished under the mutual security program. Loans financed by the fund are channeled through commercial banks to aid the expansion of small private industries. Some 150 loans, amounting to about \$3 million in local currency, have been made to assist a variety of enterprises—chemicals and chemical products, textiles, paper, processed foods and other items.

Free Viet Nam

By the end of 1955, there was evidence of greater stability in the Government of Viet Nam, permitting increased attention to economic rehabilitation and development. Working committees established within the government began to plan priorities for economic expansion; a Directorate General of Planning was set up. To accelerate imports, most of which come in under the mutual security program, the Government of Viet Nam took measures to improve its import licensing and exchange control machinery.

Despite the extension of the government's authority by the defeat of the rebellious sects and the strengthening of President Diem's position in the October referendum, a number of unsettling

factors persisted. Of a military nature were the continued activity of some dissident groups and subversive elements, particularly in outlying areas, and the unabated Communist military threat from the North. On the economic side, prices rose 10 to 15 percent during the half-year period. Production of rice, Viet Nam's staple food and once its main foreign exchange earner, has not yet recovered from the effects of the Indochina war and is still well below the pre-World War II level.

Over \$130 million in local currency generated by sales of aid commodities in Viet Nam was used for support of the Vietnamese military budget in 1955. These expenditures covered troop pay and allowances, food, clothing, medical services and transportation, and construction of barracks and training grounds. Such assistance has facilitated the reorganization and maintenance of Vietnamese armed forces and strengthened their military capabilities for maintaining security in the country.

Major steps were taken in December toward making the refugees self-supporting. Initial measures call for permanent resettlement of some 100,000 refugees through assistance in clearing land and making other improvements at relocation sites; many refugees will be transferred to new areas in the south and west of Saigon.

With so much of the Vietnamese population dependent on an agricultural sector heavily damaged during the period of hostilities, a large segment of United States assistance continued to be directed toward agricultural development. The dedication in October of the Tny Hoa irrigation project, which will bring 46,000 acres of land back into production, was a milestone in United States assistance in broadening irrigation measures. In another form of assistance, proceeds from the sale of aid goods on the local markets were used to extend credit to the rural population at moderate interest rates. In the month of September alone, such loans amounted to almost one million dollars in Vietnamese piasters.

India

United States aid to India has been meshed with India's objectives under its first five-year plan of economic development. The Indian Government is spending the equivalent of about \$4.5 billion from its own resources under this plan, roughly 90 percent of public projected expenditures. Indian private enterprise is spending about \$3.5 billion as part of the plan. United States as-

sistance to India in the five-year plan period has totaled about \$460 million, including a wheat loan of \$190 million in 1951.

The objectives of the first five-year plan are being reached in virtually all major aspects. For example, an actual increase of 15 percent is being attained in total national income against a planned increase of 11 percent; the per capita increase will be at least 8 percent. A gain of 11 million tons in food grains over the base year 1949-50 was registered in crop year 1954-55 as against a planned increase of 7.6 million tons, thus restoring India's per capita agricultural production to prewar levels.

Although the main focus of the first plan has been on agriculture to overcome India's acute food shortage, many advances have been made in the non-agricultural sector. Industrial production is now 50 percent above pre-plan levels. Numerous factories have been established to lay the groundwork for more diversified industry, and a good start has been made in improving transportation facilities.

As part of its program allocations of some \$38.5 million for rehabilitating India's badly deteriorated railroad system, the United States during the second half of 1955 continued deliveries of rolling stock and steel for local production of railroad equipment. Four locomotives and 2,120 freight cars have been shipped; the remainder of the planned 100 locomotives and 8,700 freight cars are scheduled for delivery in the near future. India's railway system is a key factor in the country's developmental progress. Each day, some 3,800 trains carry more than 3 million passengers over 34,000 miles of track. The Indian Government is spending some \$2 billion in rupees on railroad improvement.

Also in the six-month period, the equivalent of \$14 million in local currency proceeds from the sale of American wheat was made available to pay the costs of local labor and materials in building the Rihand Dam. India contemplates spending more than \$150 million on this project designed for greater flood control and power in the State of Uttar Pradesh.

In further support of India's efforts to achieve its planned goals under its first development plan, \$50 million was programmed from fiscal year 1956 funds for development assistance; \$37.5 million of this was on a loan basis. Surplus agricultural commodities accounted for \$20 million of the total.

An additional \$10 million in technical cooperation was also programmed.

Joint technical cooperation measures have helped spur advances in health, education, and housing, although there is still a great deal to be done in these fields. During the half-year, the United States continued to support the country-wide anti-malaria program begun in 1952.

The community development program in India has brought far-reaching and significant improvements to India's village population. In thousands of villages, farmers are now actively contributing labor, materials, and money to build schools, community halls, roads, and hospitals. Over 60 million Indians in 100,000 villages have contributed \$88 million in local currency to improvement projects, about twice as much as came from the Indian Government.

India's second five-year plan, scheduled to begin in April 1956, is being designed to provide more opportunities for employment by emphasizing industrial expansion. However, construction of new manufacturing plants on the scale projected, along with necessary improvements in related facilities of transportation, communication and marketing, will require considerably more capital investment than did the first five-year plan. In large degree, therefore, the success of India's second plan will hinge on mobilizing the full resources of all sectors—state and central government, private industry, and rural and urban population.

Pakistan

Pakistan's economic situation was serious in the latter half of 1955. A large foreign exchange imbalance had developed because of sharp declines in domestic output and lower world prices for jute and cotton, the country's principal export crops. Moreover, Pakistan's armed forces impose a heavy burden on its budget. Accentuating these difficulties, West Pakistan was stricken by one of the worst floods in its history in October.

To assist Pakistan in meeting these immediate and critical economic problems, about \$63 million was programmed for defense support during the July-December period from fiscal year 1956 funds; \$20 million was on a loan basis. Of the total, \$5 million was earmarked for surplus agricultural products. Some \$26.4 million was for supplies and equipment for projects geared to improving the use of land and water resources and

for industrial development, including fertilizer plants and development of fisheries. About \$30 million was for essential consumer goods.

Contracts for two important surveys were signed during the period. One was to examine the possibilities for private investment in Pakistan to determine which industries can best be developed in light of availability of natural resources, economic needs of the country, potential markets, and maximum returns. The other was an interim agreement with an American firm to survey the preliminary work performed to date in connection with the multi-purpose dam on the Karnafuli River in East Pakistan and to recommend a work schedule for its completion. This dam will provide irrigation, electric power, and flood control when completed as planned in 1960.

Programming of assistance for Pakistan in fiscal year 1956 also included \$8.7 million for technical cooperation. Joint activities will be continued in agriculture, land reclamation, transportation, public health, and vocational education. The assistance which American technicians are providing to Pakistan's nationwide community development program is helping thousands of villagers to coordinate their efforts in building progressive and better integrated rural communities. Typical of such assistance is the help they provide in establishing village training centers in each of the major provinces of Pakistan. Local leaders are being trained in the centers to carry on village-level work in agriculture, education, sanitation, and cottage industries.

The Near East and Africa

The Arab States and Israel

Over the past four years the United States, through the mutual security program, has worked with the countries of the Near East in support of measures which would help accelerate the rate of economic development in the area as a basis for engendering political stability. These efforts were sharply slowed down in the latter half of the year when the frictions and tensions between the Arab States and Israel were aggravated by open Soviet intervention to expand Communist activities into another strategic arena and put new obstacles in the way of peaceful solution there.

The uncertain atmosphere resulting from these newly introduced factors made it difficult to plan firm program projects for fiscal year 1956. It is

possible that funds earmarked for the area will be used along different lines from those originally projected. One consideration, for example, involves the High Dam at Aswan, the key to Egypt's future capacity to support its growing population. So important is this project that the United States, the United Kingdom and the World Bank have joined forces in offering to assist Egypt in its financing.

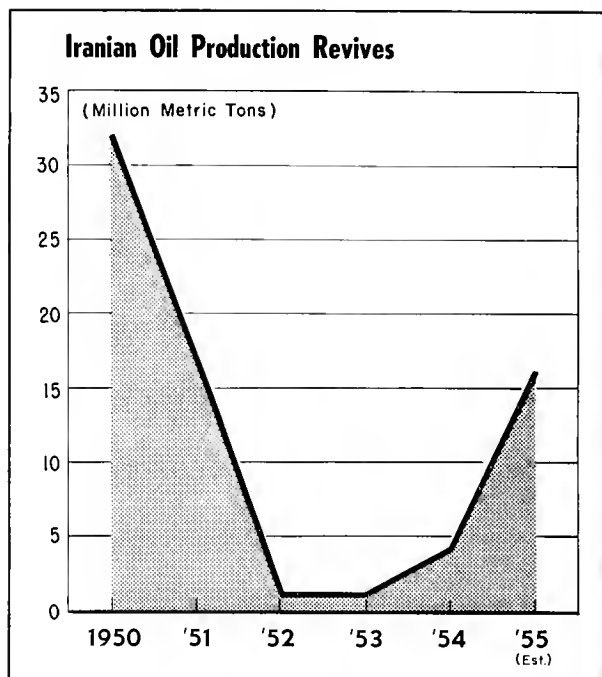
During the six-month period, Israel completed work on a project to bring more water to the parched lands in the Negev area. A 66-inch pipeline was opened to divert the waters of the Yarkon River which formerly flowed unused into the Mediterranean. These waters are now carried more than 60 miles into the Negev desert and make possible the irrigation of over 200,000 acres of once-barren soil. About 10 percent of the cost of the project was financed from counterpart funds realized from the sale of United States commodities on Israeli markets.

The United States continued its activities throughout the area in support of technical co-operation programs designed to overcome the basic problems of low production, illiteracy, poor health, and inefficient public administration. American support went also toward carrying out economic development projects in Egypt, Israel and Jordan funded from prior year's funds. In Jordan, for example, assistance was given in developing a network of roads which will link agricultural producing areas with wider markets. Other assistance was provided in afforestation, construction of terraces to conserve water, and the tapping of underground water resources.

Iran

In contrast to the unsettled conditions which prevailed in Iran over the past several years, the second half of 1955 was a period of stability on all fronts. Oil production was well up to schedule, and Iran's development program, financed primarily from the renewed oil revenues, promised to make significant headway.

Iran's adherence to the Baghdad Pact during the latter part of 1955 represented a major departure from its traditional policy of neutrality in the Middle East. Despite considerable counter-pressure from the Soviet Union, the Government of Iran determined that this step was in its own best interests and has now joined wholeheartedly



with the other signatory powers in associating itself with the West in the common defense.

During the second half of 1955, the United States provided Iran with grant funds amounting to \$10 million for essential imports, the local sale of which would produce revenue to reduce the government's deficit in its operating budget.

In conjunction with the \$8 million technical co-operation program approved for this fiscal year, a major reorientation of the technical program was undertaken. This was done to meet changing requirements of the country and to place increasing responsibility with the Government of Iran for activities formerly carried by the United States technical mission. Projects in road and building construction, for example, which had been advisable earlier in the program, are now being brought to a conclusion or turned over to the Iranian Government which can now finance and manage these types of activities.

Libya

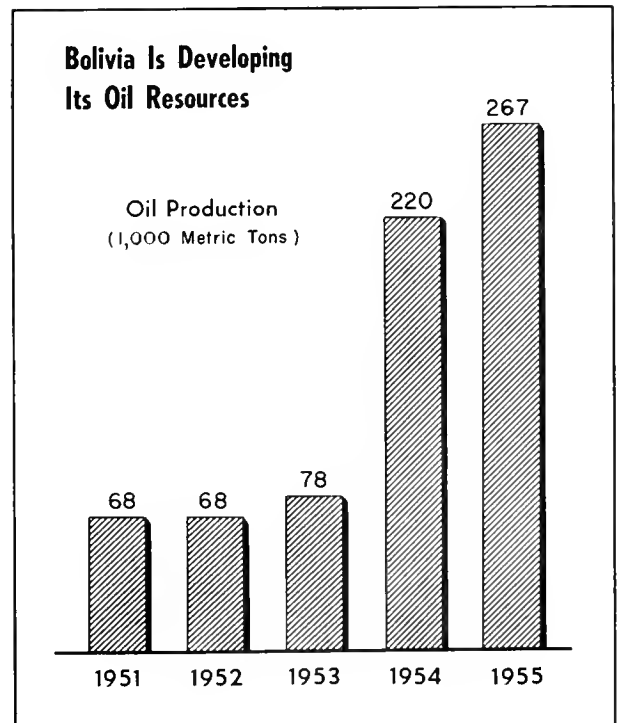
United States economic aid to Libya is channeled through the Libyan-American Reconstruction Commission (LARC). Actual work under LARC got under way in the late summer of 1955 on priority projects such as water development and conservation, capitalization of an agricultural credit bank, and renovation of the Federal Coast Road.

Latin America

Bolivia

To help forestall imminent economic chaos in Bolivia, the United States in fiscal year 1954 began an emergency program of economic assistance geared to Bolivia's overall development plan. This program was continued in fiscal years 1955 and 1956. During the second half of calendar year 1955, \$20 million of development assistance funds were made available, bringing the cumulative total of United States aid to approximately \$50 million. About 70 percent of this was in surplus foodstuffs needed to avert serious food shortages in Bolivia; proceeds from the sale of these commodities have been used to pay local costs of economic development projects. The remainder was for the purchase of equipment, supplies and materials requiring dollar outlays.

Among the more important projects undertaken during the second half of 1955 was the preparation and enactment of a petroleum code to attract private foreign capital for the development of Bolivia's petroleum resources. These oil resources are regarded as a significant potential source of foreign exchange earnings which will considerably reduce the country's present heavy dependence on the export of minerals, principally tin.



American technicians are working with the Libyan people to build dikes and earth levees which will make better use of available water and reduce the severe flood damage to land and life heretofore caused by heavy rains in the interior. In addition to its protective features, this operation, as it is expanded, may increase the productivity of some 100,000 acres of land for food and forage production.

Recurrent drought and flash-floods have cut Libya's production of cereal foods and brought the threat of hunger or starvation to many areas of the country. To ease this situation, the United States shipped 12,800 tons of wheat to Libya during the second half of 1955. This amount brought total shipments of wheat to Libya for the past two years to 45,000 metric tons.

Under the technical cooperation program of \$2 million for fiscal year 1956, American technicians are helping on joint projects to improve local health conditions and develop better sanitation measures. Carpet-wool washing and marketing, forestry, livestock management, and teacher training are other fields in which the United States is furnishing technical assistance.

Turkey

The outstanding development in Turkey has been the very rapid expansion of the general economy. The heavy concentration on investment activities brought in its wake a considerable degree of inflation. This situation had assumed such critical proportions by the end of 1955 that a new cabinet was formed which plans to undertake a reform program directed toward economic stabilization.

The planned stabilization measures, if adopted, should check the inflationary effects of an unrealistic budget and other public activities which, while not included in the budget, have the same unsettling effect on the general economy. Reforms in fiscal and monetary policy are also indicated. A drive has been launched to moderate inflationary pressures by holding down the total investment program; part of this program includes concentrating on the completion of projects which are either already under way or which are expected to reflect almost immediate improvement in production.

In light of the prevailing economic atmosphere, only \$14.5 million of aid from 1956 fiscal year funds was made available by the end of 1955.

Another cooperative project involved a comprehensive study by an American engineering firm on methods to improve the efficiency of extractive and marketing operations of Bolivia's mining industry. Also, contracts were concluded with American engineering firms for the design and construction of a permanent all-weather bridge across the Piray River. Lack of such a bridge has been a major bottleneck in the development of penetration and feeder roads to fan out from the Santa Cruz terminal of the newly completed Cochabamba-Santa Cruz highway. This road system, when completed, will open up for development the fertile lowlands around Santa Cruz.

A technical cooperation program of \$2.6 million for fiscal year 1956 is designed to assist in improving agricultural production and marketing procedures. Direct efforts toward this end include cooperation in agricultural research, and extension and development of a supervised agricultural credit system. Allied with these efforts are the joint programs to improve educational, health, and public service training methods and facilities. The technical cooperation program also includes encouragement of small industry through increased private investment.

Despite notable progress in the cooperative programs undertaken thus far in Bolivia, many serious economic obstacles remain to be overcome. There is a substantial annual deficit in the balance of payments caused largely by a steady decline in income from tin exports. Possibilities for obtaining needed foreign credit are extremely limited. Moreover, Bolivia is experiencing a serious inflationary movement, and attempts to curb it have thus far been unsuccessful. As efforts to improve performance in agriculture and mining take hold, however, and new land and petroleum resources are brought into production, Bolivia's opportunities to work its way out of its present economic difficulties will continue to improve.

Guatemala

The United States has expanded its program of assistance to Guatemala in order to help the new pro-West government strengthen the nation's economic position. A \$15 million development assistance program has been approved for the 1956 fiscal year, primarily for highway construction; \$5 million of this is to be in the form of surplus agricultural commodities. Other projects include rural and agricultural development and additional

equipment for the Roosevelt Hospital. Moreover, the United States is contributing \$1.8 million for technical cooperation to step up production in industry and agriculture, and advance the nation's progress in health, education, and public administration.

Because of the importance of building a network of roads to open large tracts of potentially productive areas to convenient markets, the Government of Guatemala has placed top priority on its highway program. Toward this objective, \$10.2 million was approved to meet local currency costs of construction. These funds will be used to move forward on three crucial transportation links. One is the Atlantic Highway, which will connect Guatemala City with the Atlantic ports of Puerto Barrios and Santo Tomas. Another involves work on the Pacific Slope Highway which crosses Guatemala from Mexico to El Salvador. The third project is a road connecting Quetzaltenango on the Pan American Highway with Retalhuleu on the Pacific Slope Highway. The Guatemalan Government has been working on these roads as rapidly as weather conditions permit in order to be ready to enter the intensive construction phase when the dry season begins in January.

Haiti

A total of \$5.6 million has been allocated for economic and emergency aid to Haiti since the program began in fiscal year 1955. During the July-December period of 1955, some \$800,000 was used to pay for emergency supplies and the freight costs of surplus agricultural commodities shipped to Haiti to alleviate the conditions caused by a disastrous hurricane and flood, and subsequent drought. In addition, grants totaling \$2.8 million in development assistance funds are being used to reconstruct flood damaged farm-to-market roads and irrigation systems.

Some \$2 million has been made available to assist the Haitian Government meet expenses connected with the construction of the Peligre Dam and other irrigation systems in Haiti's Artibonite Valley Project. When completed, the dam and irrigation canals will supply water and power for about 80,000 acres of land in what is now a semi-arid and nonproductive area. By expanding the arable land acreage and rehabilitating key roads and irrigation systems, Haiti will be able to increase its production of food crops badly needed

for domestic consumption, and its export of products such as coffee, sisal, and cacao.

The \$1.4 million made available for the technical cooperation program in fiscal year 1956 will continue the cooperative programs started in 1942 in agriculture, education, sanitation and public administration. Interrelated projects in each of these fields are now being carried on independently in specific areas by the Haitian Government, as local trained technicians and capital become available.

Europe

Spain

For the 1956 fiscal year, \$27 million was programmed to provide Spain with urgently needed agricultural commodities, including \$20.5 million earmarked for cotton, \$5 million for meat, and \$1.5 million for eggs. The remainder of the fiscal year's program, expected to reach a total of \$50 million, will go for industrial equipment and supplies for economic development, and for technical exchange.

Spanish economic progress in recent years has been handicapped by recurrent and severe droughts. Water shortages have not only held down agricultural output but have also retarded production in critical industries which depend on hydroelectric sources of power. In the latter half of 1955, favorable rainfall combined with assistance provided through the mutual security program spurred an upturn in the Spanish economy. Notable elements in this assistance included deliveries of industrial raw materials and machinery, cotton, fats and oils, and other commodities which helped fill critical needs.

The plentiful rainfall in the fall and winter of 1955, the heaviest in many years, brought hydroelectric power reserves to levels higher than at any time in Spain's history. Production of electric power in 1955 was more than 15 percent over 1954. The upsurge in power availabilities made possible an increased output in a number of basic manufactured items.

Although Spain's agricultural output in 1955 showed a net gain, production of several staple items still lags considerably. Heavy frost damage to citrus, nut and vegetable crops will reduce Spain's export earnings and thus for a time impair

its ability to finance imports of sorely needed industrial items.

During the past year, Spain noticeably strengthened several important sectors of its economy. The overall improvement in production, a strengthening of investor confidence, and a moderate increase in gold and dollar assets were some of the factors indicating that Spain was emerging from difficulties which previously had held its economy at a stand-still. But much remains to be done in rehabilitation of the railroads, modernization of industry, expansion of thermal power capacity to supplement the hydroelectric power system during periods of drought, and reduction of Spanish agriculture's vulnerability to drought.

Yugoslavia

United States economic aid has served to assist Yugoslavia in maintaining a position of national independence by contributing to the support of an economic base for its defense efforts. Since 1950, such aid has amounted to more than \$400 million. About 60 percent of it has been in agricultural commodities, and roughly 30 percent in fuels and semi-processed goods.

Yugoslavia's efforts to insure its independence place an exceptionally heavy defense burden on its economy. Its defense expenditures are about 10 percent of its gross national product, the highest proportion in non-Soviet Europe; but its per capita consumption is among the lowest. Moreover, its available gold and foreign exchange reserves continue to be extremely limited.

During the second half of 1955, plans were well advanced to allot some \$25 million from 1956 fiscal year appropriations for sales of surplus wheat, cotton, hides and skins, and tallow under Section 402 of the Mutual Security Act. Under consideration were technical exchange projects totaling approximately \$1 million in agriculture and industry, especially in the service and consumer fields. Technical exchange projects were contemplated also in transportation, education and public administration. During the six-month period, arrangements were completed for the shipment to Yugoslavia of 300,000 additional tons of wheat, valued at approximately \$22 million, under Title I of Public Law 480.

Other Parts of the Mutual Security Program

CHAPTER VI

Investment Guaranty Agreements With 30 Countries

THROUGH the investment guaranty program, the United States makes available, for a fee, insurance to protect new private investors against the risks of inconvertibility of foreign currency receipts and loss through expropriation or confiscation in any foreign country with which the United States has formally agreed to institute the guaranty program. There was increased activity in the program during 1955, following the simplification of policies and procedures and the completion of guaranty agreements with additional countries.

By the end of 1955, agreements had been completed with 30 countries—13 in Europe, 9 in Latin America, 4 in the Far East, and 4 in the Near East. A total of 98 guaranty contracts had been issued, affording protection of \$94.5 million for investments in a variety of industrial and commercial projects in 10 of the 30 countries. Of particular significance during 1955 were the agreements with 8 countries of Latin America which facilitated investment in an area long favored by United States investors. Continuing efforts are being made to negotiate agreements with other countries in which American investors have expressed an interest.

At the end of 1955, applications for new guaranties of approximately \$273 million were under consideration. Of this amount, \$84 million represented applications filed during the latter half of the year, one of the largest six-month totals since the guaranty program was instituted.

At the end of 1955, consideration was being given to transferring the administration of the investment guaranty program to the Export-Import Bank, inasmuch as the program appeared to

fit in with the broad pattern of activities which the Bank conducts in servicing American business overseas.

Opportunities for American Small Business

ICA's Office of Small Business continued to serve the interests of American business firms, particularly smaller enterprises, by alerting them to procurement and service opportunities in connection with the mutual security program. In the latter half of 1955, more than 2,600 notices on proposed ICA-financed procurement were circulated to American suppliers, informing them of details required for submission of bids. For the information of American organizations specializing in services, such as freight forwarders and transportation companies, award notices were published listing successful bidders on more than 4,300 transactions financed by ICA. In addition, memoranda were issued providing general information of current interest to exporting firms.

The Contact Clearing House Service assists in establishing direct communications between American and foreign concerns interested in exploring the possibilities of licensing or investment arrangements. In conjunction with this operation, the Office of Small Business is responsible for finding overseas opportunities for American business firms and for distribution abroad of American licensing and investment offers; and the Department of Commerce brings foreign business opportunities to the attention of firms in the United States. During the period under review, the Office of Small Business distributed 59 American investment proposals in 33 foreign countries and obtained 157 foreign proposals for publication by the Department of Commerce.

Transportation: Over 50 Percent in American Ships

Shipments to and from the United States—In compliance with the American flag rule on ocean shipments of commodities financed under the mutual security program, more than half of the 6.4 million tons of such non-military cargo in the 1955 fiscal year was carried in U. S.-flag vessels. Of the amount shipped by tramp steamers, 53 percent was in U. S.-flag vessels; for liner carriage, the ratio was 65 percent, and for tankers 90 percent. For the period of July–December 1955, preliminary figures covering 2.1 million tons of non-military cargo show 55 percent of tramp and 67 percent of liner carriage in American ships. There were no tanker shipments during the half-year.

On military shipments, 68 percent of the total of military end-items shipped since the beginning of the mutual security program was carried on U. S.-flag commercial vessels. For the July–December period of 1955 the proportion carried in United States commercial vessels was 82 percent.

Virtually all, 99 percent, of the inbound strategic materials procured with United States counterpart funds was imported in American bottoms.

Shipments Between Foreign Countries—The rule of U. S.-flag preference was extended by Public Law 664, August 1954, to non-military aid shipments originating in foreign ports and destined for other foreign ports. Preliminary figures show that waivers of the requirement had to be made on three-fourths of the 1.5 million tons of such cargo shipped in the 1955 fiscal year because no U. S.-flag services were available. On the remaining fourth, compliance was obtained for tramp and tanker categories. It was achieved also in the liner category, except for the Far East. The

situation in liner vessels is being reviewed with participating countries in the Far East area.

Multilateral Programs

The United Nations Technical Assistance (UNTA) program, operating through the UN and its specialized agencies, continued to expand in 1955 as contributions from supporting governments showed a total increase of approximately 11 percent over the previous year. The United States contribution for the calendar year 1955 was \$15 million, about 54 percent of total contributions from 70 governments. UNTA had 1,880 technicians at work in more than 80 countries and territories during 1955. In addition, 2,050 fellowships were awarded for trainees.

During the second half of 1955, the United Nations Children's Fund (UNICEF) continued its work in maternal and child health, mass health campaigns, and child nutrition. At its September meeting, the Executive Board of UNICEF allocated about \$7.4 million for long-range projects, including \$2.4 million for malaria eradication in Mexico. The United States is contributing \$9 million to UNICEF for the calendar year 1955 program.

The United States continued its support of the technical cooperation program of the Organization of American States (OAS). Seven regional training centers are being operated in Latin America under this program. Pledges to OAS from 21 governments for the calendar year 1955 amounted to approximately \$1.6 million, of which the United States pledged 70 percent.

The United Nations Refugee Fund (UNREF) entered into full operations during the latter half of 1955. In 1955, the UNREF Executive Committee approved project allocations amounting to \$3.1 million to benefit approximately 23,000 refugees.

